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The Great American Tax Shift

By Noah D. Alper

Director, St. Louis Extension, Henry George School of Social Science; President, Public Revenue Education Council, St. Louis, Missouri

In the United States, during the last half century, there has been an organised campaign on the part of special interests deliberately designed to shift the burden of taxation for their own relief and place it on the shoulders of other classes in the community. The relief is aimed in the interest of those who enjoy incomes from mere possession of property and it is to be attained by throwing the costs of government upon all others who have to gain their living by continuous work of hand and brain. These latter are made to bear all those forms of "non-property" taxes which ingenuity can devise to enforce payment out of the proceeds of individual industry, trade and enterprise; the "non-property" taxes, so-called, including taxes on earned incomes, on gross receipts, on sales, on motor fuel and on transport, on supply of goods and performance of services, other indirect taxation and last but not least the American Customs Tariff. It will be observed how great has been the relative growth of these "non-property" taxes. The Federal Government grants subsidies to the State Governments, and to Local Governments as well. The State Government, out of its revenues, also grants subsidies to Local Governments. Since the Federal Government takes all its revenues from "non-property" sources, and the State Governments largely do the same, the further shifting of the burden from certain basic economic sources to other basic economic sources through such subsidies can be clearly seen.

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This scheme of tax relief for property in the general sense, but quite obviously in favour of landed property in particular, has behind it minds well educated in economic science, knowing how the operation of economic law can, in given circumstances, turn to their advantage; and above all they are past masters in the technique and art of prevailing upon public opinion. Their success has thus depended on their ability, in that way, to dictate the tax policy of the powers that be.

The property taxes are levied on an assessment of the capital value of privately owned property. The chief element subject to property taxes is real estate, that is, land with its buildings and other fixed improvements. The inclusion of personal property in movables and in tangibles, where the assessment also applies to them, is a minor and purely incidental matter and the agitators for tax exemption or tax relief, except for a few businessmen, are little concerned with it. Their scheme boldly and brazenly is, by reducing the property taxes as such, to secure relief or exemption for landed property.

It is obviously vital that the citizens, with the power to command the situation through their votes, should understand certain basic principles and be able to judge tax measures accordingly. Unfortunately, voters are not economic experts. They cannot often detect fallacies in the arguments of clever economists or see through the artifices of those opponents of particular taxes who seek to nullify them by evasions, provisions and other obstructive amendments.

The incidence or final impact of a tax is a taxation principle with which voters need to be specially concerned; whether the first payer must bear the charge himself or whether he can recover it from others. Competent citizens should realise that taxes imposed on improvements and tangible property used in business or industry, such as machinery, equipment and stocks of raw or finished material, are passed on in higher prices to the ultimate consumer. They should know also that taxes levied on the value or rent of land are direct taxes that cannot so be passed on. The title-holder must pay them out of the gross income from the land, or, if the land is vacant or poorly used those taxes must be paid out of other income he might possess. The weight of opinion among scientific economists is that these principles hold good.

The natural relationship between land, labour and capital determines the distribution of wealth into rent and wages, the latter subdivided into wages for human effort applied directly to production, and wages for effort applied indirectly through the process of capital formation, making, saving and investing. This reveals the two basic economic sources of public revenue; and it is on this first division of the product into rent and wages that the citizen must focus his gaze if he is to decide fiscal questions for the good of all.

No political action can affect all the people so vitally as the direction given to the Government whether to draw its revenue from rent or from wages. Here is the true economic "class struggle" between those whose incomes are derived from one or the other basic economic source. On the decision of this issue primarily rests the determination, whether the trend towards Communism shall be stopped or greatly reversed, or will continue to grow and to subjugate the liberty of individuals over the face of the earth.

Those who depend for their incomes on wages or on the indirect wages known as interest can profit only by assisting production; the persistent efforts of such people to remain employed or to keep their capital in use show how they realise this. But land alone produces nothing; rent arises only from the presence of people and their increasing demand for sites and resources, not from any productive effort on the part of the title-holder. The only way in which the title-holders, as mere owners, can secure and maintain their incomes is not by producing or adding to the general stock of wealth, but by controlling the revenue system so that the impact of taxation is diverted away from income derived from rent. In fact, those of them who are jealous of their privileges work at this intensively; by social, economic, educational and political methods they create an atmosphere of confusion on the subject of taxation and this favours the retention of a multiplicity of taxes as part of a "spread the tax base" policy. As a result, the Government must draw most if not all of its revenue from taxes upon productive effort. Most people, especially those who have been misled by what is currently offered as the economics of taxation, are bemused by those methods. The purpose is obvious, however, to the students of economic science. There are among those who own titles to valuable land a whole group who make it their business to ensure that whatever else the Government may do, it shall meet most of its expenses by taxes which do not fall upon landed property.

