



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

VOL. IV PORTLAND, OREGON, NOVEMBER-DECEMBER, 1963

NO. 6

Highway Budget Examined

With Oregon in such a financial bind, now is the time to put our state highway expenditures into proportion.

State Rep. Beulah Hand (D-Clackamas) of Milwaukie will propose a bill during the special session of the Legislature that would amend the Constitution to put highway taxes into the state's general fund.

If approved, such action would add \$80 million from fuels taxes, \$31 million from commercial vehicles' weight-miles taxes, \$25 million from vehicle and operators' license fees, and \$32 million in surplus—\$168 million in all—to the general fund, less refunds to the State Police, to counties, and to cities, and less debt service payments.

This money comes out of the same pockets that income and other taxes come from—Oregon taxpayers' pockets—yet it is not available for all uses as other taxes are. The Constitution restricts its use to highway construction, maintenance, and related uses.

While Oregon is struggling to keep its nose above water in the fields of education, health, welfare, and public safety, it out-ranks all other states in development of its interstate highways (72% completed, compared with a national average of 36%), and is generally considered to have one of the top—if not THE top—overall highway systems in the nation.

We can't afford to be that high-ranking, when it means that other state services must suffer.

Now, it is most unlikely that the Legislature will accept Mrs. Hand's proposal and refer a constitutional amendment to the people. Too many legislators fear the power of the Highway Commission to overlook the road requests of districts whose legislators vote "wrong" on the highway budget.

However, there are several alternatives to legislative referral of a constitutional amendment.

One, already suggested by the practical Mrs. Hand, who knows what a slim chance her measure has, is to start an initiative petition to put the matter on the ballot. It should not be difficult to get enough signatures from people who have no reason to love or fear the Highway Department, or who believe, as we do, that highway spending is out of proportion to other needs.

Another possibility, and one which could be put into effect immediately by the special session, is to eliminate the \$15 million transferred from the general fund to counties and cities out of state liquor receipts, forest receipts, and the State Tax Commission, and increase the highway fund transfers to counties and cities by an equal amount. This action, which could be done by statute, would in effect give the general fund \$15 million out of the massive \$244 million highway budget.

As Mrs. Hand pointed out, the voters indicated that they wanted ALL state spending reduced—not just financed out of the general fund. And taking \$15 million out of highway funds would be only a 6% reduction, compared with 7% to 9% reductions being contemplated in other budgets.

Adding this \$15 million would make it unnecessary to cut basic school support, under the proposal offered by the governor. This in turn would make subsequent property tax increases unnecessary. —Oct. 1963, Capital Press

The Taxpayers Digest
Staff wishes our Readers
and Friends a most successful 1964.

HOW TO MAKE ANY CITY UGLY

If I have worked harder and built myself a good house while you have been contented to live in a hovel," Henry George wrote long ago, "the tax gatherer now comes annually to make me pay a penalty for my energy and industry" If the great 19th Century tax philosopher were able to read a recent New York court decision, he would have to conclude things are getting worse. Should this absurd decision stand as a tax policy precedent, it will blight the rebuilding of American cities.

The Supreme Court's appellate division has held that the 38-story Seagram Building on Park Avenue, widely acclaimed by architects ("the most beautiful curtain-wall building in America," one called it), should pay New York City \$383,000 extra a year in taxes mainly because it has "prestige value." It looks prestigious, all right, mainly because it contrasts so pleasingly with the unimaginative boxes of air-conditioned office space which increasingly dominate U. S. urban architecture. Anybody can put up a conventional office building in New York and be assessed for tax purposes on the basis of a market value which is figured by capitalizing net rental income and depreciation. Under this formula the Seagram Building would have been assessed about \$17 million. But because the owners had put up a distinguished building and made a praiseworthy effort to beautify the property, the city Tax Commission chose to assess it at the full replacement cost of \$26 million.

In upholding the Tax Commission the judges rather amazingly called the Seagram Building an example of Thorstein Veblen's doctrine of "conspicuous waste" although they conceded Veblen had not thought of this "particular manifestation." If anything, the owners of the building are practicing "conspicuous restraint." The building is set back on a \$5 million plot of land handsomely landscaped into a plaza with flowers and water fountains—which means the owners deliberately gave up rentable floor space to make the building more attractive. This is restrained, not wasteful, use of the land, and the result is a sight for sore eyes on a famous but architecturally drab street in the nation's greatest city.

