

ERRATA

Page 291, line 11, delete "and actually."

Page 293, line 3 from bottom, between "in" and "all" insert "substantially."

Page 299, line 5, delete "is."

Page 303, lines 6 and 7 from bottom, instead of "in Ward 3 and even Wards 4 and 5 perhaps relatively much less so." read "in Ward 5, and even Wards 4 and 5 perhaps, relatively much less so."

Page 309, line 4, for "when" read "whence."

September, 1939.

Reprinted from the
Journal of the Boston Society of Civil Engineers
Vol. XXI, No. 4, October, 1934

ECONOMIC TAXES vs. GOVERNMENT TAXES—AN ENGINEER'S VIEW OF TAXATION

BY

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To Mr. A.S. Lurio with
the cordial regards of
Lewis Jerome Johnson
May 2, 1943.

BOSTON
WRIGHT & POTTER PRINTING COMPANY
32 DERNE STREET

JOURNAL OF THE BOSTON SOCIETY OF CIVIL ENGINEERS

Volume XXI

OCTOBER, 1934

Number 4

ECONOMIC TAXES VS. GOVERNMENT TAXES— AN ENGINEER'S VIEW OF TAXATION

BY LEWIS JEROME JOHNSON, MEMBER*

(Presented at a meeting of the Boston Society of Civil Engineers held on May 17, 1933)

TAXES are the charges which individuals must in any event carry in order to obtain the service of government; also the additional charges now forced upon them by the revenue-prompted demands of government.†

For taxes are now being levied by two different agencies: (1) economic law and (2) government.

Economic law, in this connection, means the body of requirements which the nature of society automatically imposes upon individuals in their getting and enjoying of a living; *i.e.*, in their production and consumption of goods and services. The levy of taxes by economic law is accomplished by the automatic working of the market in the purchase and sale of a certain basic government service, a share in which each individual in civilized life must constantly have and actually does constantly get. This service now, however, goes by various ill-fitting names, further discussed later, under the cover of which its true nature remains unperceived, as does also the fact that the pay for it is inherently public funds.

Government is humanity organized (1) for such non-automatic control or adjustment of its common affairs as it may at any time consider expedient; and (2) for providing itself with such other types of

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† Throughout this paper regulative and intentionally restrictive taxes are to be understood to be wholly outside the discussion.

service as it cannot get or prefers not to try to get from individual or private agencies.

Taxes levied by economic law may properly be called *economic taxes*; those levied by government may similarly be called *government taxes*.*

Both kinds of taxes, government taxes as well as economic taxes, draw upon the same fund: namely, the fruits of production.

That is the only fund that exists, either for meeting the expenses of government, households or business, or for paying debts, or for meeting any other human need.

Economic taxes are simply the market-determined and market-exacted pay for the government service automatically attending lawful occupancy of a city lot or any other tract of land, the title to which (apart from improvements within its borders) has any value in the market. The essential feature of this service is protection against dispossession or displacement in occupancy of the tract. The occupancy may be for purposes of domicile, or for getting a living, or for recreation. An individual may be alone in his occupancy of a tract or lot; or he may, with the help of an apartment house or office building, be only one of many, perhaps many hundreds of, occupants of the same lot.

The *amount* of the tax which economic law levies upon each individual land-occupant, as such, and the amount of the payment which economic law is hence now securing in some form from him, is determined by the bidding of the market for the advantages and opportunities attending, but exclusive of works of man contained on or in, the particular tract or tracts of land, or part thereof, which he has the legal right to occupy. Some of these attending advantages are governmentally provided, like streets, roads, schools, waterworks and sewers; others of them, such as industrial plants and operations, railroad facilities, and places of religious worship, and attractive homes and door-yards, are more likely to be privately provided; some, like markets and social facilities, come of themselves by the mere presence of large numbers of people; still others, like water frontage, mineral deposits, natural fertility, and fine views, are provided by nature.

But however and by whomever provided, such share in these ad-

* In passing, we may note that the word "economic," by its derivation from the Greek, means in accord with the rules of housekeeping; in accord with the requirements of the safety and happiness of all the members of the household—therefore, in the best sense, expedient for the great household of humanity. A meaning worth reviving, and one which holds throughout this paper. Accordingly economic taxes and government taxes may and should be regarded as antithetical terms; for government taxes, though above so named because they are levied by government, are also, as will appear, anything but expedient in the best sense. Hence their nature as well as their origin debars them from the classification "economic."

vantages and neighborhood opportunities and attractions as are automatically bestowed upon him along with protection from dispossession constitutes the price-determining feature of his share in this basic service of government.

The government is the only agency which is in a position finally to collect economic taxes and disburse their vast yield in the interest of the productive forces, itself included, which are the sole human providers of all the considerations for which economic taxes are paid. Moreover, only by utilization of their government for that purpose can the forces of production, whether governmental or non-governmental, fully salvage and get the full enjoyment of their normally and actually ever-increasing *earnings*.

Hence, it is government which should ultimately get and have the spending of, in the interest of the whole body of producers (the people), what each individual as land-occupant is paying and must in any event pay for the government's basic service and every consideration whose market value is in excess of what is otherwise paid for it and which attends this basic service.

To this whole great and indispensable body of service we may ascribe the name co-service, or, more simply, *coservice*. By the use of this term, we shall constantly keep in view that the service so named is a service from society to individuals, underlying and in addition to the services exchanged between individuals deliberately and consciously in their many private capacities. It is therefore for coservice and for coservice alone that economic taxes are paid; and the payments for it are properly called taxes not only because of their compulsory character but also because of government's dominant share in the rendering of coservice, government's great direct share in provision of what gives coservice its money value and government's unique power (and hence responsibility) finally to collect and disburse in the public interest the inherently public fund paid solely for coservice. The word tax furthermore connotes the correct ultimate disposition of that great fund.

Unfortunately, however, the economic-tax-bearing individual commonly ascribes the name "land" to the considerations for which he makes his payment for coservice, and the payment itself, especially if periodic, he commonly and equally misleadingly calls by the confusing term "rent."*

* Among other occasionally met and equally uninformative or misinformative terms for considerations more or less like this portion of government service, or the pay for it, may be mentioned ground rent, rent of land, economic rent, land value, value of land, site value, site value of land, unearned increment, unearned increment of land value, or some kind of "surplus." Even a "surplus" may belong to him who produced it rather than to one who did not!

Government, *i.e.*, the organized tax-bearers, is thus led to overlook the fact that the vast aggregate pay for coservice thus and now being secured from its own individual membership by economic law is but a body of charges for, and consequently payments for, nothing but a combination of its own direct service and other service the pay for which it alone can justly spend. Misled by this oversight, government fails to collect its own and then jumps to the disastrously incorrect conclusion that, in order to get the needed public revenue, it must *itself* levy taxes, — taxes which in the nature of the case can be nothing but additional charges on these same persons, all of them already and in any event taxed and for the same service.

This mistake comes from failing to perceive that —

(1) Economic law levies taxes;

(2) Economic law does and in any event will levy taxes, not only to the extent that the service thus charged for commands a price in the market, but to the extent that (with occasional, emergency-bred but normally ever diminishing recourse to public borrowing) will secure for individuals this indispensable service;

(3) Economic law levies taxes more fairly, expediently and fruitfully than the wisest government can hope to do; and hence —

(4) The government's part, certainly a would-be democracy's part, in revenue-raising may and should diminish to a mere harvesting of the vast economic-tax fund;

(5) That fund, without government taxes and the misgovernment whence they spring and the further misgovernment which they breed, should yield a public revenue far more abundant than otherwise attainable (for government would then be less harmful and worth more), and the then normally large economic-tax fund would, like the present merely residual portion of it, be brought by economic law into plain sight and within the government's easy reach.

