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Wrong-Source Public Revenue

THE GREATEST THREAT TO

FREE PRIVATE ENTERPRISE

and

HOW TO CORRECT IT

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Why--

Must government give away its own natural income and then force individual citizens to give up their personal income for the support of government?

★ **Our present tax system makes it HARDER instead of EASIER for people:**

1. To earn their living.
2. To secure the land and the capital needed to make their living.
3. To accumulate and KEEP for themselves what they earn.
4. To limit government paternalism and control which increase the need for more taxation.
5. To decrease the temptation to violate man-made and moral laws which our current tax policy encourages.
6. To perfect and preserve our free private enterprise system.

The right tax system would make all these things *easier.* But we can never enjoy the benefits of such a policy until our citizens and leaders understand and apply the principles of the true economic science of public revenue.

The Public Revenue Education Council is seeking to learn if the leaders of our community will support a program of public revenue education designed to promote free private enterprise.

The Council is a non-profit, non-political, tax-free educational organization incorporated under the laws of the State of Missouri.

We invite your inquiry into our purpose, ideas, and educational methods.

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WRONG-SOURCE PUBLIC REVENUE

The Greatest Threat to Free Private Enterprise and How to Correct It.

INTRODUCTION

The subject of Economics has been taught in schools and universities for over 100 years. Yet, in spite of all this formal study, we were never in a greater mess; and our free system is desperately defending itself against Communist aggression.

We have made great gains in production; but our social and economic problems have become so numerous and intense that they threaten not only to slow down the gains but to destroy the system itself.

We expect and fear inflation, which in past years, has levied as much as a 50 per cent "tax" on innocent holders of fixed-dollar investments and incomes; we also fear recurring depressions which wipe out millions of small capitalists, destroy millions of jobs, and ultimately bring about a severe concentration of wealth in the hands of people who did not produce it. For reasons such as these many people have lost faith in our basic economic system. They now feel they must look to government for security.

Billions of dollars have been spent in welfare projects of all kinds, but not one thing has been done to eliminate the need for them.

Taxes have multiplied in number and increased in volume, yet the basic tax problem is unseen and untreated.

Medical science has greatly increased the life span, yet economic fear fills the hearts of most men as age 45 approaches.

Socialistic measures have increased in the United States to a degree that amazes the Socialists themselves; even Norman Thomas no longer feels it necessary to be a presidential candidate.

Foreign countries are driven out of our markets because our tax system inflates our prices. Yet generous and mutually helpful trade between nations is good insurance against war.

ISN'T IT ABOUT TIME we tried to understand and to eradicate the basic causes of our troubles and get permanent relief from them?

The combination of a vast new country, abundant in resources and opportunities, and a relatively scarce labor force, free to use its initiative, were the two main causes of our great material progress. By necessity, men formed the habit of discovering new methods to take advantage of abundant opportunities with a minimum of effort. Their productive ability was greatly increased by advances in physics, chemistry and other sciences. But has the science of economics contributed to this progress? Isn't it possible that economics, as taught, has actually prevented still greater accomplishments, led to production, marketing and other controls, caused and perpetuated an unjust distribution of wealth; in short, is THE BIG REASON we are in a mess today?

Let's see how economic science, properly understood, might have contributed to our progress as the other sciences have.

The Factors of Production

Two primary elements are involved in getting a living:

NATURAL OBJECTS
MAN

With these two elements available, we can make artificial things called products. The names we give these different *classes* of things — MAN, NATURAL OBJECTS, and PRODUCTS — are not important. It is important, however, that we recognize the differences in these categories; then we must label them with some name or symbol.

In this presentation, words commonly used by economists, such as land, labor and capital, are used to identify these naturally different things.

HERE IS WHAT WE MEAN WHEN WE USE THESE WORDS: —

1. *LAND.* In economic science the word LAND is used to include all things which exist in nature except man and his products; *man and his products are excluded.*

2. *LABOR.* By labor we mean man and his efforts, mental and physical, which result in *products* and *services* that satisfy human desires. The word LABOR includes management-labor. The word management, like the words machinist, janitor, president and comptroller, refers to a *job classification.* Economic science offers no basis for separation of management-labor from other labor and other jobs; or for the idea that a *job classification* can be considered a *separate* element or factor. The job of management carries its own dignity and prestige and economists do not need to glamourize it by setting it apart from other labor. In fact, to do so is a needless and unscientific procedure which plays into the hands of those who hold the theory of a CLASS STRUGGLE between management and capitalists on one side, and the rest of labor on the other.

3. *WEALTH.* Things found in a natural state are not wealth. Nothing found in nature directly satisfies man's wants without the application of *some* labor, *some* human effort. In economic science only objects extracted,

adapted, transported, or stored by man are considered wealth. To be wealth a product must have four characteristics:

1. It must be a *material* thing.
2. It must be *produced* by labor.
3. It must have, within itself, the direct power *to satisfy human desire.*
4. It must have *value in exchange.*

In short, wealth is all material things produced by human labor for the satisfaction of human desires, having exchange value.

