

Public Revenue Education Council

EDUCATIONAL — NON-PROFIT — NON-POLITICAL

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ECONOMIC PROBLEMS — WHOSE RESPONSIBILITY?

(An Open Letter to Teachers and Students of Economics)

5-1127

Many people think that all we need to solve today's problems is more economic education.

But there is a growing opinion that economic education has failed to solve our economic and social problems, and that their solution lies not in increasing the quantity but improving the quality of economic education. Further, this opinion states that the approach of today's economists is wrong. They seem more eager to develop means of co-existence with these problems than to discover their fundamental cause. Yet, if a fundamental cause exists, surely it is the responsibility of teachers of economics to expose it and offer suggestions for its elimination.

Three conditions exist which indicate that there must be such a cause of persistent unemployment and poverty with all their associated ills. (1) Man has unlimited wants and the skill to satisfy them, (2) plenty of unused or inadequately used land sites and natural resources exist, and (3) ample capital and efficient methods of production have been developed. With Land, Labor and Capital in plentiful supply, full employment and a high standard of living should be insured. Evidently, some economic maladjustment is preventing these three factors from functioning as they should in a free economy.

The Public Revenue Education Council is convinced that the chief culprit is our chaotic and unscientific system of taxation.

Our present system, or "unsystem", of taxation creates two main deterrents to a steadily progressive expansion of jobs and business activity. It erects a high price wall around any vacant or underdeveloped land so that labor and capital are actually fenced out from natural resources and opportunities — the starting point of all production.

The second fatal deterrent is the drain it allows government to make on capital and on the sources of capital — income and savings.

The harmful effects of our present tax system: land speculation, inflated land prices, sub-standard housing, slums, and their ensuing economic and social problems, make it necessary to re-evaluate our methods of tax education.

Within the past five years an increasing number of articles on land, public housing, urban rehabilitation and renewal, and related subjects have appeared in a variety of publications as diverse as House and Home, Journal of Housing, Providence Bulletin, St. Louis Globe-Democrat, Human Events, U.S. News and World Report, Labor, New York Times, New York Herald-Tribune, Financial World, Los

Angeles Times, Christian Science Monitor, Life, Readers Digest, Economic News of the American Institute for Economic Research, Dayton Daily News, etc.

One of the most important of these was an 84 page feature article on LAND, published in the August 1960 issue of House and Home which has been widely quoted and commented on in many editorials. In this we read:

"This is our land — millions of miles of it . . . but the home builders vote 4 to 1 that 'Land is the most critical problem.'"

House and Home, the biggest monthly trade journal for America's largest industry, begins by quoting various authorities connected with the building industry:

Martin Bartling, president of National Home Builders Association said, "The average cost of raw land has at least quadrupled, the cost of development tripled. Here is a problem that will require all our ingenuity."

Housing and Home Finance Agency administrator, Norman Mason says: "The land problem is becoming critical. Premium prices for desirable homebuilding sites are driving up the cost of housing and forcing development into areas that often compound the problem of growth."

Phil Will, president of the American Institute of Architects, says, "We are making frightening mistakes in land use and we are guilty of criminal waste of the land that God gave us."

W. O. Duvall, president of the U.S. Savings and Loan League, said, "Land has been the main villain in housing for a long time. Its cost has become the No. 1 reason homes cost so much."

B. V. Bass, president of the Mortgage Bankers Association: "Big speculators have been gobbling land ahead, stifling competition, and putting the squeeze on the builders."

Nat Rogg, National Association of Home Builder's, economist: "Today's land situation is a killer for the builder. Land costs have climbed more than all other homebuilding costs combined."

Said the economists and housing leaders at the HOUSE and HOME Roundtable on Inflation: "Steepest of all has been the price inflation in land, but nobody is doing anything to stop it and we have no land policy designed to bring

land onto the market when it is needed. The result has been a largely fictitious shortage of land for housing that has pushed prices far above today's value and it is almost sure to end in a bust."

Three pages of the HOUSE and HOME article and a number of aerial photographs are devoted to showing there is no real shortage of land — "but waste, the tragic land waste, dollar waste, and time waste of the checkerboard pattern of SUBURBAN SPRAWL."

As any economist knows, these high land prices result from the growth of population and progress harnessed to a wrong-way tax policy which favors land speculators. What has current tax education to do with this squeeze on homebuilders and other industries that need land?

Let us consider the elementary facts of man's economic and social environment and activities. A glance shows that there are three classifications of objects in man's economic world:

1. Natural objects
2. Man-made objects
3. Man himself.

From these natural categories rise the basic factors of production. Although Nature might be a more descriptive term, LAND is the economic term used for all natural objects — land sites, wild life, geographical advantages, all natural resources. The term WEALTH includes all man-made objects that have exchange value. LABOR is the term used for man's mental or physical efforts in the production of wealth and services for the satisfaction of human desires.