These findings result from taking due note as follows of the characteristics of economic taxes.

* * *

Economic taxes are natural, not artificial in their origin. They arise from the inherent nature of man and society. They are already in force. They are beyond the power of governments either to enact or repeal. Though their yield may be and is impaired by oppressive or incompetent use of governmental authority, their yield rises with citizens' and hence their government's growth in understanding, wisdom and fair dealing.

Economic taxes inevitably bear upon everyone, rich or poor, who meets his own expenses. They are not and cannot be evaded by abstaining from production. They are not increased by one's success in one's own work, business or profession. Hence they do not discourage production, *i.e.*, do not discourage service to one's self or one's fellowmen. Hence, also, they do not discourage self-employment or the employment of one's fellowmen. Economic taxes, accordingly, do not hamper business; nor do they diminish the fund from which governmental and all other human needs are met. On the contrary, they encourage honest business and promote the enlargement of that fund.

Economic taxes are never based on inquiries into private or personal affairs. They levy on a man, not at all on the ground of what he has done for himself or for others, but only to collect the market-determined value of the service which the government actually puts and holds at his disposal. *Whether they go up or down, they are levied only when and because their payment commands complete market-determined recompense in service unconcealably held at the disposal of each of those on whom they ultimately fall.* Being thus required in each case, they put no citizen at a disadvantage as compared with other men.

Thus also they reveal "ability-to-pay" as a notion inherently as irrelevant in taxation practice as it is already perceived to be in substantially all other business practice.

The amount which economic taxes require each person to pay is fixed by the impersonal agency of the market; not by public officials induced by man's statutes to attempt a task which is not only superfluous but beyond human power to do justly.

Economic taxes are the most easily, certainly and cheaply collectible of taxes — not only from the point of view of those now unofficially collecting them, but also from the point of view of the government, which, in order to get the funds, has only to require those always on public record as actually or legally first-hand collectors of them to turn them in.

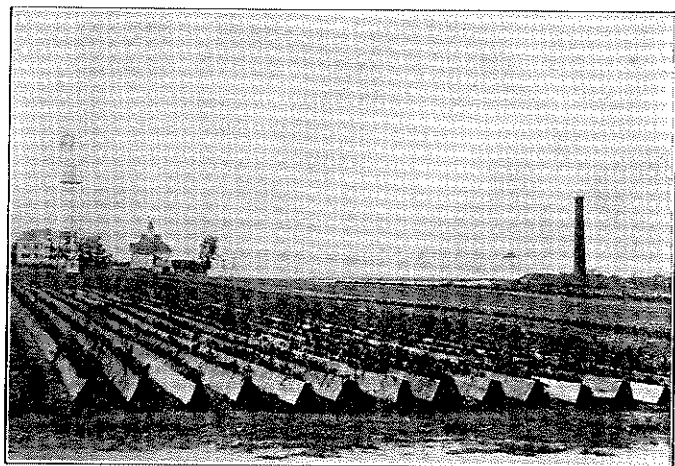
Economic taxes operate powerfully to establish that equality of opportunity, with security in enjoyment of the fruits of one's own efforts, which has ever been the aspiration of democracy, and without the achievement of which political democracy is dangerously exposed to risk of discredit and even scorn.

* * *

Government taxes are of opposite character in ^{substantially} all of these respects. Government taxes include all the taxes which are "shifted," "passed on," or "dodged." They are the only taxes which increase the difficulty



Clearing a boulder-strewn pasture in Massachusetts despite the annual government taxes imposed, nominally at least in perpetuity, on the farmer and his heirs and assigns for so doing. This particular extension of his garden area was made about twenty-five or thirty years ago.



The same tract after being thus transformed into a celery garden. The buildings in the distance are the residences, stable and greenhouse of the enterprising family who made this improvement. These buildings are the results of success in previous ventures of the same kind. It is pleasant to record that this courageous group is still able to meet the taxes and get a living out of this small truck farm. It is an example of success in self-employment in the face of obstacles that were great enough without the addition of government taxes. And what additional expense did this clearing the land impose on the government?

of earning a living, and which increase, without requital, the cost of living. They are far worse than useless, even for their own professed purposes. They are but an evil inheritance from the ancient despotisms, and survive with us because we have been slow to perceive their needlessness as well as their incompatibility with fair dealing and economic order.

Hence government not only may but should abstain from *levying* taxes.

Instead, government should, by adopting the practice of substantially all other great agencies for service, merely gather in the charges for its service, now and always levied upon and collectible from every one by economic law.* Though now collectible under that authority, only a portion of the yield of these charges now reaches the public treasury, the rest being intercepted by their unofficial collectors — to the heavy net financial injury of the vast majority of even those, all of them landowners, who are now doing and should continue to do this collecting. Small, indeed, is the proportion of landowners whose interceptions are their *predominant* interest.

* * *

Production, if it is to thrive normally, must not permit itself to be despoiled of its own earnings, wealth. Production must also see that there is no interference with just distribution of its proceeds. To do this, it must, as a first essential, assert and keep its right of way over interception of economic-tax moneys as the incentive for owning land, whether in city or in country.

Government, as one of humanity's chief productive agencies, must accordingly get into line with normal business practice and prevent the interception of the pay for its own services. This it must do if it hopes either to reduce its expenses to a tolerable level or to raise enough public revenue to meet its present swollen obligations. This it must do if it is ever to fulfill the first requirements of a democratic régime. Among these requirements are the establishment and maintenance of the fairest and hence the most favorable opportunities for production, *i.e.*, for all legitimate business, including government itself. For thus and only thus can arise the best conditions for consumption which is an interest of every human being. With production of all sorts and grades enjoying free and fair play, consumption will look out for itself. Accordingly,

* Though careless accounting often overlooks the thus caused overhead borne by the occupant of land, particularly in cases when he is also owner of the land which he occupies.

a consistent working out of democracy requires the removal of man-made obstacles to just distribution of wealth, *i.e.*, to just apportionment of the fruits of production among all those of all grades who do the producing. Interception of economic taxes and the thus bred extortions, such as government taxes and rack-renting in its various other forms, are among the most disastrous of such obstacles.

* * *

The basic objection to government taxes, along with their superfluousness, is that they take private property for public purposes without equality of compensation.

Moreover, the payment of government taxes is somewhat optional, — that is, the payment of government taxes can be avoided to a considerable extent by refraining from production, by curtailing or declining to carry on business; hence, as a rule, the heavier the government taxes the less the business likely to be done; and therefore the less revenue likely to be had from any source for any purpose. Meanwhile the demand for government expenditures grows and intensifies. Government by thus breaking down private enterprise increases its own burdens and lessens its own ability to bear burdens. It thus produces “depressions” and impedes “recovery.” It thus defeats its own purposes.

* * *

Economic taxes, not being levied in response to governmental enactment, cannot be repealed by government nor do they require governmental enactment to be set in operation. They, as above stated, are always fully requited, the accuracy and richness of the compensation increasing with elimination of government taxes and other increases of wisdom in our control of our government.

* * *

The chief reason, already intimated, why we have not long since required our governments to discontinue the practice of levying taxes is a misunderstanding, due largely if not wholly to certain traditional misuses of words.

For instance, the terms “land” and “value of land” as customarily used in discussing taxation do not actually mean land or value of land at all.