Wealth falls naturally into two classifications, one of which we will call CAPITAL-WEALTH and the other CONSUMER-WEALTH.

a. *CAPITAL-WEALTH.* Capital-wealth is that part of wealth used to produce more wealth *for exchange;* it is wealth still to be exchanged, wealth not yet in the possession of the final user or consumer. The key to the economic separation of CAPITAL-WEALTH from CONSUMER-WEALTH is the idea of *economic exchange.*

Labor is the *father* and land is the *mother* of all wealth, and so of all CAPITAL-WEALTH. While nature offers us no *free* CAPITAL-WEALTH it does offer us a three-step process for making CAPITAL-WEALTH:

1. We must make something.
2. We must save, that is, we must not consume all we make.
3. We must put, or invest, what is saved into production for exchange.

The term CAPITAL-WEALTH, as used in economic science, cannot include just anything that can be owned or capitalized by promoters, bankers, brokers or others; nor are money, stocks and bonds, notes, mortgage, and other paper securities CAPITAL-WEALTH. These things do not have within them a *direct power* of *satisfying* human desires — you cannot eat or wear them, live in them, or use them as direct aids to production. They are important in identifying ownership and as claims on CONSUMER- or CAPITAL-WEALTH.

CAPITAL-WEALTH is not just any legal property, because the word *property* includes a wide variety of things, many of which cannot, in economic science, be classed as wealth. Unfortunately many economists make a serious error by treating the words CAPITAL-WEALTH as equivalent in meaning to the word property.

The value of political and police protection to prostitutes, gamblers, and gangsters; the value of patents; the value of protective tariffs, subsidies, and parity payments; all can be *capitalized.* But few economists would want to classify these concessions or privileges as CAPITAL-WEALTH.

b. CONSUMER-WEALTH. Consumer-wealth is wealth in the possession of the consumer to be used for the direct satisfaction of his wants or to produce more wealth to provide for more direct satisfactions.

Thus, neither MAN nor LAND can be either consumer- or capital-wealth if we hold to the scientific principles of separate classification of unlike things. We can say that while all capital is wealth, all wealth is not capital. A suit of clothes in the possession of a merchant who intends to sell it, is wealth and is *also* CAPITAL-WEALTH; the same suit in possession of the buyer who intends to wear it, is WEALTH, but is no longer CAPITAL-WEALTH; specifically it has become CONSUMER-WEALTH.[1]

The Factors of Production As Generally Taught

We have established the meaning of the words LAND, LABOR, and CAPITAL-WEALTH and have isolated and named the basic *factors* involved in economic science — the science of getting a living in society. If we compare these definitions with the typical definitions used by many teachers of economics we will see how the confusion in terms helped produce our present economic mess.

The reason man labors is to produce a product (or service). Can economists be considered scientific if they fail to distinguish between the object produced and the *factors* that have produced it? Or, if they do not know precisely what has been produced, how can they know what is to be distributed?

In a high school textbook, "Understanding Our Free Economy," written by Dr. Fred Fairchild, Knox Professor Emeritus at Yale University (in collaboration with a former high school economics teacher at Yonkers, N. Y., Thomas Shelly) we find this definition (page 16):

> *"Wealth is anything material, useful, that can be owned."*

To help students understand this definition the authors ask on page 19 if a human being can be wealth. Their answer is that they *can be* wealth because they are "certainly material and they are (generally) useful. But are human beings owned? The slave is; there is *no doubt* that he is wealth. But our *laws* and *customs* do not generally regard free men and women and children as being owned by anyone . . . The *science* of economics therefore considers that free human beings are not *owned,* and so are not wealth." *

We must now evaluate Dr. Fairchild's definition of wealth as to its scientific content and usefulness.

It is doubtful if anyone, accustomed to think of things and relationships in terms of scientific principles, would say that a pencil (a product), land (the source of the natural matter in the pencil), and man (the producer of the pencil), can be placed in the same classification. Yet it happens that each of these different items, land, pencil and man (if a slave), are *material, useful,* and *can be owned.* According to Dr. Fairchild's definition of wealth each of these items is wealth and so are in the same category. While these three things are alike, within the limits of Dr. Fairchild's chosen definition, they are *not alike* in other vital aspects. Consider these two differences:

1. A pencil is a man-made object and can be produced in any quantity; land, on the other hand, is not man-made, and its quantity is fixed. (Improving land sites to make them useful is not *making* land).

2. All economists know that if you tax the value of pencils you will *increase* their price and make pencils harder to get; whereas if you tax the value of land you

*Italics are our own.

(1) SERVICES rendered by man can satisfy wants, have value in exchange, and so are *equivalent* to wealth in economic science, even if they are are not material things; wealth exchanges for services and services for wealth. This is to be remembered even if we speak generally only of wealth in this article.

will *lower* its price and make land easier to get.[2] If pencils and land were alike, they would react to a tax in the same manner.

Because such economic differences as these are not given consideration in Dr. Fairchild's classifications, his definition of wealth must be considered arbitrary and not scientific.

