

F- Georg pamph
Noah D Alper

The Manufacturer

vs.

The College Professor

on

Taxation



An Exposition of Two Contrasting Viewpoints on Taxation

PLUS

An Analysis of

A TAX POLICY PROPOSED IN THE COMMUNIST MANIFESTO

vs.

A TAX POLICY BASED ON FACTS AND PRINCIPLES OF THE

SCIENCE OF ECONOMICS

— 19 —

THE SUPREME TRAGEDY OF AMERICAN ECONOMIC EDUCATION



The following presentation of the controversy between the Manufacturer and the College Professor is intended to set up and answer, in so far as possible, the following questions:

How can the truths—the facts and principles—of the Science of Economics be used today to improve the operation of our Free Enterprise Economy? How can this Science be used to give a healthy tone to our Economy so that the size and cost of government can be reduced, and we can defeat the Communist threat to peace? Has the Science of Economics this power?

The power potential of the Science of Economics to aid us in achieving our finest objective is tremendous. It can reveal to us *what to do* and *what not to do* to win a more perfect prosperity, a more equitable distribution of wealth and services, freedom and peace. It can show us how to make it *easier* or *harder* for people —

To produce, save and invest and to keep their savings for personal use and security.

To secure products and services.

To secure access to land on which all else depends.

Economic Science can help us to create a “living center”—an economic environment in which Free Enterprise is an energizing, thriving, adjusting — rolling with the punches — forward-moving and a friend winning vehicle that will appeal to all mankind.

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The Manufacturer vs. The College Professor on Taxation

The Controversy

A leading California Manufacturer, Mr. Joseph S. Thompson, President, Federal Pacific Electric Company of San Francisco, in an address before the Tax Committee of the National Association of Manufacturers of which he is a member, proposed that government derive its income from a "single source." Dr. H. L. Lutz, adviser to the Tax Committee, issued a memorandum(*) in opposition to this proposal in which he said:

"The product of the economy results from the joint contribution of land, labor, capital and management. Granted that government costs too much, it is still true that the *proper* way to cover this is by *spreading the tax burden across the board* instead of seeking to *concentrate it at any one point.*" (Emphasis ours.)

A Natural Scientific Tax-Structure Exists

The fact that the "product of the economy results from the joint contribution of land, labor, capital and management" in no way warrants the conclusion that the idea of "taxing across the board" is either best or desirable. In truth, this idea is most arbitrary and unscientific, and is dangerous to the Free Enterprise economy. On the other hand, the very statement made by Dr. Lutz that "the product results from the joint contribution of land, labor, capital and management" suggests that a simple, helpful and natural tax structure is revealed by these factors.

Tax-Structure to Be Compared

We propose to compare the natural tax-structure revealed by the truths of the Science of Economics with—

1. The tax-structure based on the doctrine of Dr. Lutz of "taxing across the board," which is now well established in the United States. In fact, this has served for years as a background of tax-education in the great majority of our colleges and universities.
2. The tax-structure of the Communist Manifesto which was designed in 1847 by Karl Marx and Frederick Engels as one that would destroy Free Enterprise (Capitalism) and advance the Communist State.

3. A particular "single source" of revenue for government proposed by Mr. Thompson in his address to the Tax Committee of the National Association of Manufacturers.

This comparison and the direct and logical deductions based on it will show which tax-structure, or proposal—that of the Manufacturer or of the College Professor—will best serve the interests of the Free Enterprise system and the producers of wealth and services. Furthermore, this comparison will show which tax-structure will be more apt to increase this nation's chances of winning the economic war being waged against it by the Communists.

The Meaning of Taxing Across the Board

What does "spreading the tax burden across the board" mean? Dr. Lutz suggests its meaning when he says that the "product is the joint contribution of land, labor, capital and management." This statement is back of his notion that taxation should be made to fall, in one way or another, on all the factors of production. Dr. Albert I. Meyers, in his book "Modern Economics—Elements and Problems," says that in this doctrine, which he calls the "Diffusion Theory," "it is postulated that the burden should be spread over as many people as possible."

The doctrine of "taxing across the board," so far as it can be explained by the facts and principles of the Science of Economics, means this: Land and Labor are the two *primary* factors of production, and Capital, a man-made or derived factor—derived, that is, from the first two—is the *secondary* factor. Economic Science then logically shows that the product—wealth and services (or monetary claims on them)—divides into a three-way flow, that is, into three Avenues of Distribution. These are: RENT-of-land, Wages and Interest.(**) Therefore, "taxing across the board" means the taking by government of Wages, Interest and RENT-of-land without scientific discrimination or consideration of the origin and nature of these shares, or of the effect of such taxation on men and women, the Free Enterprise economy, and the national well-being.

Sources of Public Revenue Revealed

An important fact is that when we have thus identified the Avenues of Distribution of wealth and services we

(*) 8-7-51

(**) Management is included under the factor Labor and its share of the rewards of production is included under Wages. Management is a most important *job classification*, but is not a factor of production. Furthermore, attempts to separate management-labor from other labor, as Dr. Lutz and most American economists do, plays directly and unnecessarily into the hands of the Socialists and Communists. Socialists and Communists believe in the doctrine of inevitable "class struggle" between Labor, and Capital

owners and Management; and they seek to drive them apart. Whereas, the truth is that the *basic* economic interests of these groups are mutual. Their rewards depend on the productive results achieved in a naturally free and cooperative system. This basic truth is not and cannot be disproved by the fact that bargaining for wages and working conditions, individually or through organizations—an essential principle in Free Enterprise—does take place. Bargaining is not and should not be made a symbol of the "class struggle"; it is only a *method* for determining what wages and working conditions can and should be.

have also identified the basic *sources* of Public Revenue (and of private revenue as well). This positive and most useful economic science fact, if known to today's economists, is, unfortunately, generally ignored. Dr. Lutz stopped short of the inevitable conclusion that the Avenues of Distribution are, in fact, also the **SOURCES OF PUBLIC REVENUE**.

