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HOW TO REDUCE GOVERNMENT SPENDING, COSTS AND TAXES, And Increase Production at the Same Time

Frequently, people who have some knowledge of the program of tax-education of the Public Revenue Education Council, have said: "But you say nothing about reducing government spending."

Actually our program, if and to the extent it is or can be applied, is certain to cause reduction in government spending, costs and taxes. This article explains in some detail why this is true.

Please realize the proposed principles are partially applied in a number of countries. However the degree of application has not been sufficiently intense so as to severely limit land speculation and thus discourage the poor use of land relative to its full use. The minimum application should be enough to discourage all but an option-type withholding for a year or so to permit time for a decision as to whether or not permanent use is advisable. On the other-hand, the maximum burden should be short of full rent so as to encourage a proper use of the site.

We would appreciate comments or questions about this article. Added literature that develops our concept of the "Economic Science of Public Revenue" and supplemental material dealing with the application and results that follow the use of the principles involved will be sent on request.

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Sounds impossible, doesn't it?

How could we cut taxes and government spending without seriously hurting the nation's economy? If government spends less, how can production increase?

A NEW LOOK AT TAX-EDUCATION

A growing number of people believe we can, by use of well-known economic science principles, do these things. These informed persons are urging a new look at tax education and our total--federal, state and local--tax structure as a first step toward understanding and using this possible technique.

First, we must understand a basic economic truth: All taxes draw income to government from only two sources--Rent of land and Rewards of human effort.

Rent as a source of public income includes royalties on natural resources, such as oil and minerals. Rewards of human effort include wages and interest on investments of capital.

It is important to know the reason for combining wages and interest into one basic fund--Rewards-of-human-effort.

The two are treated as a joint fund because a demand for labor is a demand for capital, and vice-versa; and this direct and necessary relationship indicates labor and the providers of capital have a common interest in which of the two sources government should use as a source of revenue.

If you think about it for a minute, you will see that taxes are like pumps. They draw out income from specific economic sources just as water pumps draw from wells, rivers and other water supplies.

WHICH SOURCE TO USE

The first question that arises in considering taxation is which source to use, or use first, to support government.

The answer depends on which source makes possible the greatest yet least costly production and the

most moral distribution of the product--wealth and services.

If we tax Rewards-of-human effort, we burden labor and providers of capital, thus curtailing production and raising prices.

Precisely opposite results come from taxing Rent-of-land.

VITAL TAX FACT

To understand this, we must first recognize the economic fact that a tax levied on annual rental value of land is not shifted from the land's titleholder to other producers or to consumers in the form of higher prices of land or of products and services.

We can safely assume that titleholders of land collect as much rent as they can in their own use or renting out of their land to others. Why should they want or take less? Therefore, they cannot collect more rent, even if added taxes are imposed.

EFFECTS OF TAXING LAND RENT

The basic effect of an added tax is to shift more rent from private use by the titleholder to public use by the people's agent, government.

As a result, there is less net rent for the titleholder to capitalize into an investment or a selling price figure for the land. Thus, the market price of the taxed land is lowered.

If more land is offered on the market at lower prices--because taxes have reduced its net rent income--more and better land will be put in use, increasing production with use of the same amount and quality of labor and capital. This means decreased costs and lower prices of products and services to all.

Another effect will be discouragement of land speculation, since these added taxes fall on poorly used land in slum areas and on underdeveloped as well as on vacant land.

This land will have to be put to better use by its present owners or sold to others who will improve it to

its highest possible use value.

Thus, we can plainly see that greater use of Rent-of-land source and less use of Rewards-of-human effort for government income can lower the price of both land and of products and services.

BASIC QUESTION

Now comes the question of which source of tax income will lower the spending by government and cause a resulting reduction in costs and taxation. Also we must know which will assure the most efficient adjustment of our economy to automation and to the growing demand of our people for additional products, services and leisure time.

Here again, the answer is clear if we consider what is best for mankind and country, instead of privileged land interests.

If we collect more Rent-of-land in taxes, we end speculation in vacant, slum infested and other poorly used land, causing lower priced land for apartments, homes, industry and other public and private uses.