Dr. Fairchild defines capital (page 66) in this way: "Capital consists of *all* wealth except land." In this statement Dr. Fairchild infers wrongly that land is *wealth,* even though he says it is not capital. However let us compare his definition of capital with that of two other economists. Note that Dr. Fairchild's definition of capital *excludes,* while theirs *includes* land. How can both be correct and how can confusion be avoided when such divergent views are taught?

In the textbook, "Economics" by Bruce Winton Knight and Lawrence Gregory Hines of Dartmouth College, there is this discussion of capital (Pp 24-25)*:

"The quality of being capital *does not* depend on the *physical* form of economic goods. The capital that plays the most important part in production takes the form of 'heavy' equipment such as industrial buildings and machinery . . . dwelling houses, house furnishings, and *pleasure* cars also constitute capital; and so, too, do stocks of foodstuffs, and wearing apparel . . . When we refer to capital as physical units or quantities, such as buildings, locomotives, refrigerators, or *acres of land,* it is *common* to use the term 'capital goods'."

"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 to 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.* Capital may be defined more *narrowly* as the stock, not of ALL economic goods, but of PRODUCED goods, thus excluding such valuable *goods* as *soil fertility* and *mineral resources. This book,* however, follows the *more general practice* of treating *land* as part of the total capital."

So far as the *science* of economics is concerned man remains a man, and functions as a producer of wealth even though he may be legally enslaved and his product confiscated by other men; as an economic unit a slave remains in the LABOR classification and is neither CONSUMER- nor CAPITAL-WEALTH. LAND, man's natural habitat, is *not* a creation of man's labor, yet most economists, influenced by custom and special economic interests rather than by the principles of economic science, treat land as they treat a product of labor — they place it in the same category with capital, a type of wealth which is man-made.[3]

Would anyone with the slightest spirit of scientific discrimination catalog these naturally different classes of things under one name? And in what other science does the nature of a basic factor depend on the "point of view", "laws and customs," or on a "difference of opinion"? Just how does such confusion of terms and such muddled thinking encourage students to develop logical and analytical ability?

Economic Distribution and The Tax Structure

We have carefully identified the basic factors of economic science. Now let us as carefully identify the shares or portions into which the total product is divided. Distribution is a simple matter if we hold fast to our original basic terms.

Because there are three factors of production, there are three shares of distribution; these are RENT-of-land, wages and interest.[4]

By RENT-of-land we mean ground- or site-rent, and royalties on natural resources severed from the land.

Some land is so poor that the user barely earns wages and interest. If he had to pay any rent for the use of the land, he would not use it; he would have to seek his living elsewhere. Such land is called marginal, or no-rent land. Better land would produce an *excess* over the amount needed to pay minimum wages and interest. The extra amount or surplus could be appropriated without forcing the user to stop production and to leave the land unused. This *surplus* is the RENT-of-land; it represents the advantages that a piece of land has over marginal land. We call the law which describes this Ricardo's Law of Rent. It can be stated as follows:

> "The RENT-of-land is determined by the excess of its produce over that which the same application of labor and capital-wealth can secure from the least productive land in use."

Because practically all land that is *valuable,* or might have a value in the future, is now owned, people must buy or lease land in order to use it. To lease land, it is necessary to pay RENT-of-land. To buy land, one pays a purchase price based on its current rental value plus its estimated future speculative rental value, minus the amount paid in taxes.

It is obvious that only that part of the product which remains after RENT-of-land is accounted for can be used to pay labor and capital owners. This remainder is divided into wages and interest in proportion determined by the prevailing market rates. The proportionate shares into which the total product is divided are determined by

*Italics are our own.

(2) Few people know that a tax on the value of land does not shift; that is, it does not raise prices of land, products or services; in fact, it does the opposite — it works for lower prices on all these things. On this all qualified economics and real estate authorities agree. For further information see our pamphlet "The Great American Tax Shift."

(3) The Marxists have a catch-all phrase, "implements of production," which, while certainly not scientific, is used by them as a basic term. This phrase includes land, capital-wealth, and, practically, man himself, since MARXIST doctrine includes the *control of labor.* When economists use the term capital-wealth to mean the same thing as the Marxist phrase "implements of production," they degrade the teaching of economics to the same unscientific level occupied by Marxists. If economics is to have scientific substance it cannot treat land as either consumer- or capital-wealth; as we have seen these names are reserved for a very different class of things.