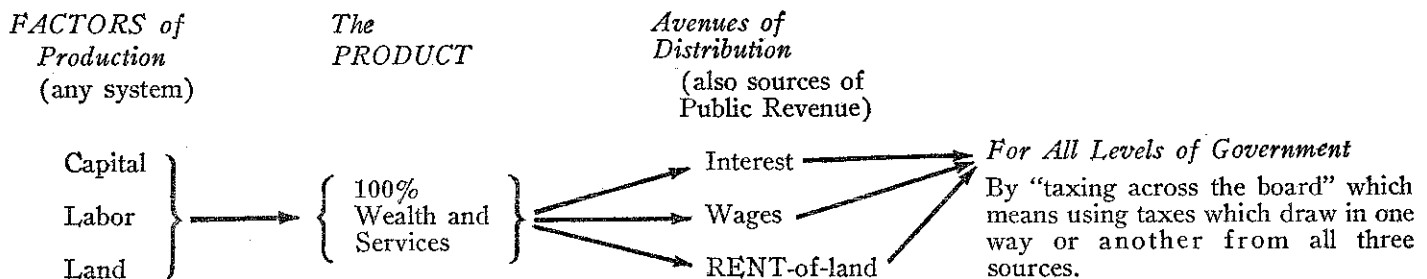
As we have pointed out, the only meaning the doctrine of "spreading the tax burden across the board" can have is that all three of these sources of Public Revenue are to be used by government. It would appear that the doctrine of Dr. Lutz of taxing all these sources in some fashion is to be followed in the face of this fact—that by using the source that is most naturally and most

Revenue than a pump is the source from which it pumps, such as a lake, watershed, spring, etc. A tax is like a pump. This truth alone, when recognized, will go far in causing a reorganization of economic instruction in our institutions of higher learning.

2. By recognizing the fact that we have a choice of one or the other of the two basic sources of Public Revenue, and by recognizing the further fact that the one and only *basic administrative* decision we must make, as citizens, is not which *tax* to use but which *source* to use, or to use first—RENT-of-land or the Rewards of human effort.

Illustration No. 1—The Economic Science Tax Structure

The following illustration gives focus and understanding to the basic structure of the Science of Economics and the Avenues of Distribution which, for our purpose, we will hereafter term the *Sources of Public Revenue*.



properly Public Revenue, and by refraining from using the other sources, we can greatly increase the efficiency of and respect for the Free Enterprise System.

Scandalous Tax Confusion Can Be Ended

We can end the scandalous amount of tax confusion that has been imposed on the American people, by correcting the inept and distorted teaching of economics of taxation in our colleges and universities and through other mediums. Many intelligent people, who are otherwise well educated, have been led to believe that our public revenue problem is one of *taxes* rather than one of *sources*. Never has a more harmful economic error been made. This error is the cause of much of the tax hocus-pocus by which many men of Labor and many Capital-owners, as well as other people, are kept fooled. This error is the source of endless squabbling and squawking about taxes—whether to increase or lower rates of this or that tax—whether to use manufacturers' sales rather than retail sales or gross transactions taxes—whether to lower the income tax (or abolish it and use as a substitute, in whole or in part, manufacturers' excise taxes)—whether to increase the tax on cigarettes, liquors, baby food, cosmetics—whether to make utilities collect more taxes, etc., etc. In this way people are kept in a continuing state of excitement by schemes that stir up the tax mess but never end it. We can end most of this tax nonsense—

1. By recognizing the difference between a *tax* and a *source*—an extremely simple economic science truth. A tax is no more a source of Public

Three Sources Are Really Two

There is a natural affinity between Labor and Capital-owners. (Capital is created by laborers who consume less than they produce, save and invest. Capital-owners create more capital by this same process.) A demand for Labor is a demand for Capital, and vice versa. And, except when obstructed by government or by individuals or groups of individuals, operating immorally or illegally, Interest rises as Wages rise and fall as they fall, although a time lag is usually involved. (*) For these reasons we here treat Wages, including wages of Management, and Interest as one basic source. We consider, therefore, that only two basic sources of Public Revenue exist, viz.—

1. Rewards of human effort.
2. RENT-of-land.

What Is RENT-of-land?

Before proceeding it is necessary for us to discuss one of the basic terms of economic science—RENT-of-land—what it is, how it arises, who really earns it and who should use it. Actual RENT-of-land, and speculative RENT-of-land, is the measure of the value of land for use in production, for home use, or for other uses, as compared with land so poor in desirability that while it may be used no one can afford to pay for its use. It is a value which attaches to land—the factor of production that is *not* made by man. Land is publicly serviced by *all the people*, through their agent, government, and by their privately provided services, including public utilities

(*) Wages and Interest tend to rise and fall together currently, as indicated. Over a longer period of time, however, should the amount of Capital be increased in relation to demand, Interest would tend to fall, thereby taking less of the total product. Increased Capital would add greatly to production with the bulk

of this increase going as Wages to all producers, as it has tended to do in the past. However, a shortage of good land could seriously retard such a favorable trend. An artificial shortage of land is often created either by land speculators or by owners who are unable or unwilling to develop their land to its highest capacity.

which are privately financed and owned. Land is in no way serviced in these ways by title-holders as such. (*)

RENT-of-land is the sum of money a title-holder can collect from a tenant for the use of a land site or its natural resource contents. People who want the use of land voluntarily offer to pay title-holders a market determined rental for the use of the site and, when involved, its natural resource advantages. None of these community produced or natural resource advantages are provided by the title-holder as such. In truth, the title could be held by a native of Timbuktu, a fifth generation descendant of the first title-holder who, himself, may never even have seen his property, or by a cat and dog estate, and the same economic and social phenomenon of RENT-of-land would occur.

It happens that this same amount of RENT-of-land which the free market allows a title-holder to collect from a tenant, is also the amount the people, through government—as an agent, not as a land owner—can collect from the title-holder. This is his payment of obligation—his “ground debt.” It is his obligation to pay for community services as certainly as it is the obligation of a tenant to pay this sum to a title-holder.

