

CHARLES J. LAVERY, M. D.
15-17 WOODWARD BUILDING
ABERDEEN, S. D.

*Corrections made
3/30 - vlv.*

March 28, 1938.

Mr. Will Lissner, Editor,
"The Freeman,"
211 West 79th Street,
New York, N. Y.

Dear sir:

Yesterday, my contest paper was mailed to "The Freeman" before I had time to read it carefully. This morning, I noticed the following errors:

On page 3, second line, first word "are" should be is :
is the conglomerate mass of taxes. That is because society, through

On page 4, second paragraph, second line, fifth word "affect" should be affects :
tax after another that affects interstate business and, concurrently,

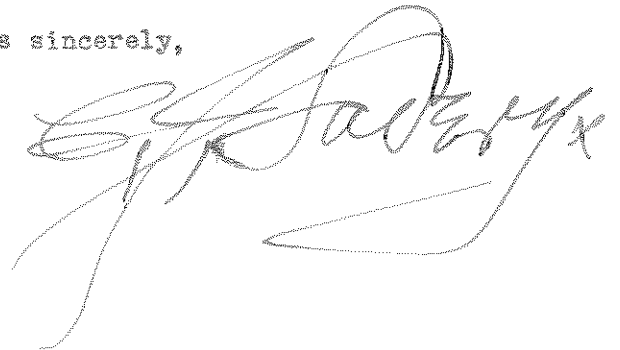
Same page, third paragraph, fourth line, fifth word "dips" should be dip :
cilities when "passed on" dip deeper into the consumer's purchasing

Same page, same paragraph, next line (5th), third word "does" should be do :
power than do other taxes, and, railroads and coal industries are now

On page 5, second paragraph, sixth line, eighth word "does" should be do :
consumers over five times as much as do government bonds, so why not

Kindly have the above corrections made and greatly oblige,

Yours sincerely,



CHARLES J. LAVERY, M. D.

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A Practical Way Out

Of "The Present Mess" of Relief, Unemployment, Burdensome Taxation---to say nothing of the Social Problems arising from Poverty.

How the collection of Rent and the Abolition of Taxes can be instituted----How it can be done with our existing Political Machinery ---Why it would Work---What it would do.---

Natural resources in this country were not exhausted. In fact, they have been merely scratched. Production and the necessary means for creating, processing and transporting wealth were and now are adequate to justify the expectation of the advent of an economy of plenty. Despite these favorable conditions, there exist approximately 43 million "ill-fed, ill-clad and ill-housed" people. "One-third of our population who need more and better food, clothing and shelter which distributors have been prepared and anxious to furnish. But effective demand failed because, as The Wall Street Journal emphasized, repeatedly, a few years ago, in leading editorials, producers and potential consumers were "Kept Apart By Price." The "unhappy third" could not and the more fortunate two-thirds would not pay the exorbitant prices demanded by those who could do no different because of enormous costs that were and still are pyramided by taxes. Instance: Processing taxes that doubled the price of food and clothing within a few weeks and then social security taxes.

There are many other reasons for excessive costs but mostly outside the jurisdiction of legislators to regulate. It should have occurred to them that misplaced taxation might be at the bottom of the various obstacles hampering industry that were responsible for the extreme costs. Instead, legislators messed around with wish-fulfilment devices that aggravated the economic situation, increasing instead of reducing costs. When federal or state legislators did anything purporting to relieve trade and the "unhappy third" they invariably imposed additional taxes on things consumers needed and wanted to buy. The consumer was, and he continues to be, "The Forgotten Man." I beg pardon! Many have been "forgotten" by the tax imposers, many who have escaped taxes heretofore, namely: Those who collect Rent. Legislators forgot to tax Rent despite the fact that Rent is wholly a social product and that the Constitutional Amendment authorizing income taxes applies with equal force to rent tax; that it cannot be "passed on" to consumers, one-third of whom, according to the President, are not adequately fed, clothed or housed.

Charlemagne formulated the axiom: "The welfare of a nation is the welfare of its least fortunate." The "unhappy third" ~~who~~ cannot buy all they need nor much that they want because prices are prohibitive; hence less things purchased and, concurrently, scanty demand for labor to produce things. Consequently, unemployment and depression supervened and relief became necessary to prevent serious distress. Price, then, is the key to "the present mess" and, also, to "A practical way out." We must "Take Taxes Out of Prices." Prices for consumers' ^{wants} must come down.