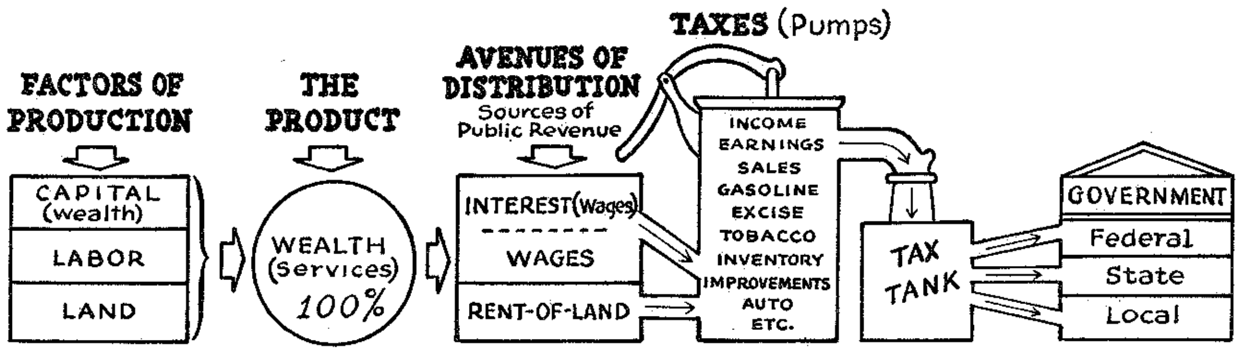
(4) The word profit is omitted because, while it is important as an accounting term, it is not an economic term. Profit is a compound of several elements, and its use in economic science is certain to cause confusion. It may consist of RENT-of-land, wages, interest, or any combination of the three. When the product is properly allocated between these three, it is completely distributed. The attempt to explain profit as a "windfall" to management or to owners of capital, as is done in some textbooks, is another instance of failure to be scientific.

the natural laws of distribution, the Law of Rent, and the Laws of Wages and Interest-wages.

While these laws are a very important part of the study of economic science we cannot take space to develop all of them here. However most readers, even though they do not understand the laws of distribution can, from their own experience and knowledge, see that the product is divided into these three parts. This is sufficient for the practical purpose of this presentation.

so many intelligent and otherwise well-educated people despair of ever understanding public revenue, much less doing anything constructive about it.

To see more clearly the contrast between *taxes* and *the sources* from which taxes draw income to government, consider this example. A man earns wages of $65 a week. He has no income from RENT-of-land or from interest. Now consider for a moment how many different taxes, imposed by different governments, this man pays



This illustration outlines the relationship between the factors of production (land, labor, and capital-wealth), the product (wealth and services), and how the product is distributed or divided between the factors of production, respectively, in RENT-of-land, wages and interest-wages. When we understand this process of distribution, which is governed by natural laws, we at once recognize that there are *basic sources* from which *all* taxes draw income for ALL levels of government.

This *vital revelation* of economic science cannot be seen by students if confusing and overlapping definitions of the basic factors are used in economic textbooks, or if the teacher has not learned these facts. And if we are not sensitive and alert to the fact that basic factors and natural laws exist in economics, how can we use them to our advantage, as we use the laws of other sciences?

This failure of economics teachers to help students to clearly identify basic sources of public revenue, is sufficient to explain the almost universal confusion which exists on the subject of taxation. The emphasis on taxes, as currently taught, is wasted. This is the reason why

in a year, directly or indirectly. Then ask yourself what is the INCOME SOURCE from which he gets the money to pay all these overlapping and compounded taxes. Aren't the wages of his labor the source? Individuals may have incomes from RENT-of-land, or from interest-wages only, though such cases are rare. Most people have incomes consisting entirely of wages, although some may have one or even both of the other types as well.

As we have seen there are only two *primary factors* of production, land and labor, which receive incomes of RENT-of-land and of wages. Let us focus on the economic relationship of these two *sources* of public revenue in order to make the basic public revenue concept *we must understand and keep in mind* even more simple; and let us see WHY this can be done.

All who labor or provide capital-wealth have a vital common interest, so far as their real economic and social welfare is concerned.[5] A demand for labor is a demand for capital-wealth, and vice versa. When factories (capital) are in operation, men (labor) are at work; when

(5) Labor gains a much greater product by use of capital-wealth, whether their own or that of others, because; first, a far greater production is assured, and second, management and capital-owners must offer higher wages for labor that is skilled in *making* and *using* modern tools and machinery. These higher wages encourage workers to a further development of their skill, and they become even more productive. Labor gets the lion's share of this increased productiveness, while capital owners receive, generally, a market-determined interest rate for the use of their capital, plus an amount to cover special investment risks.

The claim of the Marxists that Labor is exploited because of private ownership of capital-wealth, as the term must be used in scientific analysis, is absolutely false. However it is a fact that labor does not get the full return for its effort. This is not due to the private ownership of capital-wealth but is for the most part due to our tax system which exploits *both* labor and capital owners.

Anyone can become a capital owner by following the capital formation process. Man can make almost unlimited capital-wealth. (Only things made "scarce" can be exploitative.) And the same quality of capital-wealth can be used on all land, good and bad, RENT-producing or no-rent land. Higher prices of capital-wealth will increase the supply and cause it to be devoted to its most important uses. Further, capital-wealth whether owned by the worker, or furnished him by his employer, cannot produce an income unless used to serve others. Land on the other hand, cannot be increased in quantity. Higher prices will not cause us to import more land. Speculators can often make more money holding land out of use than they could by using it. Advancing land prices will often cause speculators to hold more land out of use.