Title-Holders' Rights Not Changed

It must be pointed out that when this balancing obligation—this payment of RENT-of-land in exchange for title privileges—is demanded of the title-holder his legal right as a property owner remains unchanged. He retains possession of the land and disposition of his legal rights can be made as he wishes during his lifetime or at death. Ownership of all value in improvements and tangible personal property, added to or placed in or on the land, is assured. The right to enjoy the income that arises from such privately provided improvements, personal property and services *untaxed*, should also be assured.

Two Vital Economic Science Facts

Two scientific facts, familiar to practically all economists, are vital to our presentation. These are—

1. RENT-of-land can be separated from the total national product by principles of economic science as surely as cream can be separated from milk,

or minerals from rock and other matter in which they are found by principles of the science of physics. This process leaves Wages and Interest intact. The separation of RENT-of-land from Wages and Interest is achieved each day through the mechanism of the free market as title deeds to land are sold or as land is leased, with or without improvements. It is due to this fact that we have a choice between the two basic sources of Public Revenue, and between the kind of results we can secure by using one and not the other. We should, of course, tax the Source that provides the greatest benefits to all and not the one that gives unearned gain to a few in special and privileged positions of socially created advantage.

2. The second vital fact is that a tax placed on the value of land, or on its RENT, cannot be shifted. This tax can only be applied on land good enough to yield a rent; it does not fall on the “no-rent,” *yet competitive*, marginal or sub-marginal land. The RENT-of-land payment is paid by the title-holder out of the current RENT-of-land he collects. He cannot shift it to others either in a higher price for land or for products. Many readers who have not studied this fact may doubt its truth. However, if this were not true, there would be no opposition to the use of RENT-of-land to support government from those who gain unfairly by the present tax-structure. Any textbook on economic principles that includes a discussion of land and its RENT will usually give an explanation of why title-holders must pay a tax on this RENT, or land value, and why they cannot then collect *more* RENT to recover the amount of the tax paid.

The Tax Structure of the Communist Manifesto

The Communist Manifesto offers three tax proposals:

1. A heavy progressive, or graduated, income tax.
2. The abolition of all inheritances.
3. The application of all rents of land to public purposes.

These three proposals, if used, would certainly spread the burden of government costs on Land, Labor, Capital

Illustration No. 2—The Tax Structure of the Communist Manifesto

SOURCES of Public Revenue

(1) REWARDS of Human Effort

a. Wages }
b. Interest } → { Taken by Progressive Income Tax to

Title to accumulated capital and much consumer wealth taken by 100% inheritance tax to

(2) RENT-of-land

GOVERNMENT (all levels) → For all Government Purposes

(*) Title holders to land do not service the land area to which they hold title as, for instance, newspapers and magazines service the space they offer for sale with funnies, cartoons, sport and market news, or as offices and warehouses, hotels and apartment buildings provide heat, light, fire protection, elevators, sanitation, etc., or as trains, theaters, and other sellers of space provide theirs. For such service renters of space are entitled to income

and people are willing to pay for what they get.

The RENT-of-land space charge is a universal application of the old and long established principle of paying for benefits received, as in special assessment districts formed for making streets, sidewalks, sewers and the like. RENT-of-land is a “pay-for-what-you-get” charge and is specific. It is not properly called a tax.

and Management. By calling for the abolition of all inheritances, past accumulations of Capital and practically all consumer wealth, would be confiscated. This Communist tax scheme, *in principle*, conforms to the Dr. Lutz doctrine of "taxing across the board." It is the stated intent of the Communists (and Socialists) to destroy Free Enterprise (Capitalism). This is not, of course, the intent of Dr. Lutz, nor of the many college professors and those who offer tax-education through foundations and industrial economics courses who, knowingly or unknowingly, support the "taxing across the board" doctrine. The difference is one of degree, not of principle. The greater the intensity of application of this doctrine, the greater the danger to Free Enterprise. Wrong principles are not made correct by a mere modification in degree of application. (*)

Dr. Lutz Proposes a "Single Source" of Revenue

It should be noted here that the effect of using taxes of various kinds, without discrimination as to basic economic sources, is really "to concentrate the tax burden at one point." This is what Dr. Lutz says we should *not* do. His plan, however, does concentrate it largely on the source we have identified as the Rewards of human effort. It is in this way that *tax relief* is given to the collectors of the publicly created rental value of land which attaches, not to wealth—man-made objects—but to land, an

object of vastly different origin—a natural object. Since this is the generally known effect of "taxing across the board," it must be assumed that it is known to Dr. Lutz and further, that his proposal is made to achieve and perpetuate this type of tax concentration.

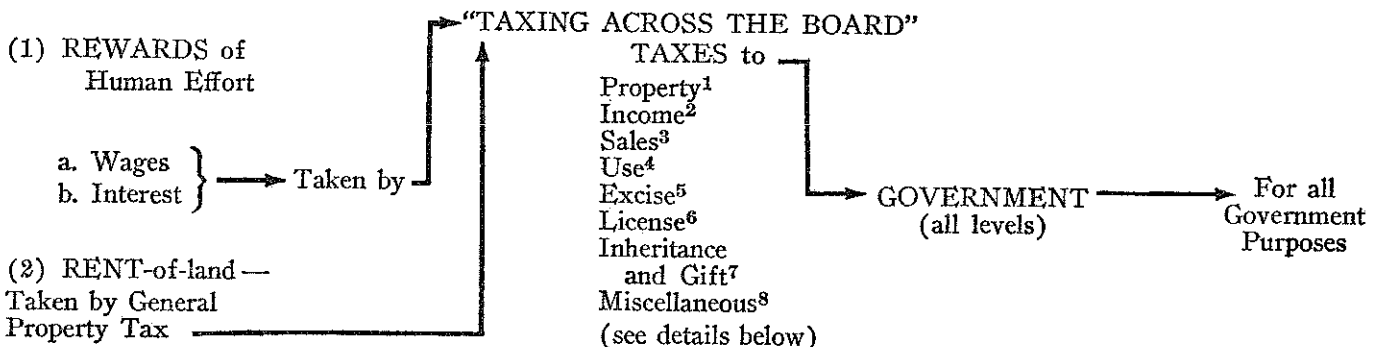
It is a fact that the great majority of people live entirely, or primarily, from this "single source" of Public Revenue—the "Rewards of human effort." This source is now being taxed by multiple taxes often with compounding effect. It is due to the confusion created by this multiplicity of taxes that people do not understand taxation and the great harm that is being done them, who is doing it to them or why. These many taxes, however, can in no way alter the basic economic science analysis that reveals which source is really being taxed most heavily. (**)