“Land,” in such discussion, whenever spoken of as having market value, means, even when used with closest approach to accuracy, nothing but the coservice automatically attending lawful occupancy of land. This service is now and always rendered to and hence paid for by occupants, as such, of land, *i.e.*, by every one who meets his own living expenses.* Often, additionally misleading, the term “land” includes, lumped under that one word, land improvements, — a mistake of maximum importance, of course, in farming and suburban districts. Such improvements (among them orchards, cared-for woodlots and timber lots and the results of clearing, draining, tilling, grading, planting, etc.) are not land any more than the buildings upon the land or the just-referred-to coservice attending land. Buildings, land improvements and coservice are the only items on, in, or attending land which are due to any human agency, and are the only things in “land” that actually have any market value. Presence of minerals or other natural advantages, such as command of a fine view, merely increases the market value of the coservice attending the land so favored, but only so long as it continues to be so favored; for minerals can be exhausted and views shut off or spoiled. Minerals in order to acquire market value must be transformed into wealth by removal from their nature-made position.

Coservice is no more to be confounded with the land which it attends than a painting is to be confounded with the canvas to which it adheres. Land, accurately speaking, has and can have no market value whatever, any more than air. On the other hand, coservice ranges in market value from little or nothing in remote or farming regions to hundreds of thousands of dollars per acre per year in the business districts of cities.

* * *

“Value of land” and “land value” are misleading terms often used for the interceptible portion (expressible either as an annual or as a capitalized sum) of the market value of the coservice attending the land in question. Apparently this is the meaning of the term “land rent” as used in the following statement responsibly but unofficially published in 1932: “The land rent (not counting rent for buildings or

* The appropriateness of the term coservice lies in the fact that the service in question is not only a true service rendered by human beings to one another, but it is a service in the rendering of which producers automatically, and to some extent even unwittingly, co-operate. In serving what they are accustomed to regard as their own legitimate ends, they are often serving also one another and beyond what they now get paid in cash. The precise term, coservice, is of importance primarily because we are so pitifully negligent about what becomes of what is paid for this part of our service to one another. Few, indeed, seem to be aware that anything is paid for it. Its meaning will be further worked out in what follows.

other improvements) of the United States is \$13,600,000,000 annually, or 15 per cent of our national income.* How this figure* was arrived at was not stated, but the connection carried no incentive to an overestimate. In any event, the term "land rent" (or "rent of land") as thus used ordinarily means that portion of the country's total annual payment for coservice which is now legally intercepted each year and hence lost each year to the public treasury and hence to the productive forces of society. If producers now get any of it back, they can do so ordinarily only by earning it over again. *That is not restitution; that is earning it two or more times in order to get it once.*

* * *

In Massachusetts, the familiar official term "assessed value of land" still unfortunately means the sum of two radically different items: (1) the capitalization of that portion of the economic taxes (coservice charge) now abandoned to legal interception, and (2) the assessed capital value of land improvements other than buildings. The first is a portion of governmental or public earnings; the second is a portion of individual or private earnings. The protection of government requisite for producing or enjoying the second is the occasion for economic taxes and the erroneously supposed occasion for government taxes.

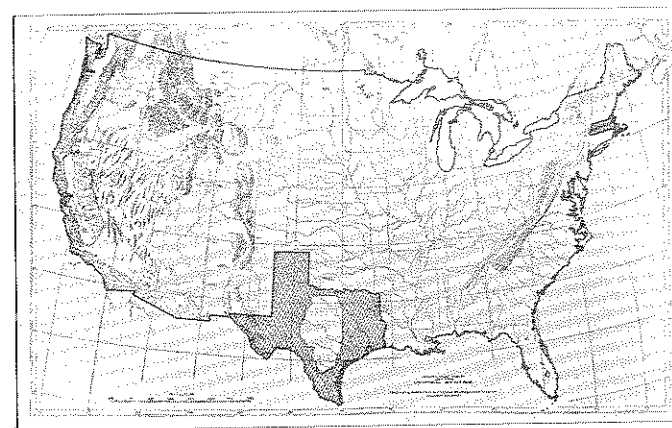
* * *

Coservice is rendered exclusively by producers, partly in their non-governmental capacity and partly by the same producers in their all-inclusive, organized capacity, — government.

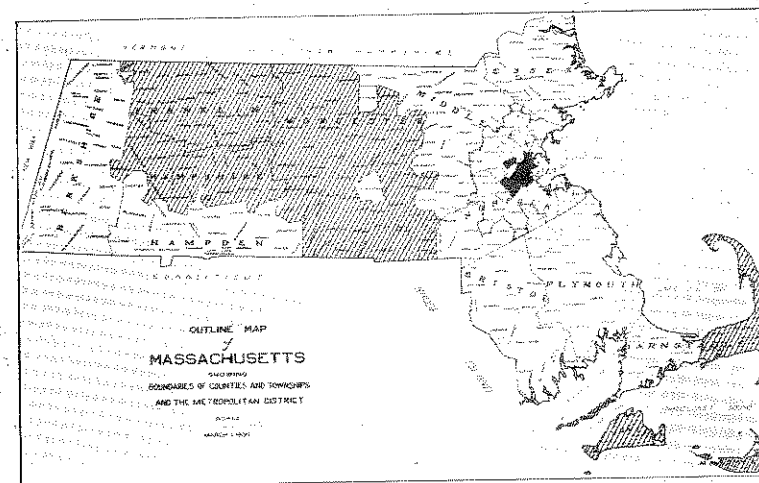
The portion of coservice rendered by individuals in their non-governmental capacity includes all activities of individuals which make any tract desirable for occupancy to a marketable degree beyond what an occupant must pay for such activities directly. Such activities include, among many others, the building of a bridge, the provision of good telephone or railroad service; also, and by no means least, friendly, law-abiding and public-spirited individual conduct.

A share in this whole great body of service is held at the disposal of each occupant of a city lot or other tract of land (as against any one who would displace him in occupancy) directly and exclusively by government, and in the same sense that telephone service is directly and exclusively rendered to its individual patrons by the telephone company.

* A sum slightly exceeding current estimates of the total annual cost of government in this country, national, state and local combined; a sum also in excess of the present total outstanding principal of the war debts owed the United States.



Shaded areas are (a) Massachusetts, large enough to afford individual housing with some 8,000 square feet of land per family for every family of the 120,000,000 population of the United States, and leave adequate room for streets; (b) Texas, with Illinois, or five Belgiums, taken out of it, is equal in area to European Germany before the war, in which some sixty million people, despite bad economic management much like our own, were able to get a living. The reader can readily check these assertions for himself.



The aggregate shaded areas, including land improvements other than buildings, were at that time required to equal in assessed valuation the more than half of the taxable land area of municipal Boston reported or indicated in 1914 by the city assessors as vacant; slum-covered and shack-ridden land of course counted as occupied. The solid black area shows the area of municipal Boston, taxable and untaxable land combined. Thus do government taxes and interception-motivated land ownership militate against the normal development and use of much of the most valuable of the residential and business opportunities of the Commonwealth.

The government, like the telephone company, should get what is paid for its services, and for the same reason and for the same purpose. This is none the less true because the government is, in final analysis, all of us, while the telephone stockholders, bondholders and employees are only some of us.

Government, of course, makes a contribution to coservice quite apart from, and in addition to, its basic service of protecting land-occupants from dispossession. This additional or secondary contribution is a miscellaneous one and includes fire and police protection, water supply, sewers, parks, schools, streets, etc., — a body of service closely akin to that which can be, and more or less of which often is, rendered by non-governmental agencies.