The activities and relationships of these three factors of production determine the avenues of distribution of the product as RENT of land, WAGES and INTEREST. RENT is determined by the excess of production on a piece of land over the amount that the same application of labor and capital could produce on the best land that is in use without payment of RENT (marginal land). What is left of production, after RENT is distributed, is shared by LABOR and CAPITAL as wages and interest. This distribution should make evident an important fact, one seldom brought out in economics or tax courses: these distributive shares are the only bases on which taxes can be levied, hence are the only SOURCES of public revenue.

In a competitive economy a demand for Labor is a demand for Capital, and vice versa. When ships are at sea, LABOR must man them, and when factories operate men must work in them. Nor can LABOR produce wealth cheaply or efficiently without CAPITAL. To create capital, men must not only labor to produce but must also save, instead of consuming, part of their production and invest it in the process of producing more wealth. The interest the saver receives is really a delayed form of wages. In a free economy wages tend to be high when the return to capital is high, wages tend to be low when interest is low. Thus a naturally close and mutually cooperative relationship exists between LABOR and owners of CAPITAL, Marx to the contrary. All this makes a further simplification

possible. We can consider WAGES and INTEREST together in a category called REWARDS of individual human effort. This reduces the number of SOURCES on which taxes can be levied to: (1) RENT of land and (2) REWARDS of human effort.

Once these two SOURCES are recognized, one begins to see the needless and nonsensical complexity in the present type of tax education which is based on premises completely divorced from the factors and principles of economic science. A conglomeration of taxes enacted by various levels of government are classified according to type: property, inheritance, income, profits, gasoline, licenses, sales, ad infinitum. Attempts are then made to analyze these inter-related and interacting classifications and to determine their probable yield and (perhaps) their incidence (who finally pays the tax), while wishfully projecting their possible effects on the economy. One tax modifies or cancels the hoped-for effect of another and requires still other taxes to adjust, compensate for, or even reverse previous effects. Just as long as tax courses concentrate on teaching taxes as they exist, instead of teaching SOURCES and their underlying principles, just so long will the present tax chaos continue.

When economists and politicians stop mistaking taxes for sources and realize that taxes are no more sources of public revenue than a pump is the source of the oil or water that it pumps, we will be able to achieve a simple, economical tax system whose effects on the individual and the economy will be easily predictable; a system which can be used to eliminate or greatly modify the harmful social and economic problems that the old one has helped to produce.

Everyone has heard that "the power to tax is the power to destroy" but not many know that it also can be a power to build prosperity and freedom, depending on which SOURCE we elect to use. Once people understand the different effects of taxing RENT of land and of taxing REWARDS of human effort, they will make the choice that will encourage the formation of capital and insure a job and a high standard of living for everyone who is able and willing to work.

Direct taxes on wages and interest lessen the incentives to produce wealth and to form capital, with the net results of reducing production of both, making productive processes less efficient, and lowering the standard of living. Direct and indirect taxes on products are actually indirect taxes on Wages and Interest for they increase the costs and the prices of everything that Capital and Labor must buy. After all, a man's wages are not measured by the amount of money in his pay envelope but by the satisfactions that the money will purchase in the market place. A tax on products not only lowers the standard of living but it lowers production and reduces employment because higher prices mean less demand. It is only too easy to see the harmful effects accruing from taxes on REWARDS of human effort.

The effects of taxing RENT of land are not as obvious or as easily understood. Unlike wealth and capital, whose production can be reduced or increased as the law of supply and demand dictates,

Land is a fixed quantity which cannot be increased. As population grows, and as productive processes improve, the demand increases both for sites on which to work and live and for natural resources from which to produce wealth. This increasing demand, coupled with the fixed supply of land, must increase RENT. This higher rent will be reflected in a higher selling price, since the price of land tends to be determined by the annual rental value capitalized at the prevailing rate of interest, after due allowance is made for the tax assessment and tax rate. If the tax on the land value is relatively low, the land will yield a higher net rent and command a higher selling price. Conversely, a higher tax on the land value will reduce both rental income and selling price, thus discouraging speculation. The rental value of land has not been created by individual human effort but derives from the growth of population and from the increase in the community's power to produce not only material satisfactions, but such social and cultural advantages as public services, schools, art museums, churches, libraries, theatres, etc. Taking most or even all the rental value does not deprive anyone of a value he has produced, nor can it reduce the supply of land, nor increase its price. We have seen that it will actually reduce its price, and take the profit out of speculation in land.

Landholders who are using land for purposes much inferior to its potential, will find it more profitable to move to less highly taxed land just as suitable for their purpose. These areas of superior land, plus the vast acreage now held out of use by speculators, would become available to provide profitable employment for those who were able to use land to its best advantage. We would be, in effect, restoring our lost frontier and regaining its benefits: full employment at high wages, great incentives to create capital, a greatly diminished need for governmental spending, new strength and new freedom for our flagging free enterprise system, and doom for Socialism, Communism, and Welfare-statism.