The Vital Issue

Mr. Thompson elected to emphasize the necessity for drawing support of government from the RENT-of-land; Dr. Lutz chose to draw this support from the Rewards of human effort, that is, from incomes personally earned. Dr. Lutz would allow title-holders to retain the *publicly earned* RENT-of-land for personal use. Of course, if such an arrangement were allowed to persist many title-holders of land of great value, and their descendants, could live forever off the productions of others, not

Illustration No. 3—The Dr. Lutz Theory Now Applied in the United States

SOURCES of Public Revenue



(1) On improvements, tangible and intangible personal property (and on land value). (2) Corporate and personal. (3) Gross transactions, general and selective retail sales. (4) All kinds.

(5) Gasoline, fuel oil, tobacco, liquors, entertainment, transportation, jewelry, luggage, cosmetics, etc. (6) All kinds. (7) All forms. (8) Of which there are many.

(*) Millions of intelligent and highly educated people, many of whom have studied economics in college, have studied the tax provisions of the Communist Manifesto. But it is highly doubtful if many readers were aware of the great contradiction in its tax proposals. It is this: the first two propositions, if rigidly applied, as the Communists advocate, would utterly destroy the Free Enterprise (Capitalist) system. Whereas, the use of the third proposition, alone, would so greatly increase the production and efficiency of the Free Enterprise System and bring about such a just distribution of wealth and services that Communism would be eliminated as a competitor.

(**) Dr. Lutz, in his memorandum to the Government Finance Section of the National Association of Manufacturers, has identified this "single source" of public revenue Mr. Thompson would have government use with what is known as the "Single Tax." The term "Single Tax" was used prior to the French Revolution by a group of Frenchmen known as the French Physiocrats. These men studied government and the effects of its tax policy on industry and on the people. They proposed the "impôt unique"

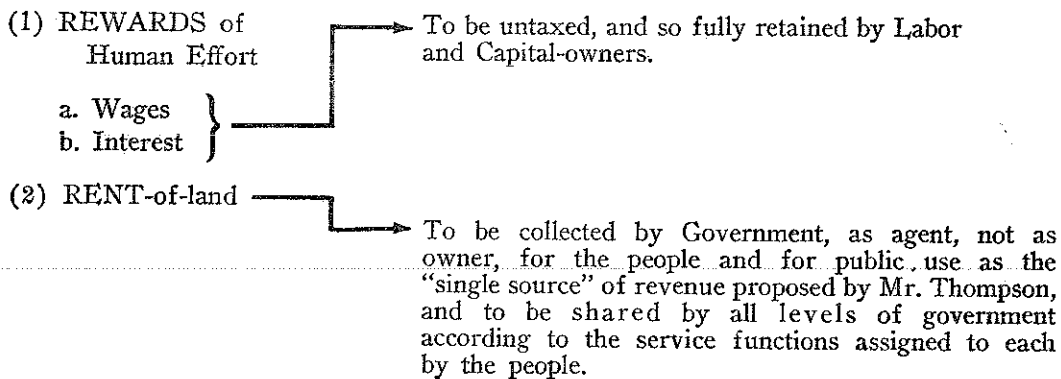
— the "one tax" — on RENT-of-land for support of government, and that other taxes be abolished. (Among these men was Pierre Samuel Du Pont de Nemours, father of the founder of the E. I. Du Pont de Nemours & Company.)

Their basic idea was observed independently by Henry George, an American Economist, and was thoroughly developed, so far as economic science and its pattern of "cause and effect" are concerned, in his book "Progress and Poverty." Henry George stated his specific proposal as follows: "To abolish all taxes save those which fall on the value of land," that is, on RENT-of-land, one of the two basic sources of Public Revenue.

(NOTE: As long as available, copies of "An Analysis of The Single Tax (A memorandum by Dr. Harley Lutz)," by Mr. Jos. S. Thompson will be sent on request. Mr. Thompson quotes Dr. Lutz' entire memorandum, parenthetically, commenting on each quotation. The Public Revenue Education Council is primarily interested in exposing the fallacies in Dr. Lutz' doctrine of "spreading the tax burden across the board and not concentrating it at any one point.")

Illustration No. 4—The Tax Structure
Proposed by the Manufacturer, Mr. Thompson

*SOURCES of
Public Revenue*



making one iota of productive contribution themselves. This is an immoral arrangement, unblessed by human experience. This is privilege at its worst! This is the original "something for nothing" economic deal.

The "Cause and Effect" Pattern Involved

The following are well established facts, both of economic science and of market experience, and can and should be used by people, as citizens, in determining how best to secure revenue for government. Which source they will choose, or choose first, will be determined by their knowledge of economic science, their social and moral concepts, and the results they wish to secure for themselves and their country.

The market price of land *goes down* as more RENT-of-land is diverted by taxes to government use and *less* is left for personal use by the title-holder. On the other hand, the market price of land *goes up* as less RENT-of-land is collected by government, and more is left in the hands of the title-holder.