The Marxist "missed the boat" by failing to see and to make use of the knowledge that ownership of capital-wealth and title possession to land are quite different things. While the ownership of capital-wealth cannot be exploitative, with our tax system, warped as it is today, title possession of land can be — and is. This is the economic poison in the situation. The Marxists, being unscientific, failed to see it; but why did the British and American economists, for the most part, fail to see it? Or, if they saw it, why the great silence about it? It is at this very point that American economists could have done much to prevent the conditions which produced Communism; it is at this point that American economists may yet help break the "economic back" of the entire Communist system. They need only to be guided by the real dictates of their science and its language of "cause and effect", instead of accommodating their teaching to custom.

ships, trains, and trucks (capital) are moving, men (labor) are aboard. It is also true that when REAL interest-wages tend higher, wages of labor also tend higher — the rewards of capital owners and of labor tend to go up and down together.

Both wages and interest-wages are the result of labor. Interest-wages is the *earned* reward of men and women who will, in addition to working and producing, *save* and *invest*. Those who consume as much as they produce do not create capital-wealth, and so do not earn and should not receive interest-wages.

This close and direct economic kinship between men as labor and men as capital creators and capital owners enables us to reduce our concept of basic sources of public revenue to these two:

1. RENT-of-land, the NATURAL PUBLIC REVENUE.
2. WAGE-REWARDS of human effort, the NATURAL PRIVATE REVENUE.

The fact that we have a choice between only these two sources of public revenue makes it clear that if we use a source that is good for capital owners it will also be good for labor, and vice versa. That labor and capital owners, and CONSUMERS as well, have the same economic and social interests as to which source of public revenue we should use, or use first, there can be no doubt.

More fully interpreted, this also means that the wages question is not entirely one of division of what remains of the product after meeting material costs of production. For the distribution of wealth (and services) does NOT take place at the PAY WINDOW of business and industry. REAL DISTRIBUTION takes place where wages are spent — at the retail outlets of the economy: at the grocery and department store, at the gasoline station, at the automobile agency, at the restaurant, in the doctor's or lawyer's office, or wherever people receive consumer goods and services.

It is at these points of final exchange that a dollar's worth of wages fails to achieve parity in buying a dollar's worth of true, produced value. It is said that 31 cents of each dollar spent at retail is to cover taxes hidden in or added to prices. This type of economic problem cannot be solved by men as "labor", as "management", or as "capital owners", or by bargaining, or by war on a picket line. It can only be solved by men as citizens: the problem has its origin in acts of government in Washington, D. C., state capitols, and at local levels. The scientific way of *bridging this gap* is to alter the tax structure so as to *take taxes out of prices,* make the best land easily available for use, thus greatly stimulating production. The solution lies in the decision of the people as to which SOURCE of public revenue is to be used, and which is to be given "tax relief."

Current Tax-Education

Writers of economics textbooks usually devote one or two chapters to principles of taxation and to their application. Over the years the presentation has taken on a well organized and commonly accepted pattern. However, in this now traditional pattern, what are *called* principles are seldom, if ever, similar to principles or natural laws which guide the thinking and the daily work of specialists in other sciences.

The alleged economic principles now used as a basis of evaluating taxes are more like social or political slogans. Among these principles are the much advocated "ability to pay", the more logical "benefits received" (the "pay for what you get" theory), the indiscriminate and unscientific "diffusion" or "tax across the board" concept, the cynical "plucking the goose with the least squawking," etc.

To learn the application of these so-called *principles,* students use the *case* or example methods. The "cases" are, of course, politically *framed* and *named* tax-laws used in securing governments their income; these laws, enacted chiefly through group pressure, are used as a foundation for tax-education. These cases have little in common with the truths revealed by economic science and which relate to taxation.

Natural laws and principles *do exist* in economic science and they *can be used* to predict the results which will follow various types of tax legislation, and so, to secure pre-determined results. With the aid of these principles we can, for example, secure revenue for government in a way that will give us maximum production, full employment, maximum wages, and an equitable distribution of wealth among those who contribute directly to production, including farmers with their disturbing parity and "surplus" problems. Better housing and an almost complete absence of slums, so far as they are a physical matter, can be assured. We can do all this by cleansing the the economy of its man-made schemes and monopolisms which so unjustly distort distribution, and by allowing the free functioning of the free market mechanism except in most unusual and special situations — war, for example.

These laws of "cause and effect" are as objective and as free of social, economic, political and religious prejudice as the principles of physics and chemistry.[6] The great question is a moral one: Will we treat economic science in the same objective way we treat other sciences — will we follow its truths wherever they may lead? Or must the answer always be distorted to meet the wishes of special groups?