Since heavier taxes on rental value of land make land speculation unprofitable, the only people who would want to hold title to land would be those who could use it well, to its highest economic and social potential.

This would directly benefit labor and providers of capital by causing a substantial increase in production and a more moral and just distribution of the common results of their efforts.

LABOR-CAPITAL UNTAXED

Studies indicate that something over 50 per cent of our people live and work on less than 1 per cent of the land area of the nation.

A very large percentage of the land value of urban communities is concentrated in a very small percentage of their city blocks. Thus, a small percentage of our people who hold title to this valuable land collects by far the greatest share of Rent-of-land.

Because the increased taxes cannot be shifted to others in higher land rents or prices this means that the great bulk of Rent-of-land collected by taxes as public revenue would come from a few people or corporations owning a small area of our country's more valuable land. The very great percentage of our people who work and who provide productive capital, and who own little or none of this valuable income land, would be relieved of much of their burden of taxes now wrongfully imposed on the reward of their efforts.

HOW LANDHOLDERS PROFIT

Titleholders of land, as such, produce nothing. Only those who labor and provide capital are producers. The only way land owners can profit is to manipulate tax education and political power to put the burden of support of government on non-land value taxes, such as income, sales, earnings, excises, cigarettes, improvements on land, furnishings, automobiles and other forms of tangible personal property.

These taxes, as we well know, are paid directly by the people out of their earnings, their private property in wages and interest, or indirectly through higher prices of products and services.

Those who hold title to land or its resources, such as oil and minerals, must encourage community leaders

to build up population and industry to increase their land rental profits--at the general expense of other taxpayers.

These land rent collectors also must seek to secure such privileges as local property tax-exempt bonds provide lower cost competitive housing that will cause industry to locate in the community. Otherwise, in probability, industry would not locate there and build up their land values and land rents.

And, of course, advantage must be taken of urban renewal and condemnation laws, either for large areas or single blocks, by those who can profit by having the property of others condemned for their benefit.

URBAN RENEWAL INCENTIVES

The incentive device built into urban renewal programs is to make land cost redevelopers less, at the taxpayers' expense; and to encourage the building improvements on this land by granting tax exemption for a period of years, again at the expense of the taxpayers.

These incentive aspects of the urban renewal program only peck away at a small part of the massive problem of urban blight. And it contains no built-protection against recurrence of the same evils it suppose to correct.

UNIVERSAL RENEWAL INCENTIVES

Far better results could be obtained by putting the same incentive device on a universal basis--making land available at less cost to all by heavier taxes on its rental value--and encouraging new building by reducing or abolishing all taxes on improvements. This also would encourage constant rehabilitation of old housing besides stimulating the building of new housing for residential, business and industrial use.

The same total revenue now collected from taxes on land and improvements could easily be collected from the site value alone, since land is now so generally underassessed.

Experiences with this method of taxation in Australia and New Zealand have shown that 80 to 90 per cent of all property owners find a reduction in the total real estate taxes because the value of improvements they put on the land, which are untaxed, greatly exceed the land values held. And because improvements are untaxed, people are encouraged to build more and better improvements.

LAND HOLDERS NON-SERVICE

Proof of the lack of service provided by titleholders of land is seen in the frequent development of leased land. The lessees of land sites agree to pay, often as long as 99 years, the taxes levied on the land value along with the net rent to the titleholder. Often at the end of the leasing period, the titleholder also becomes the owner of the improvements put on the land by the lessee.

Most people who lease land or develop it on a royalty-rent basis surely would prefer to have this land rent paid to the community in the form of tax because this would permit a reduction or even abolition of the taxes they now must pay on improvements.

Those who own land which is unused or poorly used, without recognizing their economic and moral obligations to society to pay fairly for the value the

get from society are to that extent abusing our country, our Free Enterprise system and all those who live by their labor and who provide productive capital.

Their only concern is with net income resulting from their possession of land, unlike persons who own land on which their home is built, on which they produce food as farmers or provide goods and services as businessmen and industrialists.

The non-productive titleholders of land are vitally concerned with tax control; they make this their first order of business--in fact, their only business. This is shown, as indicated previously, by the fact that other people will invest money in developing land without owning it outright.