We further know that, in principle, imposing taxes on products and services causes products and services to be less plentiful and, therefore, tends to raise prices. However, if these taxes are abolished, prices of products and services tend to be lowered, not only by the amount of taxes removed and their cost of collection, but still more by the increased production that will result.

We also know that direct taxes, such as taxes on the net income of individuals, taxes on retail or consumer sales, as well as gasoline, cigarette and other excise taxes at the retail level, take money (purchasing power) directly from people. This has the same effect as hidden taxes which inflate prices and which cause people to buy less. On the other hand, if we abolish these direct taxes, this purchasing power remains in the hands of people and the effect is the same as if prices of products and services were lowered, enabling them to buy more. (*)

This "cause and effect" pattern enables us to decide which source of Public Revenue we will use, or use first—RENT-of-land or the Reward of human effort. As we make this decision *we are also deciding whether*

to make land and products and services higher or lower priced. It follows as certainly as night the day that we are deciding whether to make it *easier* or *harder* for people:

1. To produce, save and invest, and keep their savings for personal use and security.
2. To secure products and services.
3. To secure *access* to land.

**Possible Results of Our Choice of
Source of Public Revenue**

We can be sure that if we follow the Dr. Lutz doctrine of "taxing across the board," using more of the Rewards of human effort and less RENT-of-land, we will make it *harder* for people to secure access to land and to obtain products and services, and also *harder* for people to provide for their own security and old age. As a result of such a policy the following will occur:

There will be —

Less demand for labor, and, therefore, fewer jobs.

Lower wages (basic depression conditions).

More slums.

More blocking of the unique process of control of Free Enterprise which will tend to increase the abnormal swings of inflation and deflation and their attendant evils.

An increase in number and a worsening of the nature of conflicts between Labor, and Management and Capital-owners; and

There will be — A decided trend toward —

A Welfare State

Socialism

Communism

War.

(This is the experience of the United States today!)

(*) We speak in terms of price changes. Technically, monetary circumstances might prevent price changes. This will not alter the conclusion that people will get more or less products and

services for their effort as we use proper or improper tax sources to support government.

If, on the other hand, we use more of RENT-of-land and less of the Rewards of human effort, it will be easier for people to secure access to land, to obtain products and services, and to save and provide for their own security and old age. As a result of such a policy the following will occur:

There will be —

More demand for labor — more jobs.

Higher wages (basic prosperity conditions).

Fewer slums and, possibly, none.

Less blocking of the unique process of control of Free Enterprise which will greatly modify the abnormal swings of inflation and deflation and their attendant evils.

A decrease in the number of and a betterment in the character of conflicts between labor, and management and capital-owners; and

There will be — A decided trend toward —

A State of Welfare — not a Welfare State

A Free Economy — not Socialism

A Free Society — not Communism

Peace — not War.

Politics and Propaganda, Not Land Titles,

Fix Assessments and Tax Rates

Title to land, the only property right involved when land is bought or sold, does not guarantee that the rate of taxation in effect at the time of purchase will never be increased or decreased. There is not now and never has been a safe presumption that the legislators, or the people, will not demand an increased use of the RENT-of-land source to support government. The very success of those whose primary income, or a substantial part of it, is in RENT-of-land, in having the tax burden shifted from this source to the Rewards of Human effort source, is no reason why it cannot at any time be shifted back. And there is no reason to doubt that both Mr. Thompson and Dr. Lutz are aware of this. (*)

Treat Causes, Not Symptoms

All this is suggestive of the potential benefits of the Science of Economics which need to be better understood, and to be taught with the same objectivity found in the teaching of other sciences. How amazingly different it would be if this science were really free — free from the ruthless and dangerous influences of those who would warp its teachings so as to preserve great wrongs in which they now have, unfortunately, an established financial interest; and free of the influence of those who would pervert the teaching of economics so as to accelerate the increasing trend toward Socialism. How different it would be if the direction of economic teaching had been toward ridding the Free Enterprise system of its wrongs rather than toward perfecting a system of "built-in" economic stabilizers and devices designed to help us co-exist with them.

(*) For detailed information concerning this successful shift of the tax burden see our pamphlet, "The Great American Tax Shift." Single copies free on request.

What Is a Good Deal?

It is important for more people to realize that we cannot correct wrongs in our system without, eventually, curtailment and eliminating the profits based on these wrongs. Surely it is understood that changes will be made, and in the economics and social field, generally wrong changes — simply because the people are confused and do not have the true facts. It is indeed unfortunate that some people in possession of monopoly and special privilege have ethical standards which lead them to oppose needed changes even though the changes could be made gradually without much hardship to anyone. The trouble is they will not permit any change which they assume will reduce their income to any degree. If they understood the facts many would see that their real income would actually increase. Because of their resistance to any slow evolutionary adjustment of these wrongs, pressures build up and change takes the form of violent revolution or serious ideological changes of socialistic nature by use of democratic processes. Experience has amply shown the truth of the statement in the Bible that: "Where there is no vision the people perish."

Practical and conservative people, if they are thoughtful at all, will realize that a good deal is not always one which makes a profit; it is sometimes one which will prevent or reduce a loss. Consider what happened in Russia and in China, and in numerous European, Mid-Eastern and Far Eastern countries. (Of course some people insist on living under the delusion that "it can't happen here.") Title-holders of land, because of their ownership of land and their collection of RENT-of-land and their shifting of the tax burden, owned most of the Capital in these countries. Who can deny that had they made a fair and timely adjustment in their land tenure system they would have avoided the loss of their land title privileges, their Capital, and, in many cases, their lives as well.

Tolstoy in Russia and Dr. Sun Yat Sen in China sought land reform before the Communists took over all Land, all Capital, and all Labor (the people). The platform of the Kuomintang party of Dr. Sun called for the public collection of RENT-of-land and a reconciliation with private ownership. However, such absolutely necessary reforms were blocked by the privileged landed interests in these countries, and many honest and sincere men, although true agrarian reformers, became Communists, either voluntarily or under the most severe compulsion.

