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

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# CITY STRUGGLES TO MAINTAIN SERVICES

In his television appearance on KOAP-TV, channel 10, on Tuesday, October 16, City Commissioner William A. Bowes made a heroic and eloquent attempt to convince Portlanders of the dire necessity of an enlarged tax base. All city services were cited as requiring added funds, without however, naming anyone in particular or any specific project where the money would be spent.

Commissioner Bowes even stressed the need to accomodate industries which might be lured to settle here if the business climate were made attractive.

The homeowners' side in the TV-discussion was effectively taken by Mr. John F. Waymire of Oregon Tax Research, whose main defense was that the homeowners just could not be expected to take on any additional expenditures. Statistics were quoted on both sides—and occasionally disputed—as to how much the various city services had received in the past without, however, having made a very good showing in accomplishments for the amounts spent.

Street lighting and swimming pools came under close scrutiny, with Commissioner Bowes defending the City Council's position on operating the pools during the summer vacations even if it meant only two months out of the year.

Mr. James Pfouts, Portland attorney, and a member of the TV-audience, asked Commissioner Bowes, whether once the requested tax base increase was granted, the homeowners could then expect a decrease of their taxes in the following years. Mr. Bowes replied that if the questioner could assure him of the date when inflation would cease, he could answer that question.

Another question, also addressed to Mr. Bowes, was to ascertain whether the City Council had explored conscientiously and diligently all possible avenues for alternative tax resources, to which the reply was that the Council very definitely had made such studies, but had come to the unavoidable conclusion that alternate routes to revenues were not feasible, because the business tax, license fees and other miscellaneous incomes were already used to the economically tolerable limits, and the sales tax had been pre-empted by the State.

The half-hour TV program on City Tax measures was sponsored by the Oregon State System of Higher Education, General Extension Division. Moderator was Mr. Clay Shepard, speech instructor at Portland State College.

## UNEARNED INCOME AND TAXES

The real unearned income is that which accrues to an individual without having done anything which contributes to production. Of the several types of such income the most important is that which issues from the site value of land. The recipient of such an income does nothing to earn it; he merely sits tight while the growth of the community about the land to which he holds title brings him an unmerited gain. This gain is at the expense of all true producers, whether they be laborers, enterprisers or investors in industrial equipment. The taxation of this gain can do nothing to deprive the community of any service since the donee is rendering none. The land will be there for the use of society whether the return from it is taxed or free. Society creates the value and should secure it by taxation. — Frank D. Graham, Professor of Economics, Princeton University.



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## Portland Taxsavers Recess to December

The Portland Taxsavers, Inc., the watchdog organization on taxes and expenditures, resolved at its October 10 meeting to put the business of dissolving the corporation into the hands of six trustees, and then recessed until December 1st for the final wind-up. The trustees were instructed to keep the charter in force for another year to prevent misuse of the name and corporation rights. Lack of interest among the homeowners of Portland, small attendance at meetings, lack of funds to carry out the desired programs, were the reasons given for the drastic step.

The following trustees were elected: Harvey Akeson, chairman; Chas. Woodward, vice-chairman; Ethel Gould, secretary; Erick Hansch, treasurer; Larry Gould and Duane Siprelle, trustees.

## LARGER TAXBITE ON THE HOMEOWNER?

It is our considered opinion that the homeowners are in a tight squeeze taxwise from which they will have to extricate themselves alone, because nobody else is going to do it for them. As long as they remain a mute body of acquiescing citizens, the tax bite will be put on them for one excuse or another.

All homeowners should also be alerted to the double attack to which they are in eminent danger: (1) the very emphatic recommendation by a number of tax experts in Washington, D. C., to have all homeowners include the imputed rent of their own homes as income on their Federal tax returns; and (2) the removal of the deduction for interest on home mortgages.

The gratuitous attempt by Commissioner Bowes (on the KOAP-TV program; for a report on which see elsewhere in these pages) to hide behind the inflationary barrier as being the one which prevents mainly any consideration of real estate tax reductions, can be answered simply by pointing to the fact that the taxes on homes during the last decade have increased from between 1 and 1½ percent to between 2 and 2½ of market value, as reported by the real estate trade. This percentage increase itself has absolutely nothing to do with inflation, whereas mar-

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## HI-WAYS AND BY-WAYS

President Kennedy's message to the House of Rrepresentatives, 87th Congress, and referred to the Committee on Ways and Means, relative to our Federal Pay-as-you-go Highway Program, contained very commendable arguments in favor of the reliance on gas and other user taxes for highway construction, such as the enormous savings that can be realized in transportation through modern road construction and extensive highway facilities.