Anything, whether the activity of individuals or of government, which makes the city or town a better place to live in or do business in makes the coservice more valuable, whether it increases its price or not. In so far as it does increase its price it increases either the total sum automatically available for public purposes (*i.e.*, for the producers' advantage) or the total losses by producers through interception, according as the producers themselves may be wise enough to direct.

So far as the sums paid for (or carried as an overhead for) coservice are abandoned to interception, as they now so largely are, the economic effect on the tax-bearers (producers) is the same as an equivalent increase of the bonded public debt; except for the radical difference that for the debt the public has presumably been furnished an equivalent by the bondholders. But the public is furnished nothing by the interceptors, as such, of the coservice fund; for the producers themselves furnish the coservice, and no human agency furnishes the land which it attends. Moreover, public debt and interest have an upper limit controlled by conscious governmental act. Capitalized interception and attending charges have not — so long, at least, as producers, rich and poor, permit the interception of the pay for their services to go on; and so long as, by improving their skill, machinery and management, producers continually increase the amounts which they themselves put within the reach of interception. This ever-mounting burden is imposed on and has to be carried by producers only because of their own increase of their own ability to bear it, and, of course, because of their continuing submission to such losses. The remedy is, of course, not that producers stop improving their methods, but that they stop permitting the interception of the major part of their normal earnings.

We should carefully keep in mind: (1) that the governmentally rendered service which consists of protection against displacement from

a city lot or other tract of land is the essential and controlling item of coservice, for without it one gets none of the rest of the coservice; with it one gets *all* the rest of the coservice; (2) that those who render the coservice, or any part of it, are all of them, without important exception, constituent members of organized society, *i.e.*, government; and (3) that only by use of their government to that end can these productive forces rescue from interception and secure for themselves what is paid, or carried as overhead, by land occupants, as such, for this great part of their (the producers') immensely valuable service.

For the three reasons just stated, it follows that producers should direct their government to prevent the interception of this now-paid sum, and to utilize it, in their own behalf, for defraying its own, *i.e.*, a large and now increasing part of *their* own, expenses. Thus only, whatever else they may do, can they open the way for fair returns and constant security of outlook for business, which includes the business of all producers, those of humble station and those of high station alike. Thus only can business establish the free run in a fair field which is all that honest business can desire, and which it has never yet had, particularly in our larger communities.

* * *

The less the taxes in a given locality "on" ("on," because, accurately speaking, taxes can be levied on nothing but persons) improvements, incomes, inheritances, etc., *i.e.*, the less the taxes levied on a man on the pretext of his having successfully served himself or others, the better that locality is for producers to live in, work in and do business in; and the more the coservice is thus made worth, the more the producer will cheerfully pay for his share of the service of a government so enlightened.

The present total coservice charge, *i.e.*, the sum now paid by producers, rich and poor, for nothing but coservice, is the vast aggregate of all the taxes now levied, economic taxes and government taxes combined. It includes what actually reaches the government plus the useless costs and wastes attending the collection of government taxes, plus the part of economic taxes which gets intercepted or wasted. Besides being needlessly inflated by these interceptions and wastes, the cost of government is disastrously unfairly apportioned and made intolerably hard to bear by the direct and indirect effects of government taxes. Yet this whole misarranged burden is now being borne exclusively by *occupants* of land, as such, and with no help from land *owners*, as such;

for landowners, as such, are not producers. They are, instead, consumers, — intermediate consumers of the coservice of which the ultimate consumers are the land occupants, as such. Land occupants, in their turn, of course, can and do pay for the coservice only because they are also producers or in the favor of producers.

The government's noting and gathering in of economic taxes would reduce the total charge upon producers by eliminating the interception of economic taxes and its attending wastes; and the elimination of government taxes, besides doing away with their heavy attending wastes, would permit economic law to establish fairness of apportionment of taxation. That means market-established equality of compensation to all who *bear* taxes, *i.e.*, to all who meet their own expenses.

The people are now carrying, for no purpose save that of getting coservice, the present inflated and cruelly misapportioned total tax levy. They can get better government than they have ever had yet for less than the present tax levy by at least the vast aggregate of the present interceptions of economic taxes, to say nothing of attending wastes. They who now bear the larger burden could bear the then smaller charge, and do it more willingly because then fairly apportioned, and, in the case of each tax-bearer, fully compensated.

* * *

The market will in any event set the coservice charge high enough to secure the coservice. For without coservice one cannot, in our modern life, have security of tenure of the landed opportunities essential for home, business or recreation. Coservice is one thing which all persons falling within the scope of the taxation problem must have.

Economic taxes will therefore, as above intimated, suffice to meet the expenses of an honest, intelligent and worth-while government.

Government under which the market fails to set the coservice charge high enough to meet the governmental expenses is thereby proved to be misgovernment, the worst feature of which may be the very prevalence of government taxes, and the interceptions which breed them. Extortions such as government taxes as a corrective for low automatic yield from coservice are on a par with grit as a corrective for overheated bearings in an engine.

The foregoing once perceived, it again stands forth that the levy of taxes by government can and must be discontinued.

Thus only can government clear the way for economic taxes to do their beneficent work unimpeded by the deranging influence of government taxes.

* * *

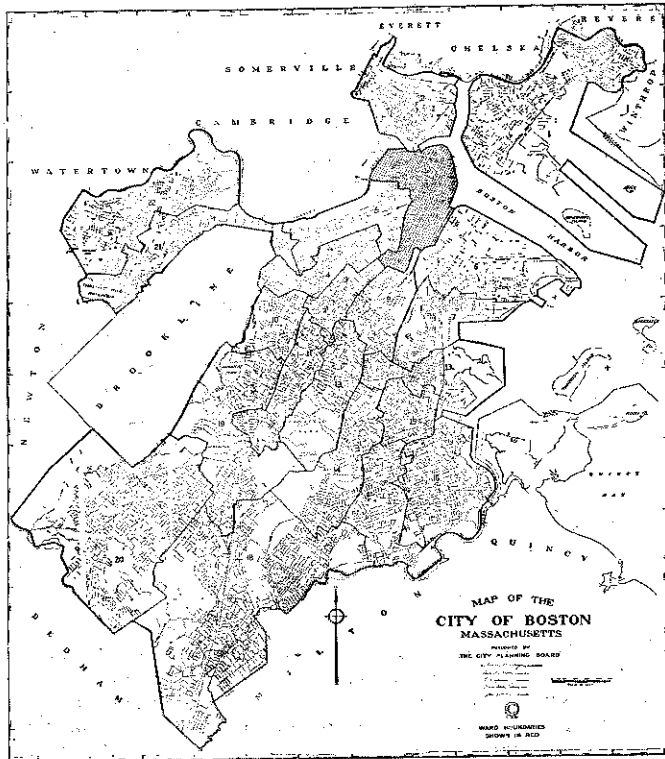
Valuation Land and Buildings, by Wards, 1931.