Despite the fact that legislators are powerless to do anything but harm in the economic field, they have everything to do with taxes. Besides the natural components of price, i.e., Rent, Wages and Interest,

we find a few extraneous ingredients affecting it, the chief of which ~~are~~^{is} the conglomerate mass of taxes. That is because society, through its legislators, fails almost entirely to collect the Rent which it creates. Society expropriated its own earnings and lacking that natural fund with which to defray the expenses of government it does some more expropriating, and again from itself, in the form of taxes; hence everybody pays twice for all government services: (1st), when paying rent, and everyone does; (2nd), when goods and services are bought, with all tax levies from everywhere wrapped up and hidden in the price.

Other extraneous elements in price, such as public and private debt, racketeering, crime, disproportionate salaries and commissions, charity contributions by business and industry, conspicuous waste, strikes and other industrial warfare, social irregularities, instalment selling etc., can be mostly accounted for among the evil effects incident to expropriation of rent. Some may be expected to vanish as society and its legislators gradually shift taxes from labor and industry to society's own and only product---Rent. Some of the worst may require legislative action but it is necessary to remove the impediment of trade-throttling taxes and set the stage by taxing Rent before any effective relief can be achieved or even expected. All monopoly starts with expropriated rent.

The diagnosis of "the present mess" and its cause having been found to flow from "price" and the chief contributing cause ascertained to be taxes that should be abolished, our problem now is: The recovery of our expropriated Rent; the total abatement of taxes and "how it can be done with our existing political machinery." At first blush it may appear that all trade-impeding taxes might be repealed and a levy made on Rent to replace them. But that would be revolutionary and revolutions are

too costly. It is best to "Take Things by The Smooth Handle." Neither our economy nor our democratic institutions need be imperiled while we shift taxes to economic rent. Capitalism has earned its spurs and, with some little fixing, can be depended on to function in an economy of plenty much better than in an economy of scarcity. Our democracy needs a little fixing also, but it must be preserved intact as it is ideal for purposes under consideration and for human liberty.

Under the Income tax Amendment, Congress can abolish, entirely, one tax after another that affects interstate business and, concurrently, levy on the income from Rent---society's income---for a comparable amount to replace the federal loss, and, to under-write the loss of the several states and other taxing bodies. Starting with some industry doing an interstate business affecting consumers generally, take it completely out of the tax collecting business so that its tax department and all expense incident thereto may be eliminated altogether. By thus cutting costs, the product, whether services or goods, could be sold cheaper to consumers. Repeat that process each succeeding session with another of the same order until all interstate industries are tax free. The several states might take the hint and do some untaxing themselves.

Transportation facilities serve everybody, directly or indirectly, and freight rates are included in price. Taxes on railroads, coal, oil, gasoline, motor-vehicles, pipe lines, water-craft and other carrier facilities when "passed on" dip deeper into the consumer's purchasing power than ~~do~~ other taxes, and, railroad and coal industries are now sorely perplexed. It is peculiar economy to tax railroads and gasoline, automobiles and oil for the purpose of building highways that ruin railway business and limit the use of gasoline! Strange financiering to

collect one million dollars daily from the railroads when the transaction costs consumers over three and one-third millions! As tax collectors, they are too costly. Why not let them concentrate on railroading?

Again, the land used by carriers as right-of-way is as much a highway as any but we tax it and consumers pay three and one-third times the tax when buying goods and services! That land should be purchased by the federal government and paid for by retiring their outstanding bonds in an amount equal to its first cost. The interest on those bonds costs consumers over five times as much as does government bonds, so why not retire them? The federal government should assume local taxes on railways because there are many school districts and other organized communities dependent on the money derived from railroad taxes.

Abolishing the tax handicap of railroads and other interstate enterprises is obviously a federal job and very simple if our legislators will seriously take hold of "the present mess" and want to effectively relieve the "unhappy third" and take the unbearable burden of taxes off the rest of us; increase buying power so that the unemployed may find work.

This method worked at gradually and persistently might give promise to reopen our frontiers, urban and rural, and restore our home markets for the products of farms and factories at prices comparable to the cost of production; make it possible for the needy to feed, clothe and house themselves; reduce prices for all consumer needs and necessary land on which to work and build homes; give jobs to everybody who can and will work---More Jobs than Workers.

The greatest good, however, would be the example set by government for the furtherance of common honesty---using its own income instead of individual earnings that it now expropriates by taxation.

Charles J. Lavery

Charles J. Lavery, M. D.