The 'Ism That Fathered Communism

Many who fight Communism know little of and ignore the 'Ism that fathered Communism. It is common thought in many parts of the world that it was Colonialism, or Landlordism, or Capitalism. Yet, while these contain the basic elements that cause the trouble, they also contain powers, which, when properly used, could lift the standards of living of the so-called downtrodden or backward people all over the world.

"Earthlordism" best describes the specific and common evil contained in Colonialism, Landlordism and Capitalism. Earthlordism refers exclusively to a feature in these systems which relate directly to the economic factor, Land. Earthlords are people who are in the business of charging other people for living and working on earth. They collect such a large share of production as RENT-of-land that they also make it their business to control the peoples' tax system so as to bring about conditions which will yield

the most net RENT even though it is at the expense of Labor and capital-owners. They seek to promote public projects and services paid for by general taxes, and public services produced by private industry and paid for in the prices of products and privately rendered public services, and to attract new industry and greater population to the community; at the same time they seek to reduce the rate of taxation on their land value or rental income by resorting to other taxes. Such Earthlords resist all efforts to restore to people their rightful and natural heritage in God-given land, even under a method which would preserve for them and their heirs the exclusive and private use of land, and all they place in or on the land — untaxed (so far as is possible).

Earthlords, like most American economists and all Socialists and Communists, have little or no concern with truths of Economic Science as they apply to the problem of Public Revenue, and the welfare of the people and of the Nation. They either do not know or they do not care about the *scientific* difference between Land, and Labor and Capital, and between RENT-of-land, and Wages and Interest and which should and which should not be taxed. We may be sure that as many as 95 per cent of the people who either hold land of little actual or potential income value, or who hold no titles to land at all, would be directly and quickly benefited by a proper change in our tax system. We may also be sure that if men to whom actual or potential RENT-of-land income is of some importance will consider the increased value of their other forms of income and the increased stability and attractiveness of the Free Enterprise system which is possible, they will see that they too will benefit by such changes in the source of Public Revenue as are so clearly dictated by the Science of Economics.

A system of taxation which benefits only a few cannot continue in a country where people are told the truth about taxation. People are too intelligent to wilfully allow a system to continue which injures them and the future of their children, and endangers their freedom as well. That changes will be made are certain; that correct changes will *not be made* is just as certain unless people get the true facts as to the cause of their economic and social troubles and of the economic and moral cause of the growth of Communism.

An Unfortunate Hoax

With civic pride, and progress as a theme, organized land dealers and land speculators, boost for new and larger public improvements, for new industries and increased population. They are amazingly successful in having men and women of outstanding civic spirit, of professional, church and patriotic groups, and who will not profit — in a monetary way — one cent personally, take the leadership of such movements. Success in these public efforts, of course, makes the community a better place in which to live and work, and to rear a family. For a while people, at least some people, will get more as Wages and in Interest but, as all know who are aware of economic forces, this will be temporary. However, RENT-of-land will rise permanently. All people will pay out more of their incomes, however secured, in taxes; and the landless will pay in addition more RENT-of-land

to people like themselves, for what today seems to be for the privilege of living on earth and in communities.

Only unawareness of this fact could possibly cause homeowners, farm operators, and that great body of our people who hold no title to land whatever — and who rent working and living facilities — to believe that their interest in land and taxes are the same as those who own valuable tracts of land, whether large or small, and who collect substantial — often fabulous — amounts of RENT-of-land, or expect to do so in the future. Continuous propaganda and lack of proper education are responsible for this unawareness — an unawareness which results in their support of “good” projects to be paid for by taxes which unjustly burden the people and favor title-holders of land of income value. With proper understanding surely these same people would *demand* that the projects of the type mentioned be paid for out of the values they create — RENT-of-land, and not out of their personally earned incomes of Wages and Interest.

Capital-Owners and Labor Have Common Basic Interests in Taxation

Men and women, as Capital-owners and as Labor, should consider, together, today's tax mess — their greatest common problem, as citizens. They should consider how they get their income, whether, basically, from RENT-of-land — charging other people for the use of the God-given, or Natural, Factor Land — or from their personal earnings, Rewards of human effort. Will they, as individuals, gain or lose *money* if government is required by the people to use RENT-of-land rather than the Rewards of human effort to meet its expenses? Can they afford to risk either the nationalization of Land, Labor and Capital as the Communists would do it, or the draining away of personally earned income as the Fascist would do it?

Can citizens afford to ignore the fact that in solving our tax problems economic SOURCES, as opposed to politically enacted taxes (pumps), are the vital truths to be considered? Will they continue to permit the multitude of taxes which conform to the “taxing across the board” doctrine, and whose real purpose seems to be to confuse the people, and to prevent them from seeing the cost and corruption involved in today's tax mess?

It is now later than we think so far as correcting our tax system is concerned, but it is not too late if people will begin to apply right ideas to the problems. Right action always follows right thinking and can follow nothing else.

Whose Proposal Is Best?

Today, as ever, our policy of land tenure and taxation is the determining element in the success or failure of Free Enterprise and in its competition with Socialism and Communism. That is why the basic and determining issue in this struggle is whether government is to be supported by the source of Public Revenue called RENT-of-land, or by the source identified here as the Rewards of human effort; in short, whether the San Francisco manufacturer, Mr. Joseph S. Thompson, or the college professor, Dr. H. L. Lutz, offers the best tax system for Free Enterprise, for national strength and defense, and the good of our people and the people of the world.

The Supreme Tragedy of American Economic Education

Careful classification and identification of the factors or elements, and in the development of principles is the first requirement of a science. If XYZ-1200 is a symbol of one thing, the symbol XYZ-1201 is the symbol of another; and scientists universally respect the difference and act accordingly. But does such a scientific attitude dominate the teaching and use of the fundamental factors and principles of Economics today?

If you were asked to classify these items scientifically—a). prairie land; b). man; and c). automobile—would you place all in one class, one of the three in one class and two in another, or each one is a separate class? (Please answer in your own mind before proceeding).

