

THE

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HENRY DEWEELE SCHOOL OF SOCIAL SCIENCE
260 KEARNY STREET SAN FRANCISCO 8 CALIFORNIA DO 2-1569

POLITICAL ECONOMY REVEALS CONSEQUENCES OF BALLOT PROPOSALS

By the methods of political economy, familiar to graduates of the School, it is possible to foretell the economic effects of at least six of the ballot proposals to be decided at the election November 2. Political economy, in itself, cannot tell a person how to vote. It simply reveals consequences, so that one can vote for whatever measures have the consequences he desires. Here is one of the great uses of the course offered by the School. It enables the graduate to cast a knowing vote.

TWO WAYS TO PRODUCE, TWO WAYS TO STEAL

In political economy the contributions men make to the production of wealth are classified as "labor" and "capital." The contribution of the laborer is human exertion, physical or mental, directed toward production. The contribution of the capitalist is saving, or abstinence, directed toward accumulation of tools and stock, which also enhance production.

The direction of the exertion and abstinence are vital, for exertion can be directed in ways which do not contribute to production, which even prey upon production. Many a burglar and many a lackey of privilege is weary after his evening's work in deserted home or hall of legislature. And many a stinting saver invests not in things that add to the total stock of tools and inventory, but in legally created monopolies such as liquor licenses and land titles.

THE INCENTIVES TO PRODUCTION

Why do men work? Why do they abstain from consumption and invest in capital? Why do they do these two things which produce all wealth? Is it to gain respect? To be helpful to others? To satisfy their own individual desires? Whatever

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the psychological motive, it can operate only if those who make the contributions are permitted to dispose of their own produce. A slave, whose produce is systematically appropriated, enjoys little respect. A humane man, living for others, cannot feel helpful if his produce is carried off without his consent. A man living for himself alone cannot enjoy what is taken from him.

Thus men work for "wages" and invest for "interest." If they can have their wages they will work. If they can have their interest they will save and supply capital. Take part of these earnings from them, and they will make their respective contributions less eagerly. Deny them their entire product and they will not produce at all.

STOP ROBBING PRODUCERS AND WATCH PRODUCTION GROW

The consequences of Propositions 5 and 8 are thus the easiest to predict. Both exempt ships from taxation, ending to this extent the robbery of ship owners that is involved in confiscating part of their earnings through taxation. The immediate effect will be to make the ownership of vessels more profitable to those who have their capital in this form. In the long run, however, the greater interest to be earned will tend to attract capital into ships until the growing competition has reduced earnings to the common level. The additional supply of ships will of course tend to give more ample transportation facilities and a larger supply of fish, at correspondingly lower prices. Just as surely as producers shift taxes to consumers in higher prices, they are compelled by competition to lower prices when those taxes are repealed.

BUT WHO WILL PAY THE TAXES?

Both exemptions, of course, involve a higher property tax rate to make up the revenue that would otherwise be collected

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from consumers of fish and transportation. To the extent that this higher tax rate falls upon improvements and personal property, it will discourage their production and raise their prices, offsetting in part the lower prices gained by exempting vessels.

But the property tax does not fall alone upon improvements and personal property. It falls also upon the unimproved value of land. This is not a product of the landholder's exertion. The abstinence he may have put forth to buy it did not create additional tools or stock. Therefore the increased tax upon the land will diminish the profits of landholders but will not decrease the market supply of land nor raise its price. The higher property tax on land therefore will not discourage the use of land by labor and capital.

On the contrary, since the higher property tax on land will fall partly upon idle land, whose holders have no rental income from which to pay the tax, it will make them more eager to put their land to use or sell to others who will use it. The market supply of land will therefore tend to rise and the price of land to fall, making it more readily available to producers. Therefore the higher property tax on land, resulting from the exemption of ships, will actually stimulate the production of wealth. Thus, on balance, Propositions 5 and 8 will stimulate over-all production.

EFFECT OF REMOVING TAXES FROM LAND

Proposition 14 is the reverse of 5 and 8. It proposes tax exemption of land--specifically, of land on which a college building is being constructed. (Under present law the partly finished building is already exempt and the land becomes exempt when the building is completed.) Here it may be asked: If the land is already in use, how can the tax operate to stimulate use?