In the United States, probably as many as half the people hold no title to land. Of those who do own land, the great majority use land as a site on which to live and rear a family, and not as a source of investment income. Owners of small farms have in their holdings a home-site and a farm-site combined, and it is only in so far as the land has a value apart from improvements that they can be said to enjoy the rent of land. The stupid notion that all title-holders to land have like economic interests is made much of by the few owners of valuable land who, for their own advantage, attempt to mislead the smallholder into thinking that his and their interests are commensurate.

The political scheme which applies a knowledge of economic science to safeguard the privilege of enjoying income from mere possession of title to land, whereas income arising through labour shall be mulcted, is shamefully simple. It consists in having a large part of total public expenditure, such as for road-building and upkeep, school support, health and what may be called welfare services borne out of State and Federal, instead of local, taxation.

The primary source of Local Government income in the past has been a combination of taxes on land, buildings, and movable property. The scheme of the tax-shifting advocates is to find payment for those transferred expenditures, by means of taxes which avoid landed property; that is, by income taxes both personal and corporate; taxes upon gasoline and other fuel oils; taxes on sales; use taxes; all manner of excise taxes and customs tariffs as well. Those taxes have to be paid by all consumers of products and services, however they obtain their income. It is easy for the curious to see how this process works. Title-holders to land are relieved of the taxes they would have paid if either (a) the State and the Local Governments had not thus been subsidised out of "non-property" taxes by the Federal Government; and, in turn, the Local Governments by the State Governments, or if (b) the State and Federal Governments had obtained from land values the revenue necessary to meet the cost of the subsidy.

A few examples of the sharing of Local Government expenditure by the States and Federal Governments are sufficient to indicate the results of the scheme to untax the rent-income of land title-holders. They are set forth in Table A which follows. Taking a general average, they show the composition of each dollar of taxation—how much of it has come respectively from State, Federal and Local taxation—and what changes have taken place over the years. The particulars are obtained from "Facts and Figures on Government Finance, 1950-51" (table 84, page 110), published by the Tax Foundation, New York.

In the same document it is shown that within the structure of States' Taxation the shift has been so great that whereas in 1915 the "property taxes" made up 50.5 per cent. of the general revenue, they were responsible for only 3.8 per cent. in 1950.

A further analysis shows how much of the "tax-dollar" was made up from "non-property" tax sources, and again the comparison with previous years is very significant. Here the "non-property" taxes are classified.

TABLE A

Percentage Distribution of Federal, State and Local Government Receipts

	Year 1915	Year 1950
Federal	30.1%	68.7%
State	18.1%	15.5%
Local	51.8%	15.8%
	100.0%	100.0%

Growth of the "Non-Property" Taxes levied by the States' Governments

"Non-Property" Taxes	Percentage of the Distribution of State Tax Collections by sources			
	Year start	Cents	Year end	Cents
General sales, use or gross receipts	1931	0.4	1950	21.1
Motor fuel sales	1922	1.4	1950	19.5
Tobacco products	1930	0.6	1950	5.3
Alcoholic beverages, sales licences	1932	0.1	1950	6.3
Motor vehicles and operators' licences	1915	4.1	1950	9.4
Individual income... ...	1931	4.2	1950	9.4
Corporation income ...	1931	5.6	1950	7.3

A report of the State of California Chamber of Commerce shows how the all sources "tax-dollar" of that State was made up, the comparison covering a ten-year period:—

California	Year 1935-36	Year 1945-46
Federal taxation	31.0%	80.5%
State taxation	29.0%	12.5%
Local taxation	40.0%	7.0%
	100.0%	100.0%

A further example is the State of Missouri. In 1873-74, in addition to general property taxes, the State Government used these ways of securing income: Fees and Earnings, and Grants and Donations. In 1939-40, the following "non-property" taxes were introduced: Inheritance, Income, Retail Sales, Selective Sales, Business Licence, and Non-Business Licence; later, the gasoline tax was added. The result of these changes is shown in the precipitate fall in the revenue produced by the general property tax as a proportion of the total revenue. Thus the percentage of Tax Revenue produced by the General Property Tax in 1873-74 was 97.7; in 1939-40 it was 6.0; and in 1950-51 it was only 1.1 per cent.