After all, low taxes on rental value of land are essential to their high profits from simply owning that land, and collecting rent on it. This explains why there has been a great increase in the number and rates of non-real estate taxes over the years. Such taxes naturally diffuse more widely on people as producers and consumers, thus reducing the tax load that would otherwise fall on the holders of income land made valuable by all people.

True capital results from man's making, saving and investing; it is an instrument of positive productive and constructive service. Contrary to Marxist doctrine, private ownership of capital does not exploit people. The Marxists err in thinking that land, a gift of nature to the moving generations of man, can be considered the same as capital. Many people, and teaching economists, accept this error and they too treat land as if it were true productive capital.

We have noted the special interest land owner: have in the way "economic science" is taught, especially as it relates to taxation. No such money-interests are involved in the teaching of other sciences and their application to daily needs.

How successful these powerful land interests have been can be seen in the great numbers of economists, sociologists and politicians who seem to regard as perfectly natural to Free Enterprise the evil social results of our present tax structure.

The greatest possible advantage to our people and country can come through scientifically dictated corrections in the tax area of economic education.

REDUCED COSTS AND TAXES

Consider these obvious benefits from tax reductions on labor and capital, and on the products and services they produce:

Government, which buys large quantities of products and services, would pay less because the hidden taxes that raise their cost could be eliminated.

Services provided by the government, such as police and fire protection, street lighting, sanitation, schools and roads, would cost less if the land and material needed to produce such public services also cost less.

These public services are absolutely essential to profits of titleholders of land. What would their land be worth without them? Therefore, the community services provided by taxes serve to make rental value of land higher.

Value of land also is increased by privately owned and operated utilities, hospitals, churches, and other providers of public services. These are paid for in prices for these services or by free will contributions.

They are not provided by the landholders as such. Those who pay for these services get no return at all from titleholders of land for these added values, no share of the RENT-of-land.

It follows that the community should collect a rental value of land in taxes in proportion to the value the community as a whole adds to the land.

In fact, such values, whether due to public or privately rendered services, are in effect sold back or rented to the people at a profit. This is entirely due to the fact that titleholders of land are not required to pay annual land rent for the value to their land provided by the people in the first place.

OLDEST ECONOMIC HOAX

This "shortchanging of the people--a "something for nothing" arrangement--is the oldest economic hoax man has ever known. It is a holdover from long accepted traditions of taxation, mostly a bad heritage from England, Europe and ancient Rome.

People are not likely to think today that slavery is justified by the fact that slaves once were bought and sold. Yet morally and economically, dealing in land is a form of slavery justified only by long practice. It is a way of denying labor and providers of capital their true private earnings in order to benefit the private collectors of publicly produced and earned Rent-of-land.

WASTE AND TAXES

A good example of expanded costs and waste of government services is the needless suburban sprawl seen around nearly all cities today. Much of this sprawl is caused by land speculators who are permitted to hold out of use land in the path of those who need it; and they expect to and do get paid for this disservice.

The increased cost of public and private serving of these spread-out communities and the increased cost of commuting to individuals caught in this situation, is fantastic.

Another needless waste is the increased unemployment caused by taxing labor and capital providers far more than the publicly created Rent-of-land.

Jobs for those willing and able to work are scarce in direct proportion to the difficulty of acquiring land and forming new capital. Fewer jobs mean fewer products and services, which thus become artificially scarce and higher in price. As a result, people become more dependent on private or governmental aid. The cost of this relief raises government costs and, in turn, taxes.

Still another obvious saving would come from abolishing the multitude of taxes now authorized and collected. Think how much more productively employed could be the tax collectors, bookkeepers, auditors and investigators now necessary to handle our cumbersome tax structure!

Our tax system is presently designed in some substantial part to redistribute wealth and services. If we distributed these properly in the first place by more or less exclusive use of Rent-of-land as a basic source of public revenue, abolishing as far as possible taxes which fall on wages and interest, the waste and costs of such redistribution would be unnecessary.

People who now live on their personal or corporate collection of rent of land without, to that extent, making

any real contribution of labor or capital, would be deprived of this legalized form of taking out of the Free Enterprise economy without putting anything of equal value back into it.