Also, the President's suggestion to coordinate the Federal Highway Program with Urban Development Plans is appreciated widely, I am sure, as well as his concern with the homeowners and others who are being displaced by the construction of these highways.

One serious omission in this message must be pointed out, however, the omission of mentioning a condition which has settled on this country as a severe blight in this program as well as in others also. It is the fact of soaring land prices in the vicinity of such highway construction, leading, as it has, to outrageous land scandals and speculation. Such speculation is hurting our economy, and may well be considered one of prime causes of our creeping inflation. Besides, it has caused the Federal Highway Program to increase severely in cost, mostly at the expense of the general taxpayers, while happinstance owners or shrewd wirepullers and speculators are reaping the enormous profits.

Congressional committees who should be concerned with this fact have shown no signs of willingness to bring this condition under closer scrutiny, and can therefore not be absolved of the blame of having neglected the national interest.

One of the reasons for inaction by Congress in this important matter appears to be the reluctance to apply legal controls and restrictions on the free exchange of land parcels. Such controls are, however, unnecessary if the suggestion were heeded which was offered by one of the presidential appointees, Mr. Rex Whitton, Federal Highway Administrator, when he spoke last spring to a group in Columbus, Mo., in his then capacity of Chief Engineer of the Missouri State Highway Office. He mentioned then as a sort of "pet ida" of his the desirability of collecting increments to land values to help finance highways. This is certainly thinking in the right direction, and it is our sincere hope that Mr. Whitton's views are unchanged in this respect today and can prevail in the council of our chosen leaders.

—E. S. Hansch

## TRENDS . . . .

For what you may say about our state, Oregon's political climate is rarely dull. However, there appears to be less personal animosity in this year's electioneering than in previous years; the candates are more concerned with issues.

In spite of his campaign delay due to the late session of Congress, Wayne Morse will win his bid for reelection. Those on the inside, however, predict that his majority will be less than last time. Mark Hatfield will regain the governor's chair by a substantial margin over his major opponent Attorney General Robert Thornton, probably due to a cleverly underplayed political campaign.

For Congress, Walt Norblad will win by a slim margin in the First District; little change in Second District, Al Ullman will be reelected with the same majority as before. Edith Green should (and has been predicted by those in the Democratic party who are not necessarily in her camp) capture 65 percent of the vote in the Third District. A far more interesting battle is being waged in Southern Oregon, but if Robert Duncan, former Speaker of Oregon's House of Representatives, can ably present his conservative Democratic views over his liberal alignment with the Kennedy administration, he should win by a very close margin in this Republican majority district. It may depend upon how many of the populace votes November 6th; it's that close.

Locally, Bud Meadows will lose by a tight squeeze to Don Willner in the race for the two year term for state senator; again voter turnout may decide the result. In the four year term race, it will be Ward Cook, Alice Corbett and Ted Hallock.

For Oregon's House of Representatives, predictions tend to be a mite easier. On the west side, it will be three Republicans, Shirley Field, Ken Maher, and Mrs. E. G. Chuinard. Democrats, I'm told, are watching to see who'll pull the largest number of votes between Richard Boetger and Hollis Ransom. South City subdistrict will reinstate three incumbents; in East County, the three Democrats, and in East Central, the four Republicans, although some Democrats feel Betty Beach has a slim outside chance. North side will elect the three Democrats. Odds are being placed on George Malarkey to win over his Democratic opponent, Bud Lent, for County-at-large Representative, but this remains a tight race and a flip of the coin may be just as good.

For Multnomah County Commissioner, a month ago I would have predicted Jack Bain and Bill Grenfell, Jr., as shoo-ins. In light of recent personal developments, and subsequent public relations which left much to be desired, Grenfell will now lose to Mel Gordon the third man on the totem pole. Everyone in Multnomah County figures that Bain has a job for life.

One last item, taxes: in spite of a galvanized and pressurized campaign being waged by its advocates, the request for increase in taxes should fail. Most Portland homeowners feel they are paying too much now, and in the past their pocketbooks have always vetoed the desires for loftier and more resplendent city-services of officialdom. Whether the tail of Typhoon Frieda will change this is hard to foretell, but my guess is that it won't. —Jim Hotaling

Taxpayers Digest

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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**Harvey Akeson**, publisher; **H. James Hotaling**, editor; **James H. Schoppe**, consulting 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.

# READERS' DEPT. . . .

## *To the Editor:*

In answer to Mr. Lorer's letter in the July August issue of your publication, may I say that Mr. Lorer is correct in saying that many Federal Services are dis-services and many regulations are a burden upon business. This brings to mind that business is simply the process of supplying human needs and wants, by facilitating the exchange of goods and services and products of land.