With some show of logic, legislated taxes are arranged in such major classes as these: Transactions (sales), property, income, tariff, excise, motor fuel (gasoline), and the like. Each class of taxes, or each individual tax in a class, is studied to ascertain the effect of its use on production, its ease or cost of collection, its certainty to produce income, its relationship to income levels — that is, as to the *ability* of "classes" of people to pay taxes; most important, as to what is called the *incidence* of the tax.[7]

(6) Architects and engineers depend upon and are guided by the facts and principles of their basic sciences, and their projects are generally successful. However most economists and nearly all practical politicians, labor leaders, boards of directors of business and industry, and their organizations (who supposedly represent the best interests of the productive forces of the country) fail to use the truths of economic science. Actually most of them do not know them — have had no "practical" reason, many think, to even inquire about them. They determine policy in taxation without guidance of the laws of economic science.

(7) Incidence has to do with whether or not a tax is paid by the person or business on which it is originally levied, or whether it is shifted, and so is paid by others in tax-inflated prices. The study of incidence is almost meaningless as economics of taxation is currently taught.

At the conclusion of a chapter on "Incidence" Albert L. Myers, Great harm is done by continuing to use this long-accepted, fragmentary, non-scientific study of taxes as a basis for tax-education. It obscures in an educational "smog" any hope of using scientific principles as a foundation for the study of public revenue. It almost universally prevents public revenue from being taught as a science. The following illustration of the vital contrast between *taxes* and *sources* will make our point clear enough to earnest and thinking people.

Taxes vs Sources of Public Revenue

Most people know the difference between a pump and a well, cistern, lake or river. A body of water is a source; pumps are *means* of obtaining water from a source. Consider New York City and its water shortages during the past ten years. Did the pumps fail? All who are familiar with the facts know that the failure was at the source. Following this line of thinking, would you not be amazed if schools of Civil Engineering, offering courses on water systems, placed the greatest possible emphasis on pumps, and practically excluded from the course study of vital water sheds, rainfall, conservation, and other circumstances connected with the *source* of water for the system? This is the error now being made in the field of tax-education by most economists. Yet common sense tells us, when our attention is once called to the matter, that a *tax* is no more a *source* of income for government than a *pump* is the *source* of the water it pumps. We can have endless taxes (pumps). Any bright politician or economist can invent one almost any time. Nevertheless, all taxes (pumps) draw income to government, as previously indicated, from these two basic economic sources:

1. RENT-of-land — the NATURAL PUBLIC REVENUE
2. WAGE REWARDS of human effort — the NATURAL PRIVATE REVENUE.

This is a natural hard fact which cannot be denied even by those who would like to believe they now have a vested interest in forming the people's tax policy and who wish to retain our present unjust and unsatisfactory system which, while stacked to profit them, is stacked against the best interests of all who labor and who own true economic (man-made) capital.

The Basic Public Revenue Question

The difference between *taxes* (pumps) and *sources* of public revenue is indeed obvious. Must we not wonder why, after all these years of inquiry, it is almost impossible to find in economic textbooks a clean-cut, direct reference to *sources* of public revenue as developed in this article.[8] This is all the more astounding when we know this fact: There is only one grass-root public revenue issue for men and women to decide, and it is this:

WHICH OF THE TWO SOURCES OF PUBLIC REVENUE SHOULD THE PEOPLE USE, OR USE FIRST?

Another way to state the issue:

Why should government take NATURAL PRIVATE REVENUE from the people until it has FIRST EXHAUSTED its own NATURAL PUBLIC REVENUE to meet its needs?

In making the decision of which source of public revenue to use, or to use first, the people are also deciding whether or not a tax system should make it easier or harder for people:—

1. To earn their living.
2. To secure the land and the capital needed to make their living.
3. To accumulate and KEEP for themselves what they earn.
4. To limit government paternalism and control which increase the need for more taxation.
5. To decrease the temptation to violate man-made and moral laws which our current tax policy encourages.
6. To perfect and preserve our free private enterprise system.

Our present tax structure implies that we wish to make it HARDER.

Shall We Use More Natural Public Revenue?

We have identified the sources of income from which government can draw: RENT-of-land, the NATURAL PUBLIC REVENUE, and WAGE REWARDS of human effort, the NATURAL PRIVATE REVENUE. A natural public revenue exists to meet public needs as surely as a natural private revenue exists to provide for individuals. Few people have to be told how *they* get their private income, since most of them work for all or most of it. On the other hand, few realize how the community creates and earns a natural public revenue; or why this natural fund is not more fully used to meet public expenses.

Two types of activity, one public and the other private, make the community a better place in which to live. When certain locations have the benefit of public and private improvements and services, people are willing to pay more RENT-of-land, or a higher market price for these land sites.

In one type of activity the people, through the agency of government, build, maintain and administer schools, libraries and art museums, police and fire departments, sanitary services, parks and playgrounds, streets, sewers, wharfs, and the like. In the second type of activity, the people cooperate directly in voluntary activities by which they serve each other. They make private investments in telephone, gas, light and power, transportation and other utilities. They also invest in mines, mills, farms, factories, stores, theatres, churches, private schools and colleges, restaurants, hotels and office buildings. They privately educate themselves and prepare to serve the people of the community as doctors, lawyers, engineers, teachers, ministers, and in other professional capacities.