If they wanted to replace the money they formerly collected as rent, they would have to become like others who make genuine contributions of labor and capital in return for personal income.

BUDGET LIMITED - FEWER TAXES

Ultimately, the use of Rent-of-land as a basic source of public revenue would tend to set something of a natural budget limit on governmental spending, costs and taxes, especially at state and local levels. However, if the people elected to spend more than their natural public revenue--Rent-of-land--would provide, they could use the following direct, visible taxes: Income, inheritance and gasoline. All indirect taxes--an affront to free people--should be abolished.

Another non-tax method of securing revenue, the charging of fees for public water and sewer services, garbage hauling and others, also could be used.

NATURAL PUBLIC REVENUE

We should think of distribution in this way: Wages are the natural income of labor; interest is the natural income of the providers of capital; Rent-of-land is the natural public revenue of the people. Rental value of land rises only as the result of population increase and the combined social and economic activities of government and private initiative; therefore, it is the only natural source of public revenue.

A GUIDE FOR CITIZENS

This natural arrangement of distribution--private income to individuals and public revenue to the community--suggested an interesting economic and social concept to George Mallinckrodt, a scientist, who said:

"Any government whose budget exceeds that of the natural Rent-of-land of a country to that extent encroaches on the freedom and efficiency of private enterprise."

As a corollary principle, he suggested:

"Limit the extent of government to areas in which government action is most efficient so that the areas in which private endeavor is most efficient may not be curtailed."

In the spirit of these thoughts, we could add:

"If government was not caused to do so much to harm the people, it would not have to try to do so much to help them."

MORAL PUBLIC REVENUE - LOWER PRICES

The unscientific and really immoral taxation in our country has resulted in far higher prices of land, products and services than these prices need to be. If, through scientific and moral use of Rent-of-land as public revenue, and with most of these taxes abolished and these prices lowered, then government spending, costs and taxes easily can be reduced, production increased and living standards raised--rather quickly, too.

These results show the real potential of Economic Science to serve mankind justly, when applied with same objectivity we expect and get in science laboratories and in engineering. Instead, we get the assured results from an economic policy dictated by special privilege seekers, political and economist accommodationists and propagandists for special tax benefits.

MASSIVE ERROR IN TAX EDUCATION

A breakthrough in this maze of outmoded tradition and special interest taxation is desperately needed. Tax education today is based, unscientifically, on a disorganized study of the many taxes enacted by lawmakers. Instead, we need study based on the natural and fundamental principles of Economic Science which reveal that the sources of public revenue are Rent-of-land, wages and interest; and how we can cause lower prices of land, and of products and services by our use of these principles; and which of these price trends should cause.

Such a change would mean that we can work without not against, the free incentives of man and with free markets in an economy unhampered by its present handicaps. The release of Free Enterprise from its chains will permit the United States to lead the world toward unprecedented economic and social progress.

FORMULA FOR PEACE

With an economic system so obviously superior to Communist or any other controlled economies, and with many present social evils ended or greatly mitigated, the United States can win the world from the Communists without need of war. It can point the way to an unrestricted world-wide flow of labor and trade that will make people more interdependent and less nationalistic. It will induce greater production of natural resources wherever they exist in the world and will encourage their use wherever needed. The world can become a vast free common production and common market area.

It will, indeed, be a mechanism of "people making people" knitting of peace, from the bottom up, so to speak. All attempts at building peace from the top down by governments and diplomats have failed miserably far. Far more realistic is an effort to secure peace by making people more interdependent economically, educationally and in friendship.

What can we do to bring about these worthy results?

First must come a reform in tax education, from the present study of taxes as they exist to the study of revenue sources as identified by Economic Science.

ONLY IN THIS WAY

Study from this viewpoint will enable our citizens to make the ultimate public revenue decision which they must make.

The decision is:

To make more use of the Rent-of-land, at least 50 per cent of its potential, and less of the Rewards-of-human effort, to provide public revenue.

Only in this way can we end the pressing problem of government overspending, high costs and over-taxation, and at the same time increase production and raise living standards and assure greater security, economic stability, prosperity and peace for our people.