WARDS.	Value Land.	Value Buildings.	Total Value.
1.....	\$19,060,900	\$29,075,600	\$48,136,500
2.....	21,545,500	25,192,400	46,737,900
3.....	459,277,800	218,044,400	677,322,200
4.....	59,443,300	55,461,700	114,905,000
5.....	118,792,500	114,045,400	232,837,900
6.....	41,025,700	51,069,000	92,094,700
7.....	9,199,600	16,875,900	26,075,500
8.....	15,594,300	16,854,800	32,449,100
9.....	15,355,000	18,432,400	33,787,400
10.....	5,608,400	17,378,900	22,987,300
11.....	7,391,400	19,573,600	26,965,000
12.....	9,188,200	29,943,900	39,132,100
13.....	6,889,200	18,091,000	24,980,200
14.....	9,483,200	40,625,300	50,108,500
15.....	4,712,900	17,822,200	22,535,100
16.....	8,666,700	25,982,700	34,649,400
17.....	8,110,300	27,558,000	35,668,300
18.....	11,103,800	32,939,000	44,042,800
19.....	9,804,600	25,842,900	35,647,500
20.....	9,633,500	37,477,000	47,110,500
21.....	21,760,300	63,662,200	85,422,500
22.....	10,353,400	30,828,900	41,182,300
Totals.....	\$882,010,500	\$932,777,800	\$1,814,788,300

Photographic reproduction of page 15 of the "Report of the Assessing Department of the City of Boston for 1931." Note in what part of the city the "land" (really the capitalized intercepted portion of the residual economic tax explained in page 313 of this paper) exceeds the buildings in assessed valuation, and by how much. Of course, in the suburban wards the "land" assessment in many cases includes land with an appreciable portion of its value attributable to improvements, due to filling, grading, planting; in Ward 3, and even Wards 4 and 5 perhaps, *relatively* much less so. The taxable area of Ward 3 is about 525 acres; of the whole city, 18,767 acres. Thus Ward 3, with only 2.8 per cent of the taxable area of the city, commands 52 per cent of the coservice; and even the present coservice enjoyed in that ward is assessed at more than double the value of the buildings of that most heavily built-up region.

Ward 3 and even Wards 4 and 5 perhaps, relatively much less so

Fiduciary interests should help bring about the change on the ground of the greater prosperity at once to be expected for their and all other borrowers, and of better conditions for the non-interceptive portion of their securities and greater and healthier demand for loans. It should be feasible, and, with their co-operation, easy, to find an



Municipal Boston in 1931, showing location of Ward 3 (shaded) and its gross area relative to that of the whole city.

acceptable way, even in the period of change, to prevent harm to any legitimate interest of theirs.

It should also be feasible to ease acceptably through the period of change the small percentage of landowners whose practices are now *predominantly* interceptive.

The period of change should no more be dreaded than any other period of recovery from chronic and occasionally nearly complete paralysis. All ex-interceptors should then find business and investment

openings fairer than any now or hitherto open to the producers from whom present-day interceptors are now getting their support.

The period of change should be short. The new régime with its unparalleled blessings should be permanent.

* * *

The government's revenue system, then and thus for the first time made completely economic, would consist, as it should, and as is the case with all other great service agencies, of merely noting and gathering in its own earnings. In thus getting its own earnings, government would have the aid as at present of a type of unofficial tax-collectors (landowners), whose actual and correct economic function is only now beginning to be perceived. But the commissions which we now thoughtlessly allow to such tax-collectors, commonly amounting to 50 to 60 per cent or more of their collections or potential collections, would be reduced to nullity, for the inherent and unrivaled convenience to the landowner — as well as to the public interest — of private property in land would still suffice to secure from landowners the collection service desired and which they are in a position to render more acceptably and more economically than any other possible agency.

* * *

This governmental collection of the coservice yield could, of course, be waived then as now — and even more completely than now — in special cases, such as those of charitable, religious or educational institutions. Thus, and with the abolition of government taxes, these institutions could for the first time become truly "tax exempt"; for they would then be freed from the tax charges now included in their pay rolls and in the cost of their buildings and supplies; they would also be freed from the inroads of income taxes and inheritance taxes into the non-interceptive fortunes, or at least non-interceptively invested fortunes, of donors and testators.

* * *

Requirements upon unofficial collectors of economic taxes to turn in the tax-moneys which our governmental law properly directs into their hands are not taxes upon such tax-collectors, or upon anybody else, any more than similar requirements upon official tax-collectors to turn in the tax-moneys which we direct into their hands are taxes upon those officers of the government, or upon anybody else.

The legal enforcement of this requirement upon these unofficial tax-collectors should hence be feasible without technically invoking the taxing authority of government. This requirement, since it is not taxation,* should be capable of being carried into effect without violation of existing constitutional limitations on the taxing authority. So far as I am aware, our constitutional authorizations of governmental levy of taxes are always permissive or restrictive—never mandatory requirements that the government *shall* levy taxes. Hence, the discontinuance of the governmental levy of taxes should be feasible by merely statutory changes. Such changes would repeal the worse than superfluous governmental taxes and set up the machinery for noting and securing from each unofficial tax-collector the market value of the share of the government service distributed through him to one or more occupants, as such, of his land, among whom he himself, of course, may or may not be included.

The lighter the government taxes, the larger, *other things being equal*, will be these unofficial tax-collectors' interceptions; with their interceptions stopped, however, the greater would then be the amount of wealth left in the control of the producers, either as their individual property or as property applicable in their own interest by their governments—very likely both. We should then hear more of progress with increasing plenty, and less of progress with persisting poverty.

* * *

Practically all persons who own land are producers besides being landowners. Often they are also owners of real estate other than land, and of personal property as well. Hence most persons who own land are as individuals losing heavily, both in cash and in security of outlook, by the prevalent misunderstanding of the term "land" and the consequently prevalent failure to perceive and turn to account the normal function of landowners as unofficial tax-collectors.

The correction of these mistakes, thus abolishing the hardships which these mistakes are now inflicting on the multitudes of owners of land who are producers as well as landowners, and on the perhaps even greater multitude of producers who are not also landowners, is an achievement within the power as well as the purpose of popular self-government, and is now long overdue.

* The only taxation involved is levied by economic law and is so levied as an operation obviously antecedent to its collection, and *two* steps antecedent to the topic of this paragraph, viz., the disposal of its proceeds as between its unofficial collectors and the public till.

The fairer conditions thus obtainable for all producers and would-be producers should open the way to our becoming once more, and this time permanently, a nation of landowners and home owners, with a better prospect than ever before of making a creditable showing in our effort for democracy.

* * *

In 1931, the charge upon the people of Boston for government service was, on the score of property in Boston alone, not only the \$62,000,000 officially reported as their total state, county and city tax, but some \$35,000,000* additional,—now being intercepted,—a total of nearly \$100,000,000; not to mention federal taxes, motor vehicle excise, the state income tax, inheritance taxes, taxes "on" gasoline, etc., borne in addition by occupants of Boston land.

Occupants of land in Cambridge are similarly carrying for government service some 35 per cent more than the total nominal municipal tax levy. Instances of this kind could be multiplied indefinitely.

* * *

Producers, in addition to bearing all the government taxes, have to provide the funds absorbed by these interceptions. Hence we can hardly wonder that producers and would-be producers, despite their vast increase in the past century or two of their own ability to produce, are still short in purchasing power; and that anxiety prevails among them all, by no means excluding such of them as are owners or managers of manufacturing, transportation, agricultural and other service-rendering undertakings.

* * *

Interceptors are those who stand in the channels of wealth distribution and intercept wealth which would otherwise reach and remain with those who have a superior economic and moral right to it, sometimes a superior legal right to it as well.

Interceptor, be it noted, is not synonymous with middleman. It is far broader than that. A middleman, a jobber, is not necessarily an interceptor at all, any more than any other dealer in merchandise.

Interception of economic tax-moneys is the key log in the jam of interceptions which now, as throughout history, is all that does or can prevent just distribution of wealth. (See Appendix I.)

* Being 4 per cent on the officially reported "assessed value of land" of Boston.