If courts and tax commissions are actively seeking a tax formula to make certain that American cities stay ugly and get uglier, they could not hope to find a better one. No corporation is

(Continued on page 2, Col. 3)

To The Editor . . .

LAND CASE ARGUED

In regard to reader Don Card's letter, I might point out one very obvious error in his analysis. He states: "All taxes are paid by final consumers, regardless of the basis or the method of calculation."

It is generally recognized even among academic professors in elementary economics in college that land value taxes cannot be passed on to the consumer. If the tax on automobiles or typewriters could not be added to the price, no one would make any more automobiles or typewriters; so it must be passed on. But just try to say the same thing about land: If the tax on land could not be passed on to the consumer, no one would make any more land. No one ever made any land; it is that simple.

Accountants generally are sunk into their own esoteric concepts. But if Don Card keeps writing letters, the minds of your readers will be stirred up and stimulated to analyse the situation. To an accountant, rent, wages and interest are all costs to a business before profits can be computed. But in economics, rent, wages and interest are all parts of the yield to be divided among the factors of production.

Ralph P. Lorer, Spokane, Washington

Klamath Taxpayers Offer Guidelines

From the Klamath County Taxpayer's League, we excerpt the following interesting maxims:

SYMBOL:

§ The dollar sign is a symbol of the productive man: one who trades the best he can produce for the best products of his fellowman. In this way he enriches his own life and that of others. The profit motive is the greatest motivation for production and basic in capitalistic society.

We are proud to have the dollar sign as the adopted symbol for this Taxpayers League.

PHILOSOPHY:

Recognizing that there is a necessity for more private responsibility and better limited government on the local level, citizens organized to fight for the right of property. In spite of the grave and exceedingly important national problems, it was the decision of the organizing individuals that efforts in the League be limited to local problems.

The efforts of many citizens can change the home climate, and thus aid effectively in changing the national climate.

PURPOSES:

1. To restore limited local government to 5 basic functions:
 - (1) Fire Protection;
 - (2) Police Protection;
 - (3) Sanitation;
 - (4) Streets;
 - (5) Education.
2. To promote citizen education and information on the best action to insure that the basic functions of the local government are administered in an equitable, just and honest manner.
3. To guard our American right of property from confiscatory fiscal policies.
4. To retain to the individual the responsibilities in all areas other than those explicitly designated to the government.
5. To insure a slow, orderly retreat from the extended influence of paternal government and to prevent any further extension.

ACTIONS:

1. Insist on private planning of private property. Contest government planners with their expensive and arbitrary decisions which bypass due process of law.
2. Study of budgets, tax programs, and all functions of local government.
3. Work for more information and interest on election issues.
4. Expect the best character in government leaders.
5. Identify more areas for private responsibility.
6. Publish a bulletin for our members.
7. Attend meetings of local government.

GUIDELINE:

"I know no safe depository of the ultimate powers of society but the people themselves, and if we think them not enlightened enough to exercise control with a wholesome discretion, the remedy is not to take it from them, but to inform their discretion by education.

THOMAS JEFFERSON

OFFICERS:

President — Frank Weaver.
Secretary — Irene Tice
Treasurer — Floyd Derby
Publicity — Beverly Pyles
Education — Floy Johnson.

ADDRESS:

Klamath County Taxpayers League, Box 835, Klamath Falls, Oregon.

Oregon Education Association Raked

The recent regular and special sessions of the Legislature have seen the activity of the most powerful lobby in the history of Oregon politics.

This lobby consists of the Oregon Educational Association which is headed by Mr. Posey, and the Board of Higher Education, represented by Mr. Lieuallen as well as a continued stream of Department of Education employees consisting of school board members, teachers and school administrators. They took up more than half the time of the hearings conducted by the Joint Ways and Means Committee and Taxation Committees sitting jointly or in separate sessions.

Furthermore, it seems that these people have no regard for the aged, infirm or unfortunate, just so they can receive the big piece of the tax dollar.

Final figures—if they are final—show that various phases spent a total of \$47,186 in the promotion of the Legislatures revenue bill, and the opponents spent \$4,239. The vote was 3½ to 1 against an increase in taxation.

The final analysis is (1) the people want no more taxes; (2) the people feel that there is waste in all departments including all phases of education; and (3) the people feel, since Oregon's per capita income is far below that of most states of equal population and area, that our government should live within a restricted income and spending budget. The taxpayer has to do it.