Economics is the science that deals with wealth—its nature, its production and distribution. Wealth, the basic thing produced and distributed, is a vital term in economic science and, when defined so as to cover what are truly different classes of things, it can be dangerous to man and to his free institutions. Our object here is to inquire into the definitions of wealth generally used by economists rather than to define the term. Our present effort will be limited to a few examples of well known economists and authors of textbooks.

In a book, *Understanding Our Free Economy*⁽¹⁾, written by Dr. Fred Rogers Fairchild, Knox Professor Emeritus of Economics, Yale University, with Thomas J. Shelly as collaborator, we find this definition: "Wealth consists of all useful material things owned by human beings." Each of the items mentioned above—prairie land, man, and automobile—is useful, is material, and can be owned. Therefore, in accordance with Dr. Fairchild's definition, they are basically the same thing and so all are wealth.

To show that men can be wealth, Dr. Fairchild says: "But are human beings owned? The slave is; there is no doubt that he is wealth . . . The Science of Economics therefore considers that free human beings are not owned, and so are not wealth." But can an impersonal Science of Economics have an opinion of this nature? Obviously, it cannot; it is Dr. Fairchild himself, who says a slave is wealth. If there is a scientific basis for a Science of Economics then he has made a most grievous educational error in his definition of wealth, and in his conclusion that such diverse things as prairie land, man (labor), and automobiles (products of man) are so alike that all can be, scientifically, termed wealth.

Another example of a lack of science in definition is found in "Economics"⁽²⁾, a textbook written by Bruce Winton Knight and Lawrence Gregory Hines, of Dartmouth College. In this book we find the following remarks on Capital, wealth used for production for exchange or for income. "Economists are agreed in treating labor as a factor of production distinct from capital . . . In a slave economy laborers would be regarded as capital by their owners, just as horses and mules are considered capital in our society. From the point of view of a society of free men, however, where laborers are of the society itself and not merely means of somebody else's satisfactions, laborers are not capital. On the question of whether "land" or so-called "natural resources" constitute capital, there is some *difference of opinion* . . . This book, however, follows the *more general practice* of treating land as part of the total capital." (Emphasis ours).

The authors consider a man, when a slave, to be like a horse or mule—and so as property or, wealth or capital. They ignore the nature of man and his function as Labor in economic science—his function being a producer of wealth. They ignore this vital fact in their effort to distort economic science so as to make it conform to traditional concepts and customs of property; that, although socially and politically a slave, man, so far as economic science is or can be concerned, is in the category of the factor, Labor. A slave (man-labor) can produce things (wealth and services) exactly as can men now *recognized* by economic science as being *free*. No horse or mule has ever created or produced wealth except through man's use of them. When a horse or mule is used by man as an aid to production they are used in the same sense and in the same way as a tractor, lathe, or as any other material or tool properly called wealth or capital.

In considering the factors of economics professors Knight and Hines say: "In economic classifications, however, agents of pro-

duction are typically resolved into a few underlying "factors" of production on which all concrete agents are based. Thus, there are "labor," "capital" (including "land") and "entrepreneurship." It should, of course, be realized that "entrepreneurship" (management) is only a job classification; it is no more a *factor* of production than the job classification janitor, albeit of a higher category. In economic science, entrepreneurs are Labor, and must be so classified if science is to be respected. Can man, as an economist, by mere decree alone, inflate a job classification into a science factor? (The fact that they have *logically* accommodated certain information and theory to make management into a factor is not sufficient.)

While economists may, if they wish, concern themselves with such things as a "point of view," "laws and customs," and assorted "differences of opinion," they do so not as economists but as men also involved in other categories of studies and human experience. As economists, they should have a scientific objectivity which confines them to "cause-effect-predictability" patterns of thinking and inquiry. Economic science, as such, is no more involved with man's color, creed, condition of servitude, ideological considerations, prejudices or wishes, than are the sciences of physics, chemistry, biology and the like. How, within the framework of scientific discrimination, can things as different as man—even when politically and socially enslaved to deny him free opportunity to produce and to rob him of his production—and land—an element whose existence is natural and prior to man—and products—artificial creations of man—be classified in one and the same category as either wealth or capital?

If, to meet the exacting requirements of science, we consider land (including natural resources), Labor (man), and Products (Capital or consumer wealth) as belonging properly in different science categories, we must consider that the shares of production allocated to these factors are also in different categories or classifications. Many economists seem to think that economic words can be made to mean anything we wish so long as we agree to accept the meaning given the words. Of course, if such an arrangement is followed, it may sound logical to say that Land, Labor, Capital (or consumer wealth) can all be Wealth, Capital, or, for that matter, a cat or a dog. Unfortunately for such misconceptions or unscientific assumptions a "cause-effect-predictability" pattern is involved in economic science which pays no attention to such scholastic nonsense.

Hard facts, such as these, remain: Land is our standing and working room area and the "mother" source of matter which is used in making products (wealth or capital); and man, even when a slave, is the producer and not the thing produced. When subjected to a tax on their value and under given conditions, the market price of land goes down while the market price of products goes up; whereas, if they were of the same science nature the prices of both would tend to go up or down together when taxed on their value. Under some taxes man is encouraged to speculate in and to hold valuable land out of use, while under other taxes he is encouraged not to seek to possess land which he cannot or will not develop well. When economists miss or ignore such facts as these, or present them in such a confused or disjointed and spread-out way as not to be considered, let alone understood by students, should men who have a sense of appreciation for science and scientific methods in other fields be surprised at the failure of so many economic scientists to better serve Man, Free Enterprise or the Nation?

The following is found as a footnote in the book, "Economic Analysis and Public Policy"⁽³⁾, by Mary Jean Bowman of the University of California, and George Leland Bach, of Carnegie Institution of Technology.