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Downtown workers well recall the driving of the piles that now support the rising Equitable Building at Sutter and Montgomery. Night and day the faithful "Albert" whomped his B-flat tone. The necessity of paying taxes on the occupied land was a factor contributing to Albert's long hours. "Let's get the building finished and start collecting some rent to pay those taxes!" was the natural thought. College economists are not so obtuse as to be unable to see the advantage in hustling construction if land taxes must be paid until the building is finished. But if land is to be exempt the moment construction begins, there will be less need to drive the job through to completion. It may well happen that a token start will be made on construction, the land will become tax exempt, and then after a number of years of rising land value the college will "change its plans" and sell the holding. But the public will have been cut out of any tax share in the land value it created. If Proposition 14 passes, colleges will be quick with the foundation and slow with the roof.

EFFECT OF REMOVING TAXES FROM LAND AND BUILDINGS

Proposition 15 is like 14 except it applies to nonprofit "welfare" property and exempts not only the land but the partly finished building, which under present law is not exempt until completed.

Such a proposal may seem to have no effect on the over-all division of taxes between production and monopoly, as other holders of land and owners of buildings would have to pay higher property tax rates to make up what the nonprofit welfare organizations do not pay.

However, the Legislature has imposed tax-rate ceilings and bonding limits upon local governments. When these arbitrary limits are reached, local governments become eligible for state aid, which comes from taxes on production because the

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State levies no tax upon land. Proposition 15, by leading to higher property tax rates and making more local governments clamor for State aid, would therefore result in an over-all shift from local taxes on land to State taxes on labor and capital.

So long as the State prohibits local governments from taxing land above certain arbitrary limits, and stands ready to "aid" those local governments with taxes on labor and capital when the limits are reached--just so long will property tax exemptions constitute a shift of taxes from those who prey upon production to those who do the producing.

Proposition 9 is like 15, except that it would exempt land and church equipment while a church is being built. (The church, while in construction, is already exempt.)

HOW TO "MAKE ROOM FOR A MILLION MORE CHILDREN"

Proposition 2 provides for a \$100,000,000 State bond issue for aid to school districts which have succeeded in reaching the arbitrary property tax limits imposed by the State. Since the districts tax land, while the State does not, this measure also constitutes a shift of taxation from land to labor and capital. It is thus easy to understand why Proposition 2 has the generous backing of "real estate" interests, which are usually cautious about bond issues.

The proponents of Proposition 2 have advertised widely that "some communities cannot pay for classrooms which they so urgently need even though they bond themselves to the limit allowed by law." The limit allowed by (State) law is an arbitrary five per cent of an assessed valuation that is nowhere up to half of the Constitutionally required "full cash value."

Obviously Proposition 2 is not the only way to finance the needed schools. The arbitrary bonding limits imposed by the

State can readily be increased, and assessed valuations of land in the School districts can be raised by local action.

So far from encouraging correction of assessed valuations, Proposition 2 encourages more districts to drive down their valuations so as to inflate the tax rate and become eligible for the State handout. --R.T.

ATTRACTIVE blue and white seals commemorating the diamond anniversary of "Progress and Poverty" are still available at 25 cents per sheet of 96 (postpaid). Order now and use them on your Christmas cards.

THE OCTOBER 5 ISSUE OF the San Francisco News told of Mayor Robinson's attendance at the Red Mass in St. Mary's Cathedral. According to the News, "The Red Mass, which had its beginning in England in the 13th Century, is a special plea by the legal profession for Divine guidance."

On another page of the same issue the News reported the Mayor's suggestion that the Board of Supervisors confer with the Assessor to determine whether new State legislation is necessary to close a tax loophole. Some depositors are sending their money to New York to escape the solvent credits tax.

The Mayor also recalled his previous suggestion that the Supervisors "give study and consideration to possible sources of additional revenue."

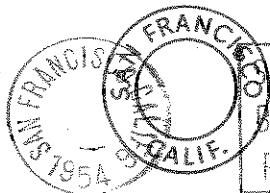
Readers are invited to join the Mayor in prayer.

SHOWING ONCE AGAIN that graduates of the School are people who do things, Erna P. Harris of Berkeley has started a six-page mimeographed newspaper called bias. The Chronicle of October 18 carried a letter from Carolyn Threlkeld.

Sec. 34.65(e) P.L. & R.

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