The particulars are taken from Bulletin No. 21, 1942, of the Governmental Research Institute in St. Louis and the report of the Department of Revenue, State of Missouri, 1950-51.

Within the realm of Local Government finance the same situation has developed. It is revealed in the accompanying Table B compiled from the Report of the Municipal Officers' Association of the United States and Canada on "Municipal Non-Property Taxes—1951, Supplement to Where Cities get their Money."

TABLE B

Municipal Revenue Sources of Cities with Populations in 1940 *of over* 25,000

Sources of Revenue	As per cent. of total revenue		Increase as per cent. of the 1942 amount
	1942	1949	
Property tax	64.9	53.4	27.8
Sales and gross receipt taxes	4.7	9.7	223.2
Licences and others ...	5.0	6.1	87.9
Total taxes	74.6	69.2	
Aid from Federal and State Governments...	17.2	20.2	82.6
Charges and Miscellaneous	8.2	10.6	100.4
Total General Revenue	100.0	100.0	55.4

Comment on these figures is supplied in the Report itself: "In an effort to solve the finance problem, an increasing number of municipalities have been forced to turn to non-property taxes for at least a partial solution. While this trend started as early as 1900, changes have been accelerated during the past ten years with notable alterations in the dependency of cities upon the property tax . . . . Property taxes increased in dollar volume during this period, but the increase in other revenue sources, particularly sales and gross receipts taxes, state aids, service charges and other types of taxes was so great dollar-wise that the proportionate amount received from the property tax was reduced percentage-wise."

The considerable increase of Federal relatively to State and Municipal expenditure, as noted earlier, is largely due to war and national defence, but this does not alter the fact that all taxation must fall either upon the rent of land or upon the wages of human effort. The interest on public loans must also be raised from one or other of those sources. The rent of land can be collected by public authority and can be allocated, as the public may decide, to the various levels of government. If rent failed to provide all the revenue required, then direct levies can be made on personal income or accumulated estates. Regarded in this light the question of public revenues, presented in such a confusing and involved way in economic textbooks, is no longer a problem. Even boys and girls of high school age could understand the incidence of taxation.

The effects of the tax-shift that has taken place in the United States are evident to any student of scientific or natural-law economics as opposed to the planning variety. After dedicating ourselves to high ideals, we take what is called practical action, which cancels them out. To land, which is the inheritance of all, we give an artificial price as if it were a commodity of labour and we allow this price to rise higher and higher. As a companion error, we are forced by our choice of a wrong source of public revenue to make everything produced artificially dear. This artificially created dearness and scarcity goes to nullify the very genius of the Free Enterprise system, which is to reduce the unit cost of production and ensure that each producer receives the full value of his labour. Under this anti-incentive and anti-free enterprise tax policy we see increasing labour-capital strife, bad housing, need for public assistance, higher and higher taxes, drift towards a Welfare State and away from a state of welfare—and danger of Communism.

Given a policy of untaxed production and free trade, as so well advocated by the International Union for Land Value Taxation and Free Trade, we in the United States could demonstrate to the people of our own country and of the world a working Free Enterprise economy that could stop in its tracks the menace of Communism. Whether this becomes American policy rests with the American business men and industrialists and the workers who with them make the productive team. It depends upon their being made alive to the real economic cause of their fears and of the harassments they suffer at the hands of Government—and that cause is essentially wrong taxation. They must be helped to see how the very commercial and industrial organizations they maintain are threatened by commerce-destroying and industry-despoiling methods of securing the public revenue. As long as the productive team allows the land-title-owning fraternity to influence the tax system of our country by, for, and in the interest of the "vacant lot industry" and the hoarders of natural resources and opportunity, so long must they face this ever-present danger of loss of control of their business and of their earned incomes. The truth of economics and of politics is that the interests of labour and of the owners of capital are indeed identical. They are equally aligned against privilege and monopoly. We should have their powerful backing to persuade the electorate to bring about most necessary and desirable changes.

We have long pursued an obviously wrong course in the matter of taxation. Experience has proved not only that it has grossly failed us but also that no patch-work mending can be expected to do better. It has forced up the price of land and made dear the cost of living; and by it, we repeat, to crown all, we fine and punish with annual taxation that possession of wealth which is the very keystone of the security we so prate about. The public revenue policy which would end our folly and reverse the course we have pursued is most earnestly and drastically demanded, if we are to have an expanding economy enriching all in well-being. Let us to-day and every day re-dedicate ourselves to this achievement. Let us realise we have time, but no time to waste.

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