"*Economic rent* is simply a different way of looking at *all* income shares. All "economic rents" are included under the headings of labor, profit, or interest incomes. Roughly, economic rent is simply the return received from property or a service that cannot be duplicated. Thus profits of exclusive position are a type of "rent." The difference between the income a worker receives in his most advantageous employment and what he could get in alternatives is a form of "rent." The difference between the returns to poor and to good land is sometimes termed the "economic rent" on the good land. The economic rent concept is thus to be distinguished from "rental income" in the statistics of income; such incomes *commonly* include some "economic rent," *but the two are not the same* . . . Since *economic rent* is included as an

(1) D. Van Nostrand Co. (1952) — pp 16-19.

(2) Alfred A. Knopf (1952) — pp 19-24-25.

(3) Prentice-Hall, Inc. (1949) — p. 541.

aspect of three *other types* of income, it is not considered in detail here."

If these forms of income are different why this unscientific attempt to consider them as one and the same thing? If "economic rent" is different from other "rents" how does it help education or help student understanding to ignore such vital details?

One of our greatest problems, if Free Enterprise is ever to capture the respect and favor of mankind, is to achieve not only additional production per unit of labor, mental and physical, but also a just distribution of wealth as well. The more just the basic and original distribution of wealth the less likely are people to accept unfortunate political and socialistic schemes for its "redistribution" via a paternalistic government using a "taxing across the board" tax scheme.

RENT, called "Economic Rent," is generally recognized as the return to land having natural or man-made advantages over the poorest land in use, identified as marginal or "no rent" land. It is one of the most vital terms of the Science of Economics. The "old fashioned" economists, who thought more of the distinctions between things that are different and of the meanings of the words they used, sought to keep this word from confusing people by conveying images to them of meanings associated with the word rent as used in daily living—such as renting a car, a tool, or a suit, etc. That is why the term "Economic Rent" was originated and generally accepted.

RENT-of-land (Economic Rent) is directly associated with the Law of Rent, one of the most basic and significant laws of the Science of Economics so far as the potential good of mankind, of the Free Enterprise economy and fair play is concerned. This Law is often referred to as Ricardo's Law of Rent. It is through understanding this Law that we are able to make a clean identification and separation of incomes of Wages and Interest, from RENT-of-land. A detailed understanding of RENT-of-land and the Law of Rent is of the greatest importance in matters of public and private revenue, especially in determining which source of possible public revenue, RENT-of-land or the Rewards of human effort, we should use or use first so as to insure the greatest possible production and the utmost justice in distribution. However, when we "collectivize" the different economic science factors and the shares of distribution allocated by competition to these factors by tricks of definition, we are assured a confused citizenry.

A scientific inquiry into economic education today will show why, even if Johnny can read fairly well in college, he still will come out a mighty confused citizen so far as scientific knowledge of public and private revenue is concerned. Also, when we use "collectivist" type of definitions we lower ourselves to the kind of logic used by Marxist economists. Since Marxism, whether Communist or Socialist types, is a scheme, Marxists have no need for more precise or economic science definitions. The Marxist equivalent of the collectivist definitions of most of our American economists is the fabulous expression, the "Implements of Production." This type of definition also suits far too many Amer-

icans who would encourage and defend as private income that which arises, not from true capital or management (in production), but from privilege as rank (as to class favoritism) as any recorded in the history of Rome, England or the United States. By the use of such hash-like definitions defenders of Free Enterprise or Capitalism must operate on a "love me, love my dog" basis—on a basis of defense of the "weeds" as well as the "vegetables" in our economic garden. However such definitions may serve Socialism or other forms of collectivism, they cannot meet the need of Free Enterprise with its basic control through natural laws and by competition.

Since the power of scientific discrimination exists in economic science as certainly as it does in other science fields, we can achieve one class of results, or another—good or bad, as certainly as engineers can design engines for power, speed, or for dual purposes by the use of the science of physics and related sciences. The great social and moral question is, of course, which economic and social conditions we wish to produce for our people and our nation? Do we want steadily increasing and naturally stabilized prosperity, or constant repetition of the "boom and bust" type of experiences of the past 100 years? Do we want high or low prices (or wages), slum and semi-slum or well improved housing, a trend towards Socialism or Freedom, or towards war or peace, etc.?

Isn't it possible that the many serious and seemingly isolated social, economic and political problems we witness are the result of a type of economic education seriously defective in basic and discriminating science? Might not the confusion and the unfortunate and needless bad results we experience be largely due to a failure to establish in economic education a true "cause-effect-predictability" pattern, and so make such education useful rather than harmful to man? We believe that the sad attempts to use forms of "logic" that smack of Marxists ideology as a substitute for true science factors and principles (natural laws), and to make the economics studied in colleges and universities conform to laws and customs rather than making our laws and customs conform to natural economic principles, is the root cause of our widening and deepening troubles today.

Economic science is the "key-log" science by which great and happy accomplishments can be ours if we approach it as truth seekers and with the reverence due truth. Economic science is the science grossly ignored in this day of Space and Sputniks, of power conflicts between nations of different ideologies, between men called Labor (Organized), and men termed capital-owners and management; yet it is the science which has in it the potential to condition our economic and social environment for a more noble use of all other sciences, some of which we now fear in one way or another. Economic science is the one which, by revealing to us how to eliminate the basic wrongs now endured and defended by a few who profit from a capitalization of these wrongs, and by cultivating and encouraging the proven good in our system, will help us evolve our Free Enterprise system to a point where we will be freed of the endless symptoms of evil of economic and social nature we now treat in vain by Socialistic type laws which only tend to compound our real evils.



The Public Revenue Education Council is an educational, non-profit and non-political institution chartered under the laws of the State of Missouri. Its main purpose is to promote education in the economic science of public revenue and of private income by challenging today's confused and unscientific tax policies and by stimulating thoughtful people to make their own evaluation so as to see what must be done.

Since the Council's educational material is based on scientific principles, it should be given widespread publicity. Your comments, suggestions, and help will be appreciated.

Write for or phone for our free pamphlet "The Great American Tax Shift."

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