Ward	1 Nominal "Total Tax, Polls and Property" (Personal, Bldgs and Land) State, County, City \$31.50 per \$1000	2 Assessed "Value of Land" (Capitalization of Legal Interceptions)	3 Annual Legal Interceptions (1/4% of Col. 2)	4 Actual Total Tax Charge (Annual) (Col. 3 + Col. 1)	5 Tax Charges which would Yield Present Nominal "Total Tax," Apportioned acc. to service distribution shown by Col. 2	6 Annual Savings to Occupants of Boston Land by Salvaging the Interceptions recorded in Col. 3. (Col. 4 - Col. 5)
1	\$ 1,602,652	\$ 19,060,900	\$ 762,436	\$ 2,365,088	\$ 1,343,329*	\$ 1,021,759
2	1,555,660	21,645,500	861,820	2,417,480	1,518,432	899,048
3	23,861,447	459,277,800	18,371,112	42,238,259	32,367,886	9,870,373
4	3,682,797	59,443,300	2,377,732	6,066,529	4,189,310	1,877,219
5	8,606,534	118,792,500	4,751,700	13,358,234	8,371,975	4,986,259
6	3,086,316	41,025,700	1,641,028	4,727,344	2,891,311	1,836,033
7	863,607	9,192,600	367,984	1,236,491	648,347	588,144
8	1,085,373	12,594,300	623,772	1,709,345	1,099,017	610,328
9	1,115,704	15,355,000	614,200	1,729,904	1,082,153	647,751
10	758,499	5,608,400	224,336	982,835	395,255	587,580
11	903,558	7,391,400	295,656	1,199,214	520,914	678,300
12	1,266,556	2,183,200	367,528	1,634,084	647,544	986,540
13	816,870	6,899,200	275,968	1,092,838	486,225	606,613
14	1,624,952	9,483,200	379,328	2,003,380	688,334	1,315,046
15	739,691	4,712,900	183,516	923,207	332,144	596,063
16	1,130,558	3,666,700	346,668	1,477,226	610,791	866,435
17	1,186,472	8,110,300	324,412	1,510,584	571,578	939,006
18	1,480,195	11,103,800	444,152	1,924,907	782,547	1,142,360
19	1,162,237	9,804,600	392,184	1,554,421	690,385	864,036
20	1,521,790	9,633,500	395,340	1,907,130	678,927	1,228,203
21	2,747,013	21,760,300	870,412	3,617,425	1,533,570	2,083,855
22	1,345,592	10,353,400	414,136	1,759,728	729,662	1,030,066
	\$62,160,233	\$882,010,500	\$35,280,420	\$97,440,653	\$62,160,236	\$35,280,417

* 19,060,900
532,010,500 x 62,160,233 = 1,343,329

Compiled from the Annual Report of the
Assessing Department of the City of Boston - 1931

Note that the sums recorded in Cols. 2, 3, 5 and 6 are based upon the yield of the present or merely Residual Economic Tax defined in footnote on page 312. Col. 4 indicates the total cash yield of the combination of local government and Residual Economic Tax. The indirect burdens imposed by this excessive and misdirected charge and bringing income to neither the government nor anyone else are such that their elimination should materially increase all the figures in Col. 6.

The interests common to all the productive forces of society, rich and poor, in high station and in low station, call for recognition of this elemental fact. Legal interception is as harmful in our republic as it was in the old despotisms when it drifted down to us. Other oppressive practices of the old monarchies we have tried to correct, and with some success. But large-scale legal interception of economic-tax moneys has survived, and even today is generally unheeded.

Prevention of the interception of economic-tax moneys and discontinuance of government taxes are two steps essential to the beginning of Economic Order.

With the start thus accomplished and the outlook thus clarified; with the task of government thus reduced and simplified; and with the individual thus given new freedom, new understanding, and new faith, the requisite further progress should prove to be within human powers.

* * *

Petrarch's time brought the Revival of Learning.

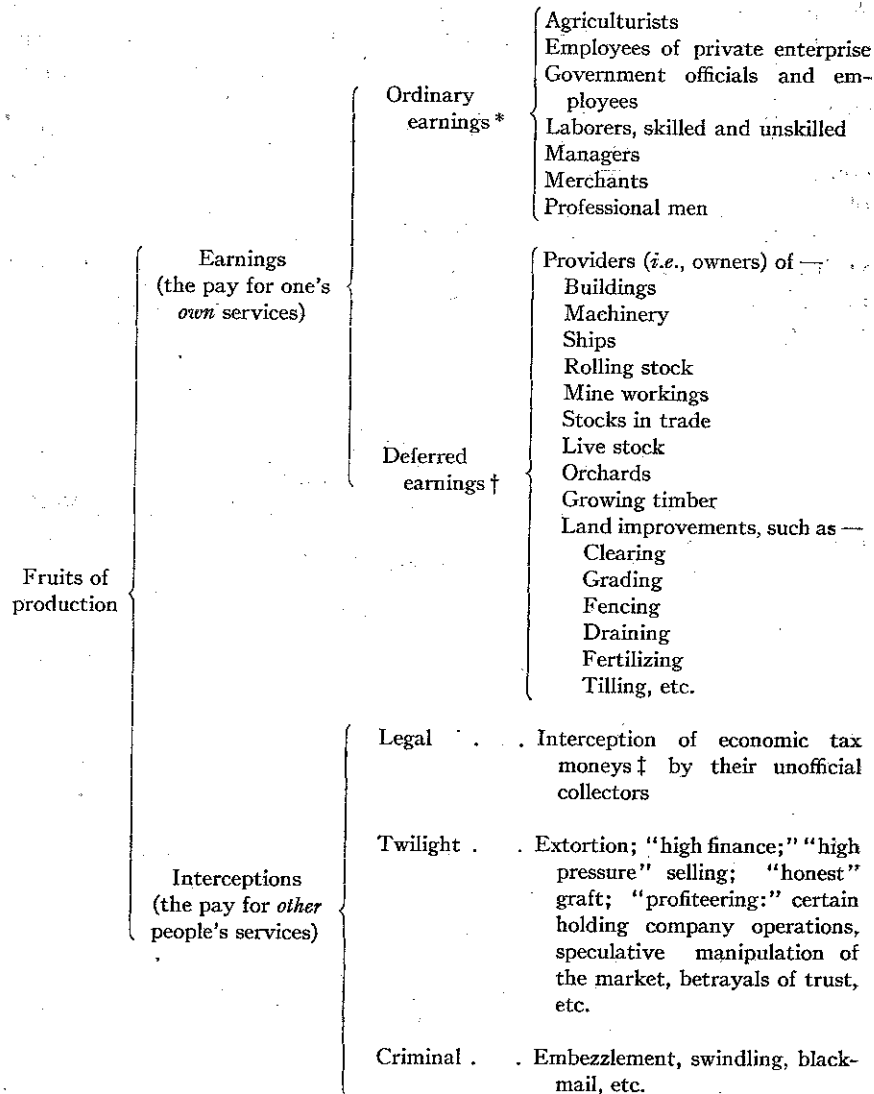
The time of Watt brought Mechanical Power.

The time of Bell and Marconi brought Instantaneous World-Communication.

Our time should bring Economic Order.

Appendix I

PRESENT DISTRIBUTION OF FRUITS OF PRODUCTION



* Called, also, wages, salaries, profits and incomes.