We have already seen that taxing REWARDS of human effort has just the opposite effect from taxing RENT: it raises prices of commodities, lowers production of wealth and capital, reduces employment, increases the seeming need for government spending and intervention; and when persisted in long and heavily, leads to some form of Socialism.

Is there any doubt which SOURCE would be chosen for a tax base if only economists would present the issue and explain the principles to the people?

Some economists who have become aware of this issue argue that making rent the sole source of income for government would fall short of meeting its present expenditures, therefore the idea should not be considered at all. This is like saying that if the supply of yeast on hand is not large enough to make the bread as light as we might desire, we should throw it away and use none.

Actually, the annual rental value of land sites and natural resources in the country amounts to a huge sum. True, it might not be equal to the billions now expended annually by government, but who really believes that this colossal spending is a wholesome thing? Much of the increase in government spending began after the government attempted to bolster up

a sick economy. A healthy economy would not require the expenditure of vast sums. Even defense spending would shrink greatly when the inflation was squeezed out of the high prices of land and products.

The question is not one of quantity; the real question is: how much longer can we afford to suffer the harm we do by taxing REWARDS of human effort, while depriving ourselves of the benefits to be gained from the public collection of the community-created RENT of land?

A definitive survey of our total land values has not been presented up to this time, but the March 13, 1964 issue of Time Magazine said, "The worth of all land in the U.S. is half a trillion dollars, nearly twice the assets of all commercial banks." An 8% collection of RENT, on this base, would be 40 billion dollars a year. However, there have been estimates made that were much higher than this, and a few that were lower. Land is a nation's most precious asset and we know what a great motive it is for making war. But our present concern is not with the aspect of war, but with WASTE.

Our failure to collect community created RENT for community purposes, no matter what the sum, has lead to enormous waste, waste that most people do not even realize exists. Space involves distance and time, whether in the kitchen, the factory or the nation. What is the added cost to government and private industry in providing streets, gas mains, electric and telephone cables, transportation lines, sewers, police and fire protection, and other services because of the spread out or checkerboard use of land which land speculation causes? What is the extra cost of servicing slum areas with run down buildings and rubble covered vacant lots? These are the very areas that require more sanitation, more police control, more rat control, etc., and they are also the areas that pay the lowest taxes, and which eventually are purchased at high prices with public funds, for urban renewal projects. What is the added transportation cost and time expenditure for people who live in the suburbs and must travel unnecessarily long distances to and from work? What is the cost to the nation of our overly rapid depletion of oil, coal, gas, minerals and timber because owners are in a hurry to reap their profits regardless of other considerations? What is the cost in buildings, equipment and salaries of all the taxing agencies who are collecting a multitude of taxes or prosecuting for evasion? What is the cost of courts, lawyers, and accountants to find loopholes in the tax laws or to rule them out? What is the cost of lobbies and bribes to influence legislation so that some people can shift their share of taxes to others?

Fortunately, more and more economists are learning about the progress of specific applications of land value taxation in various parts of the world, especially in Australia and New Zealand on a local level, and in Denmark to a noticeable degree on all levels of government. Some economists are becoming acquainted with these ideas through the articles written by other than professional economists and published in the periodicals mentioned earlier.

As we said in a previous letter to many teachers of Economics:

"We do not know what the remaining teachers of economics will do, but we believe emphatically that unless they make a more sincere and scientific effort to present the true picture of SOURCES vs. TAXES, this job of tax-reeducation will be done by non-academic groups seriously concerned about our tax-confusion and the way business, industry and individual initiative are being penalized by faulty tax education. These groups have already begun to bypass the schools. It is our hope that teachers will meet this challenge before they lose the leadership they should have in this field."

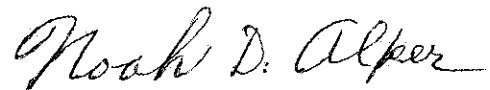
In this movement of tax re-education there are teachers of economics who now see, or have long seen the fallacy of current economic education as it relates to public revenue. Some who know may remain "neutral" because of pressures or traditions that seem to be inherent in economics careers. This hesitance will not last long for the ways have been opened for a break-through in the scientific presentation of the subject of taxation.

The Public Revenue Education Council is a non-profit, non-political organization, incorporated under the laws of the state of Missouri. Contributions are tax deductible. The Council's primary purpose is to promote an understanding of the science of public revenue and to show how application of its principles can solve many of the political and social problems that have arisen because of public ignorance and confusion about taxes.

You are invited to send for information and literature. This material is soundly based on economic laws and principles as expounded by the classical economists, and as presented by many present day writers of economics textbooks. Any comments you wish to make on our presentation will be appreciated.

Please use the forms enclosed to secure additional material.

Sincerely yours,



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President,
Public Revenue Education Council