The presence of population, and the availability of these public and private services create and sustain land values.[9] The costs of the private activities are voluntarily paid for in fees, rates, fares, gifts, etc. They cost the title holders of land absolutely nothing yet these privileged people who hold title to valuable rental or speculative land are in a special position to collect more RENT-of-land, or sell at higher prices because the people, not they, create these benefits. People voluntarily pay more rent or higher land prices for the more desirable locations without realizing what they themselves have done to create the very values they now are asked to pay for, in fact largely to pay for twice; once in direct and hidden taxes, and once to the title holder of land as rent for the privilege of enjoying these values.

Any sincere, objective study of the real estate business, of textbooks on real estate, or of real estate advertising, will show what gives value to land. It is certain that all worthwhile community improvements, whether privately or publicly made, must permanently benefit the title holders of land; but it is also certain they will not equally nor permanently benefit the other economic classes, labor and capital owners, except as indicated below. This is an inevitable result because *any increase* in population which brings more labor and capital into areas offering special advantages will increase competition for employment by labor and of capital-wealth. In time this competition will reduce the rewards of labor and capital-owners *to the same level* as those obtainable outside of the especially benefited areas. At the same time, this increasing competition of labor and capital owners for the use of land sites in this improved community tends to increase *permanently* the amount of RENT-of-land the title holder can claim. *However* the rise in land value, due to an increase in population and progress, would profit title holders very little if the people used this NATURAL PUBLIC REVENUE, *they together create,* to pay their public expenses. This is the reason title holders of land, especially those with substantial holdings, prefer a tax structure which causes the INCIDENCE of taxes to fall on the NATURAL PRIVATE REVENUE — the wage rewards of labor and capital owners. They do this by "boosting" for more income, sales, gasoline, earnings, cigarette and similar non-land-value taxes.

The above facts are of tremendous significance to all. They explain how a very few people and their heirs are *perpetually* privileged to collect and keep what amounts to a private tax on all producers of wealth and services, in every generation. Over the years this universal attempt by owners of valuable land to gain an increasing tax advantage, and to secure maximum profits by interference with the people's public revenue system, has produced what is known as "The Great American Tax Shift."[10]

WHY We Should Use Natural Public Revenue First

A competitive, consumer-directed, free economy constantly tends, by its own nature and because of the nature of man, to give labor and capital owners more and more wealth and services for each unit of productive effort put forth. This is the greatest material benefit of a free economy. But any rigging of our tax structure, in order to impose more of the cost of government on incomes of wages and interest-wages, and less on RENT-of-land, tends to give labor and capital owners less and less private income for each unit of production they cooperate to bring forth.

Here is another fact people seem not to know. Instead of permitting taxes to be piled on their own natural private incomes, as they are now influenced to do by mis-education and tax propaganda, they can draw on the publicly created *RENT-of-land source* to meet cost of government-provided services and improvements. People can draw off RENT-of-land from their total production as certainly as a milk separator can draw off cream from milk. To the extent they use the RENT-of-land source to finance community costs they can conserve their personal income for self and family.

An additional fact can be noted. When RENT-of-land is privately retained by title holders, who do not produce it, there is a *loss* of production *to all producers.* When RENT-of-land is *publicly collected* and is used to meet public needs, the *effect* is the same as if we *added* this RENT-of-land to their private incomes of wages and interest-wages. *In this case* the WAGE REWARDS of human effort are, in effect, increased by the amount of public benefits paid for out of RENT-of-land.

There are more important gains to the people in using RENT-of-land instead of the privately earned incomes of wages and interest-wages to pay for all government services and improvements. Speculators always try to hold good land with a *profit future.* Much of the most desirable land is now held out of use entirely, or used inadequately, by speculators. They do nothing, as land speculators, but get in the way of progess. They expect a rise in value due to increasing or shifting population and expected gains in production. Yet if it were public policy to use the publicly created RENT-of-land to support government, there would be nothing to gain by the harmful practice of land speculation. This better land would then become productive at reasonable prices. On this superior land labor and capital owners could pro-

author of "Modern Economics — Elements and Principles" says on page 547:

> "We have made some attempt to analyze the principles which govern the shifting of taxation. Perhaps we have only discovered more forcibly how difficult it is to determine where the incidence of the tax finally falls. Even this may prove helpful, however, if it tends to make us *more cautious in proposing and enacting new taxes.*"

This is a commendable and honest statement. But is such an ambiguous and uncertain conclusion all we can expect of economics and college professors upon whose shoulders primarily rests the responsibility for the economic enlightenment of our people? Have such studies as these ever made people "more cautious in proposing and enacting new taxes?"

There can be little or no problem of incidence if direct use is made of *sources* of public revenue and direct taxes are imposed on those sources. The economists and politicians, and the professional pressure groups they have knowingly or unknowingly served, have created a problem of incidence which neither college professors, their students, nor politicians can solve; and as a result the people are exploited by their own tax system.