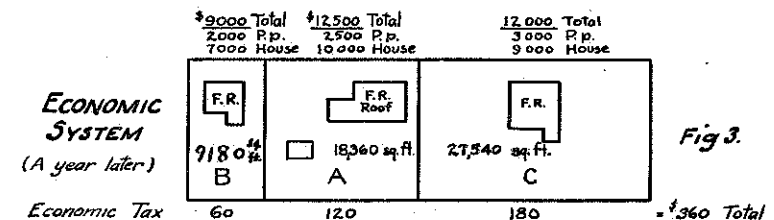
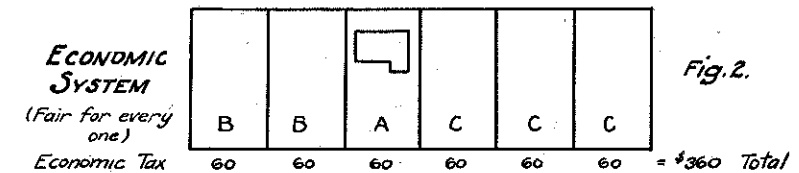
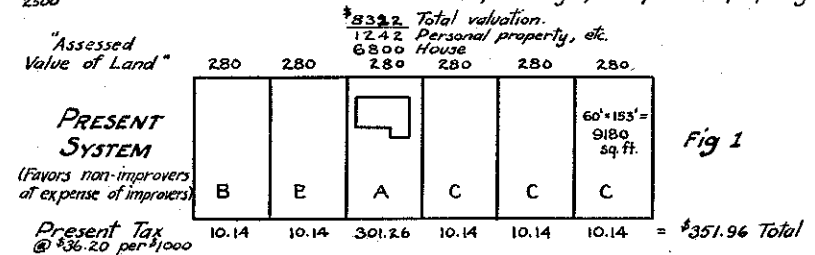
† Called, also, interest, dividends, rent, incomes and profits; the right to such earnings is properly transferable through sale, gift or bequest of the property in question, and without tax interference.

‡ Called, also, dividends, or, quite improperly, interest; and, thoroughly misleadingly, rent; also profits and incomes.

Appendix II

ILLUSTRATIVE EXAMPLE OF ECONOMIC SYSTEM.
IN SUCH A TOWN AS WAKEFIELD, MASS. (POP. 16,000)

Ratio of "Assessed Value of Land" to assessed value of Bldgs. and Personal Estate about 0.21. Same ratio in Mass. as a whole is 0.44. Figure 1 is based upon Assessor's Report of 1931. Figures 2 and 3 are illustrative only. The tract shown represents $\frac{1}{2500}$ of the total assessed area of the town and also $\frac{1}{2500}$ of the total of the "assessed value of land", buildings, and personal property.



With the Economic System come better conditions for improvers and fair inducements for non-improvers to become improvers. The new dwellings are the homes of people glad to move out of the more congested parts of the town.

EXPLANATORY OF FIG. 1 † (PRESENT CONDITIONS)

The imaginary but illustrative tract shown represents 1/2500 of the total assessed area of the town and also 1/2500 of the total of the assessed value of "land", buildings and personal property in the town. It covers also, in the "etc." of the \$1,242 item, the same fraction (capitalized at the tax rate of 3.62 per cent) of the total annual levy of the town for polls, old age assistance and motor vehicle excise. This coverage amounts to \$521 and constitutes about 5.36 per cent of the total tax charge for the tract.

The six lots in the tract are attended by coservice of uniform market value per lot; hence these six lots are all assessed at the same valuation, about three cents per square foot. That is also the *average* valuation for the town's *whole assessed area* of 3,175 acres. The *actual* valuations within the whole town range from \$3.50 per square foot to about one-tenth of a cent per square foot, or from \$152,460 per acre to \$50 per acre. Economic taxes, if government taxes were done away with, would, of course, vary similarly in the different parts of the town.

The whole tract is owned by three men, A, B and C; and is divided among them as shown. A, as the only resident upon the tract, is assumed to be chargeable with the whole of the payment from the tract for motor vehicle excise, etc. It amounts to about 6.25 per cent of the total charge on him here shown.

"Assessed value" of each lot	\$280 00	
Annual carrying charge for each lot —		
"Tax" (\$36.20 per thousand)	\$10 14	
Interest (4 per cent on \$280)	11 20	
		21 34

A owns and occupies one lot and the house.

B owns two lots, C three lots; both reside downtown.

Present annual municipal, state and county tax on the score of property in this tract alone totals, as shown	351 96*
--	---------

Of which the items are —

Government tax on A, over 93 per cent of it because he has saved, built, etc.	\$291 12*
Residual† Economic Tax, the portion thereof not now intercepted (6 × \$10.14)	60 84
	351 96*

* This figure includes, in addition to the usual total local property tax, 1/2500 of the total of poll taxes, old age assistance and motor vehicle excise of the town.

† Residual Economic Tax is the portion of the Economic Tax (on occupants of land) remaining annually collectible despite the depressing effect (on the market value of coservice) of government taxes.

‡ See page 311.

To this we must add —

Residual‡ Economic Tax, the portion thereof now intercepted (6 × 4 per cent of \$280)	\$67 20
---	---------

And so arrive at the

Total Annual Local Tax Charge (total of present annual local charges for coservice) on the score of property represented in Fig. 1	419 16*
--	---------

This total annual charge of \$419.16 is now borne in return for nothing but the coservice attending equally all six of the lots. It amounts per lot to one-sixth of \$419.16; *i.e.*, to \$69.86 per lot. The equality of distribution of this coservice is the reason for the uniformity of the present "assessed value" of the lots.

A is now carrying, besides his annual \$21.34 total Residual Economic Tax for his lot, an annual government tax of \$291.12, mainly on account of his house and other savings, his having which subjects the government to trifling if any additional expense; and to no expense not inevitably covered by the undepressed charge for the coservice attending each lot.

Government taxes thus burden landowners, such as A, despite the fact that their utilization of their property does not add appreciably to the public expense. The removal of this handicap upon utilizers, we may reasonably assume, would permit the economic tax per lot to rise from \$21.34 toward its normal undepressed figure, say to at least \$60 per lot, for the present *unfairly* apportioned levy yields an average of \$69.86 per lot. A uniform rate per lot should be paid by all three of these occupants, because the same coservice attends each one of those six lots; and individual owners letting coservice run largely or wholly to waste does nothing to lessen the cost of supplying the coservice. Least of all does the government's failure to collect from a vacant lot owner the full market value of the coservice held at his disposal justify the government's making up the thus caused deficit by piling arbitrary taxes on some one who *has*, and *because* he has, improved his property, *i.e.*, has engaged in production. For production is something which government is organized to protect, not to despoil. Moreover, production is the sole ultimate support of any government.

Owning land is not production, nor is it production to hold land idle. And land is idle to the extent that it is under-utilized either for buildings or for grounds, whether for agriculture, homes, business or recreation.

* This figure includes, in addition to the usual total local property tax, 1/2500 of the total of poll taxes, old age assistance and motor vehicle excise of the town.

† Residual Economic Tax is the portion of the Economic Tax (on occupants of land) remaining annually collectible despite the depressing effect (on the market value of coservice) of government taxes.

And obsolete buildings, often fire traps and shacks, are, in considering the state of development of a town or city, to be regarded as disguises for vacant lots rather than as *de facto* buildings. Overdevelopments, however, like some of our more extreme skyscrapers, are also wasteful, and owners should be freed from the influences which have been tempting them to put up such buildings.

Being provided with coservice, one should pay for it. If a man chooses to waste coservice, that is his affair; but the government should nevertheless get from him in pay for the coservice he wastes as much as the market stands ready to pay for that very same coservice.