Certainly, as he says, land has no value in itself. It is only when it can be used for some purpose that it becomes valuable. Orderly government defines boundaries and secures an owner in the ownership of his land, other property and his income derived from any source.

The law of supply and demand applies to land as well as all other property. As a whole there is only so much land, but there is definitely a variable demand for land, and the demand sets the price. True, there is no demand for land in itself. It is for the income or benefit that can be derived from its possession or use. If an investment is made in land for rental purposes, the income is from capital just as much as it would be from improvements.

Primarily the object of productive labor, investment in improvements, or investment in land is for the production of income, no matter what factors contribute to the result. And don't let anyone kid you. Productivity or efficiency of an owner definitely influences the price of land. If he does well by his use of it he can sell it for more than if he had made a failure of his efforts.

No matter whether income is derived from ownership of land, via rent, or via use, or is from other sources it is the fairest, most equitable base for taxes. It is a factual definite base, not a guess, an estimate or an appraisal but a fact. Certainly personal income largely measures personal ability, effort and productivity but also ability to make good investments or good use of land. So the value of land gets down to the income that can be derived from its use and income becomes the best factual measure of benefits derived from having an orderly government and is the best base for taxes.

Don B. Card
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# REUTHER ANSWERS DIGEST QUERY

At the time of the steel price increase flurry we asked Walter Reuther, president of the United Auto Workers union, if he would offer further comment in elaboration of his statement before the congressional Joint Economic Committee previous to the price increase. We quote the relevent passage from his lengthy testimony before the committee:

"Public attention should be focused on the pricing policies of the dominant corporations in major industries, whose prices are administered by the executives of big corporations, rather than determined by effective price competition. Each sector of the economy should be closely examined for the possible development of opportunities to reduce prices, whether because of improved productive efficiency or for other reasons."

We received the following reply from Mr. Reuther dated April 21, 1962:

Mr. Erick S. Hansch
Business Manager
Taxpayers Digest

Thank you for your letter of April 11 regarding my testimony before the Joint Economic Committee of the Congress.

You take issue with a passage of that testimony in which I allude to the desirability of closer public scrutiny of pricing decisions made by executives of large corporations. Your judgment appears to be that such executives are essentially bound by the "law" of supply and demand and you minimize the possible effectiveness of "attempts of moral persuasion nad admonition" directed at enforcing price competition and holding or reducing prices.

Yet when you write of "management's prerogative to set prices **according to their judgment of** the market forces"—the emphasis is mine—you in effect acknowledge that it is executive judgment rather than any law of economics which is operative in the pricing of basic commodities.

The truth is that the larger corporations in key industries have acquired a remarkable degree of independence from market forces. You are aware, I am sure, that there has been for some time a world glut of oil. This global surplus would long ago have led—if the "law" of supply and demand were working in the petroleum industry—to a significant decline in the prices of petroleum products. Yet these prices have not declined.

In the automobile industry, General Motors close to 40 years ago devised a pricing formula, which it has followed ever since, which provides for setting prices on GM products high enough to yield a 20 percent profit on net worth, after taxes, on 180 days of production yearly. It is this formula and GM price leadership in the industry, faithfully followed by Ford and Chrysler—not the law of supply and demand—which has determined car prices.

Then there is the recent dramatic evidence of price rigging in the electrical industry, which I need not elaborate. In all these instances, we have not a meek or wise yielding to any natural economic laws, but the deliberate exercise of economic power.

There are two other elements of the equation that are not taken into account in your letter: that of the relation of unit cost to volume production, and that of the impact of advancing technology on productive efficiency. Both volume production and technological innovation reduce costs and make price reductions possible. Neither of these factors can become sufficiently operative, however, when productive facilities are used, as they have been used in recent years in our key industries, at a fraction of their potential capacity.

Market demand is the driving motor of our economy. The purchasing power of consumers creates market demand. When demand falters, industry has little incentive to invest in new and more modern equipment, its present equipment to a substantial degree lying idle. Yet, ironically, it is the pricing policy of the larger corporations (together, of course, with a wage policy that prevents purchasing power from matching productive capability) that short-changes workers and consumers and thus dampens the market demand which industry, like the rest of the economy, requires.

Our great economic need is to create a new balance of productive and consumer power which will strengthen purchasing power and market demand and thus call forth the higher productivity and lower unit costs that lie in volume production. Part of this higher demand must be created and stimulated by public investment in such vital areas as education, urban development, hospital, highway and airport construction, and the like. Much more would flow from measures, short of government regulation, to restrain present abuses of administered pricing by the executives of the larger corporations.

I do not share your skepticism about the effectiveness of "persuasion." We

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## REUTHER . . .