Actually, the cost per pupil in the public schools is out of line with various private educational systems.

—William M. Brosy,
Executive Sec. Tri-County Tax
Research, Inc.

UGLY CITY

(Continued from Page 1)

going to construct a distinguished office building with the advance knowledge that anything smacking of "prestige"—originality and imagination, for instance—will invite penalty taxation. Municipal tax policy should encourage better design, not penalize it, and we hope the New York Court of Appeals will strike a blow for equity and aesthetics this fall by reversing the Seagram Building decision.

—Life Magazine, Aug. 16, 1963

PROFESSOR SAMUELSON QUOTED ON RENT

An extract from "Economics" by Paul A. Samuelson, Professor of Economics, Massachusetts Institute of Technology. Published by McGraw-Hill Book Company, Inc.

In the last part of the nineteenth century, a western frontier still existed in the country. As more and more people came here from Europe, each acre of land had more and more people to work it. In a sense, therefore, the land became more productive. In any case, its competitive rental value certainly tended to rise. This created handsome profits for some of those who were lucky or farsighted enough to get in on the ground floor and buy land early.

Nor was this true only in agriculture. Men still alive in the Middle East can remember when towns first began. They will tell you how they might have been rich if only they had recognized eighty years ago that the corner of State and Madison would eventually become the centre of town and grow tremendously in value as a result of the great increase in urban population.

Sites with good locations earn rents in the same sense that fertile areas do. Many people began to wonder why lucky land owners should be permitted to receive these so-called "unearned land increments." Henry George, a printer who thought much about economics, crystallized these sentiments in the single-tax movement. This had a considerable following a half century ago or more, and there are still some adherents to it; but it is not likely that anyone running on the single-tax ticket will again come as close to being elected mayor of New York City as did George in 1886. Nor is it likely that anyone will soon come along and write so persuasive a bible for the movement as did Henry George in his "Progress and Poverty," a book which sold millions of copies.

This is not the place to attempt any assessment of the merits and demerits of such a political movement. But its central tenet—that land rent is in the nature of a surplus which can be taxed heavily without distorting production incentives—can be examined to illustrate one principle of distribution and taxation.

Suppose that supply and demand create an equilibrium land rent. Now what would happen if we were to in-

troduce a 50 percent tax on all land rents? Mind you, we are not taxing buildings or improvements; for that certainly would affect the volume of construction activity. All we are taxing is the yield of the naturally fixed supply of agricultural and urban land sites, assuming that this can somehow be identified.

There has been no shift in the total demand for land; firms are still willing to pay the same amount as before for the same amount of land. Hence, with land fixed in supply, the market price that they pay must therefore still be the same. Why? Because supply has not changed and neither has demand. Because at any higher price than before some land would have to go without any demanders. Hence, competitive rents could not permanently be raised to land users.

Of course, what the farmer pays and what the landlord receives are now two quite different things. As far as the landlords are concerned, once the government steps in to take its cut of 50 percent, the effect is just the same as if the net demand to the owners had been reduced. Land owners' equilibrium return after taxes is now lower. The whole of the tax has been shifted backward onto the owners of the factor in inelastic supply! The land owners will not like this, but under competition there is nothing they can do about it, since they cannot alter the total supply and the land must work for whatever it can get.

Whether or not it is a fair thing to take away part of the return of those who own land is quite another question. Perhaps many voters will feel that such owners are not less deserving than are investors who have put their money into other things; perhaps many will feel that no one should have the right to benefit from nature's windfall gifts of oil, minerals, or soil fertility. But there are political questions that are not to be discussed at the present point. What is relevant is to point out that a similar 50 percent tax, put upon a factor of production whose total supply is not completely inelastic, will certainly produce definite effects on the factor-prices charged in a competitive market. To some extent this tax would distort the pattern of production, and it would shift part of the burden forward onto the users of the factor and onto consumers.

Boardman Deal Basement Bargain

The Boardman Range deal has now been approved by the Legislature in special session, and any comments on it at this time can, of course, only be justified by preparing our future position of "We told you so!" And so we state here and now, that as far as we are aware, it is not a good arrangement to freeze land values at the present low rate for jack rabbit and sage brush country for a period of 77 years. Land is one of the resources that will get scarcer with an increasing population, and our resources should and could carry the load of taxation in the form of revenue from them according to their economic worth.

If the Boardman Range deal does not at this time look like a blatant giveaway, it will within a few years when developments start in the region.