Having bought potatoes a man does not have to pay extra if and because he eats them, instead of letting them rot. If eating potatoes were so discouraged, the purchase price of potatoes would be correspondingly depressed, just as Economic Taxes are now depressed; and for the same kind of reason. The purchase price of potatoes would then be merely a residual or preliminary price, just as present "Assessed Value of Land" in business centers of cities (or elsewhere, apart from land improvements) is merely a residual or preliminary price for coservice. Worse yet, the present "Assessed Value of Land" is a price still further depressed by the fact that government taxes force upon the producers or would-be producers, whose organization, the government, alone provides the coservice, the losses due to those who get the coservice allowing the coservice furnished them to run to waste, neither paying the government for it nor utilizing it themselves nor allowing any one else to utilize it.

Such practices would be absurd and ruinous in the potato business, both to potato raisers and potato eaters; they are none the less absurd and ruinous to the productive forces who alone provide coservice and for whose own activities coservice at a fair price is in turn a first essential.

EXPLANATORY OF FIG. 2,* ILLUSTRATING THE BEGINNING OF THE ECONOMIC SYSTEM LOCALLY

In Fig. 2, local government-taxes are supposedly no longer levied. Economic Taxes are supposedly not permitted either to be wasted with impunity or to be intercepted. Economic Taxes then automatically approach the level normal in such conditions. The Economic System is begun. Next should follow abolition of the rest of government taxes (federal and such of state or other taxes as are not collected municipally). Economic Taxes, then, fully relieved from their government-tax-caused depression, should automatically rise to a level ample for all legitimate needs of government.

* See page 311.

Consequent on the beginnings shown in Fig. 2, A pays \$60 into the government treasury instead of \$301.26; and B and C, similarly pay \$120 and \$180, respectively, in place of \$20.28 and \$30.42. The local revenue now secured is \$360 in place of \$351.96.

The new liberties and new motivations at once prompt all three of these landowners to action. They quickly see that it is to their interest to write off the \$11.20 per year per lot which they had been intercepting and which B and C had been wasting. They can now safely build; they will not be locally taxed because they build, either in local direct tax charges or in such tax charges in the price of building materials, nor because they build a good building rather than a shack; and utilization is now the only means of profit from their property. A year later their property and local taxes are likely to appear as shown in Fig. 3, and for reasons which we may now more fully state.

EXPLANATORY OF FIG. 3,* ILLUSTRATIVE OF THE OPERATION OF THE ECONOMIC SYSTEM LOCALLY; A YEAR LATER

A, by the change, saves at once \$241.26 per year, which at 4 per cent capitalizes at \$6,031.50.

He proceeds to acquire (from B) one of the vacant lots, enlarges his house, builds a garage, puts on a fire-resistant roof, and buys some long-needed additional furnishings. The cost of all his improvements and his current living costs are now free from local government-tax additions to prices of building materials and household supplies.

His local taxes (now wholly economic) become \$120 per year, against the more than \$452.50 which a continuance of Fig. 1 conditions would have imposed on him, a prospective overhead which had long been blocking his improvements.

His net savings capitalized at 4 per cent are \$8,032.50.†

* * *

B sees a new and welcome opportunity. Not caring for large grounds, he gladly relinquishes one of his lots (and its attending economic tax obligation) to A, builds a moderate-sized fire-resistant house and moves into the pleasanter and quieter quarters he has long desired.

His local taxes (wholly economic) are now \$60 per year, against the more than \$352.80, for which he would have been liable under a continuance of the present system.

B's net savings, capitalized, are \$6,085.†

* * *

* See page 311.

† For derivation, see Cols. 6-11 of page 317.

C also grasps an opportunity. C likes larger grounds, but, otherwise like B, builds a fire-resistant house and moves into this more agreeable home.

His local taxes (wholly economic) are now \$180 per year, instead of the more than \$434.40 which he would have had to face under a continuance of our inherited system.

C's net savings, capitalized, are \$5,520.*

* * *

The increased wealth is due to utilization of hitherto wasted opportunities, aided by the thawing of frozen assets or credits by improved conditions for production, *i.e.*, for business. Higher returns are coming to labor, including management; also to capital—not necessarily by higher interest rates, very likely lower, but because more capital is in existence and in use, hence rendering more service and in consequence getting more pay. Accompanying "losses" are losses of nothing but interceptive opportunities or prospects. Producers' enterprise has been freed from the burdens and obstructions imposed by the interception of economic taxes and the levy of government taxes.

* For derivation, see Cols. 6-11 of page 317.

COMPARISON OF ECONOMIC (LOCAL) SYSTEM (FIG. 3) WITH INHERITED SYSTEM (FIG. 1)

OWNER.	INHERITED SYSTEM (FIG. 1)				ECONOMIC (LOCAL) SYSTEM (FIG. 3)							
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
	"Total Valuation of Assessed Estate," "Personal and Real."	"Total Tax for State, County and City or Town Purposes, including Overlaying." (This is the sum secured by the government under our inherited system.)	Economic Tax borne by Each as Occupant and Intercepted by Each as Unofficial Tax-Collector.	Total Local Tax Charge borne by Each as Occupant.	Total Value of Property in Fig. 3. (Increase of \$25,458 Tangible Wealth.)†	Total Tax by Inherited Methods and Old Rate, "on" Property of this Value.	Total Local Economic Tax of Fig. 3—still adequate.	Annual Cash Advantage to Each Occupant after Introduction of Economic System.	Annual Loss to Each Present Owner as Interceptor of Economic Taxes.	Annual Net Saving to Each Present Owner as an Individual after Introduction of Economic System.	Capitalized Saving to Each Present Owner as an Individual. (Col. 10 at 4 Per Cent.)	Capitalized Saving to Each Occupant as Such. (Col. 8 at 4 Per Cent.)
A . . .	\$8,042	\$291 12	\$11 20	\$312 46	\$12,500	\$452 50	\$120	\$332 50	\$11 20	\$321 30	\$8,032 50	\$8,312 50
B . . .	280*	10 14	22 40	42 68	9,000	325 80	60	265 80	22 40	243 40	6,085 00	6,645 00
C . . .	560*	20 28	33 60	64 02	12,000	434 40	180	254 40	33 60	220 80	5,520 00	6,360 00
	840*	30 42										
Totals .	\$9,722	\$351 96	\$67 20	\$419 16	\$33,500	\$1,212 70	\$360	\$852 70	\$67 20	\$785 50	\$19,637 50	\$21,317 50

* These three items are not wealth at all. They are merely assessed values of titles to interceptive opportunities, *i.e.*, of titles to places on the public pay roll. They are assets, as municipal bonds are assets to their owners—to A, B and C as land owners; liabilities, however, as municipal bonds are liabilities to the tax bearers, to A, B and C as occupants (*i.e.*, users), but without their ever having received the principal (\$1,680) from those (always landowners as such) to whom the interest charge of \$67.20 per year redounds. This leak of \$67.20 per year, wholly a loss to producers, as such, is closed by the new system. Gone, also, is the government-tax obstruction which stood in the way of the production and enjoyment by its producers of the \$25,000 worth of new tangible property of Fig. 3; in this case mainly real estate. The closure of the \$67.20 leak is more important than its magnitude in this instance would imply; for without its closure, the ending of government taxes, as for example, by endowment of the municipality by a private philanthropy or bequest (like economy of government expenditure or any other civic improvement), might result in nothing but a heavy increase of the \$1,680 liability on the producers, particularly if the area affected is small. Disastrous and needless as government taxes are, and often (as in this example) they may appear to be the major evil, interception of economic-tax-monies is, nevertheless, the basic evil, *i.e.*, the one whose elimination is of primary importance. Its elimination is, indeed, essential for minimizing the cost of government, for maximizing its value to all but interceptive agencies, for establishing equality of opportunity and for thus opening the way to Economic Order.

† The starred items of Col. 1, aggregating \$1,680, are not wealth. See preceding note.