(8) Interesting exceptions are: "Basic Principles of Economics" a textbook used at the University of Missouri, and "Economic Basis of Tax Reform" by Dr. Harry Gunnison Brown, Professor Emeritus of Economics, University of Missouri. (Lucas Brothers, Columbia, Missouri, publishers.)

(9) Some economists, when reminded that population and progress cause land to become valuable, say that population and progress also give value to pencils, houses and to other man-made articles. They forget, conveniently, that the vital difference between pencils and land is that labor must be exerted by man before he can get a pencil, whereas land exists without man's effort, and was here before either man or pencils. The *difference in origin* of land and pencils is the important thing, not the fact that both are made valuable because of the presence of population, and progress. The social difference is in the *ownership* of valuable things which are man's by making, and the ownership of land which is man's by special privilege; *ownership of property created by labor vs ownership of property conferred as a special privilege.*

(10) Read our pamphlet "The Great American Tax Shift." Also consider the benefits especially conferred on title holders of land, at little cost to them, by such publicly financed projects as TVA, conservation, public power, irrigation, flood control, and public roads and water-ways, and all other public improvements. For the proponents of such projects to claim they benefit ***ALL*** the American people, is rank presumption. Such projects, for the most part, benefit those who hold title to income land, or land being held for speculation.

duce more than is possible on the poorer land which the land speculators now compel them to use, thus gaining greater rewards for the *same* labor and capital-wealth effort.

If government collected its own NATURAL PUBLIC REVENUE, taxes could be reduced or eliminated on improvements, equipment, inventories, exchanges, and on incomes. Then, too, the cost of government would be substantially reduced. There would be fewer people seeking *government aid* for themselves or for others. Government, too, would enjoy lower priced land and would itself buy untaxed products; it would operate with less employees who, under greatly changed environmental conditions, would provide better public services. Wages and interest-wages would command more equitable values when exchanged in the retail markets for goods, services and investments; the greatest part of the wages problem would be solved.

Foreign trade would be stimulated because other nations would find untaxed products and services in our markets inviting.

Public Use of Natural Public Revenue Not A New Idea

The idea of using our publicly created RENT-of-land, or NATURAL PUBLIC REVENUE, to meet government costs is most certainly not a new idea. It is a traditional American practice, although we have greatly restricted its use. (See our pamphlet, "The Great American Tax Shift"). We still take a small part of the RENT-of-land through our general property tax. To the extent this tax falls on the value of land and collects RENT-of-land, it is in full accord with the Free Enterprise concept of paying for "benefits received" or "paying for what one gets." Paying taxes on improvements is paying according to ability to pay. This taxes private incentive.

We still form local assessment districts which collect Rent-of-land, and often a tax on improvements as well, from land title holders in the area, under the assumption that their land value has been or will be increased.

The general application of a tax on land value would be fairer because it would apply to all benefits, either publicly or privately created, and would be assessed only when the benefit was actually reflected in increased land values. It would not be based on some estimated future increase which might never materialize, as frequently happens in the local benefit assessment plan.

Why Not Protect Earned Incomes From Taxation?

The great majority of title holders and all non-title holders live primarily from currently earned wages, with some enjoying interest-wages as well. Very few receive a great amount, or a great proportion, of their income as RENT-of-land. If taxes are planned so they fall directly or indirectly on these earned incomes, then those who earn such incomes are forced to pay heavily to provide the public improvements and services which give land such high rental value. The high rents are then collected by a comparatively small percentage of land holders who return little to the community in taxes.

It is an obvious fact that only those who derive large amounts, or a large proportion of their income, from the privilege of holding land titles, can possibly profit from taxes which penalize labor and capital owners. Most owners of improved real estate would save far more by not having to pay direct and hidden taxes on their improvements, incomes and purchases than they would lose by paying their full RENT-of-land income as a substitute for such taxes.

The public revenue question might be put this way: Which group are we going to favor in our choice of SOURCE of public revenue? Will we favor the productive industrialists, business men, owners of rental apartments, hotels and houses, the home owners who develop and use their land well, and all other productive workers? Or will we continue to give special encouragement and unearned income to the speculators in vacant or poorly used land sites, and in hoarded and monopolized natural resources?

The One Hope of True Free Enterprisers

The sponsors of the Public Revenue Education Council believe that:

1. Our tax system is now dominated by a comparatively small number of people with special interests who seek to gain a tax advantage over the general public.

2. The unnecessary, and possibly planned, confusion in the field of economic education, especially as it relates to taxation, prevents people from seeing the truth about private income and public income.

3. The majority of the people, when given scientific principles and correct information, are capable of deciding which source of public revenue should be used to promote liberty, security, and to preserve the system of FREE PRIVATE ENTERPRISE.

YOU ARE INVITED to write or phone for a free copy of our pamphlet—the story of "The Great American Tax Shift." Learn some startling truths about the present day American tax system *and its trend*. Use the postage-free card enclosed for your convenience.

Noah D. Alper,
President,
Public Revenue Education Council,

Copies of this Pamphlet may be had at the following prices:

1 — 24 — 15c each

25 — 99 — 12c each

100 & over — 10c each

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