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have just witnessed, in the collapse of U.S. Steel's effort to raise prices, an unprecedented demonstration of the power of public opinion when that opinion is alerted and forcefully defined (You will have observed, as well, that belated partisan criticism of the President's action went wide of the central point: the action had the effect of calling forth an element of competition in the steel industry which had not formerly been operative; it energized the very market forces which the President's critics usually extol.)

The President's action was taken after the event. How much more effective, then, would public opinion be if the means were found to mobilize it before pricing decisions are implemented. I am enclosing a copy of a letter which I sent to President Kennedy which dealt with just such a mechanism, to which there was attached a detailed outline of a bill to create it. The UAW advocates a public hearing agency to which the price leaders in administered price industries would be required to furnish advance notice of intended price increases. Such increases would be held in abeyance pending public hearings for which the companies would submit all the facts claimed to justify them. Were a company to claim that our economic demands in behalf of wage-earners in our industries made a price increase necessary, we in the UAW, for our part, would be ready to submit to the same goldfish-bowl procedure.

I commend this proposal to your serious attention. It is my view that if some such mechanism is not adopted to prevent the present abuse of administered pricing power, the continued abuse of that power in steel and other basic industries will eventually lead to outright government regulation, which we all would deplore.

Sincerely yours,
/s/ Walter P. Reuther,
President, International
Union, UAW

To make our position here fully clear, we offer this comment of our own:

While it is true that pricing decisions must be made by the managers and executives of a company or corporation, it is easy to see that their decisions ar· certainly based on the findings of market analyses. The simple fact of life in this case is that most of our natural material resources are in the hands of private owners, who would be amiss in their functions as suppliers of markets if they neglected to consider the market forces, and these forces can be characterized thus:

As long as our population is increasing, and the per capita consumption of almost everything (including iron and steel products) is increasing, the prices for our natural material resources must also be increasing. This is simply the consequence of the well-known economic law of supply and demand, which in any special case where the demand is increasing but the supply is limited by nature (even though they are present in some abundance) means that the prices for these resources will steadily tend higher.

There is no reason to think of any greed or malicious intent on the part of the executives and managers, but simply the application of economic law. And instead of the all around general indignation displayed pro and con, we should see that it is plainly the fault of all of us to let the law of supply and demand overtake us in this fashion because we have not learned, or are not willing, to make this law work for the benefit of all instead of for a privileged few.

As excellent source material for further study we recommend to our readers a close scrutiny of Dr. Gardiner C. Means' book "Pricing Power and the Public Interest" which was reviewed in these pages. Dr. Means is one of the best informed persons as regards steel prices. But neither Dr. Means' nor Walter Reuther's proposals satisfy us entirely, nor do we favor government intervention and price regulation by fiat.

Our own preference is contained in the proposed land value taxation. Steel companies or any other users of natural material resources would then pay the full economic value of these resources to the public coffers. This would put large and small companies on an equal competitive basis as regards these resources and no one corporation would have a monopoly by dint of cornering the "limited" resources.

Neither would there be, through our proposal, any interference by government with management's prerogative of price fixing according to their judgment of the market forces, and yet be economically more effective than the attempt at moral persuasion and admonition.

—E.S.H.

## TAX BITE . . .

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ket values of homes are actually based on inflationary price increases!

And if the city had taken all the six percent tax base increase per year since 1929 when the 6% limitation provision was put on the books, homeowners would be paying today more nearly 4% to 4½% of market value in taxes!

It must further be considered that homes are non-income producing property, and that the taxes recur annually, unlimited, whereas taxes on incomes or sales are taken only once! This is not just double taxation, but multiple taxation. And at 2½%, homeowners pay the full price for their homes over again in taxes within 40 years.

We unshakeably advocate a homestead tax exemption law to help mitigate the impact of property taxes on the elderly and others on small retirement incomes. Will the homeowners let George do it? Why don't you join us now?

E. S. HANSCH

**The Joy of Being an Editor.**

Getting out this little paper is no child's play. When we print too many jokes, people say we are silly. If we don't, they say we are too serious. If we clip ideas from other papers, we are not original; if we don't, we're too much in love with our own stuff. If we don't print contributions, we are not appreciative of genius. No doubt, somebody will say we took this little gem from some other paper. We did!

Inflation: When you take your money out in a shopping bag and bring your purchase home in your pocket.

Tourist viewing Taj Mahal: "Actually, it's amazing what they were able to do before there was foreign aid."

Social Security: When a boy has the only football or baseball in the neighborhood.

Practical Nurse: One who marries a wealthy patient.

**TAXPAYERS DIGEST**

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