Instead of giving the land away at such a basement bargain price, it would have been much more sensible to exempt the new industry to be established there from any taxation on its improvements. This would certainly mean the strongest incentive to spend money for them, and thus create jobs and opportunity for increased personal income, without fear of being penalized for such improvements.

We are, however, glad to bring to our readers the personal communication we received from Legislative Representative Jake Bennett in the matter:

"I have received a copy of your letter to Senator Pearson. I think the Boardman bill is bad and I voted against it."

Land—And Space to Grow

14 minute, 16mm sound motion picture produced by the Robert Schalkenbach Foundation can be obtained on a free loan basis with only return postage to pay, from . . .

Taxpayers Publications Inc.

P.O. Box 2506, Portland 3, Oregon

Will Washington Initiate Price Controls?

The relative stability of the price level in recent months can give us no very great comfort. With unemployment still high and threatening to increase with progressing automation, less purchasing power will be available for the purchase of goods at stable prices. Interpreted with the proper plus—and minus—signs attached, the price and income situation is comparable to one in which prices rise, but total income remains stationary. Both situations, are, therefore, inflationary.

Our lawmakers clearly are worried about the future business and employment prospects. Without pretending to be able to read the legislative minds in Washington, we find one little publication by the U. S. Congressional Joint Economic Committee very significant. It is a short summary of "Governmental Economic Policies and Practices to Deal With Prices in Key Industries in Selected Foreign Countries." The countries selected are Belgium, France, Germany, Italy, Netherlands and United Kingdom. Quite obviously, price controls are much more pervasive in these European countries than they are now in the United States.

In any case we are intrigued by this little study. Could it be that it is in the minds of some of our Congressmen who feel responsible to act under the mandate of the public law to maintain a high level of employment and stable prices, to set up similar price and wage controls in the U.S.A., guided by the methods and experiences of some of these foreign countries?

TAXPAYERS DIGEST

P.O. Box 2506, Portland 3, Oregon

Robt. Clancy, Dir.
Henry George School
50 East 69th St.
New York 21, N.Y.

Does Customer Always Pay?

An editorial in one of the Portland dailies on November 15, under the title "Customer Always Pays," criticized student pickets who demonstrated a few days previous before the Legislature in special session in Salem, Oregon. The students advocated higher taxes on corporation profits rather than a sales tax.

The point which the editorial tried to make was that no matter where the tax was placed, it is the customer who always pays. This statement certainly needs some qualification.

If land and natural resources were taxed more, the result would not be higher prices to customers. Actually, the selling prices for land and resources would be reduced by an amount representing the capitalized value of the tax or other encumbrance, so that the tax increase would not be reflected in higher prices to customers.

Land and resource speculators would lose, but that would not hurt the economy, nor the consumers.

If taxes took the entire economic rent of land and royalties of the resources, this would eliminate all speculation in these areas. And prices for manufactured goods could then be actually lower by eliminating also the speculatively increased price margins.

Land and resources are today not taxed near enough, while improvements and buildings are taxed too much, thus stifling industry, and rewarding speculators.

(See also the excerpt from Prof. Paul A. Samuelson's book: "Economics" in this issue.)



The **Taxpayers Digest** is published bi-monthly 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.

Subscription rates: 20 cents per issue; \$1.00 per year.

Advertising rates: \$2.50 per column inch; write for terms for mats or engravings supplied by the advertiser, or for prices of larger-size ads and consecutive annual insertion terms.

Harvey Akeson, publisher; **H. James Hofaling**, editor; **Erick S. Hansch**, business manager; **Larry McLaughlin**, circulation manager; **William H. Gwin**, illustrator.

Readers are invited to send their opinions to the Editor, **The Taxpayers Digest**, P.O. Box 2506, Portland 3, Oregon, but the publisher and his staff assume no responsibility for views expressed by individual contributors.

Did You Know . . . ?

For years a golf club in Blair, Neb., rented to farmers 14 acres of ground not needed for its fairways, but last year the club officials enlarged the course and took the 14 acres back. "Then," reports Sen. Stephen M. Young of Ohio, "most unexpectedly the golf club received a government check for \$288—for taking out of production land previously planted to corn."—(AP).

Did you know there was once a time when a baby was considered an addition instead of a deduction?

If you don't think things are as bad as they are painted, visit a modern art exhibit.

Ignorance: a by-product of education.

Bachelor: A man who didn't have a car in his teens.

