

INFORMATION SERVICE

Published Weekly, Except During July and August, by the

DEPARTMENT OF RESEARCH AND EDUCATION
FEDERAL COUNCIL OF THE CHURCHES OF CHRIST IN AMERICA
297 FOURTH AVENUE, NEW YORK 10, N. Y.

Price \$2.00 Per Year—Single copies this issue 5 cents.

Volume XXIII, No. 13

The Federal Council of the Churches of Christ in America is a federation of twenty-five national religious bodies through which they are rendering united service. Articles appearing herein furnish information on current issues and are not to be construed as declarations of official attitudes or policies of the Federal Council of Churches.

Entered as second-class matter January 4, 1924, at the Post office at New York, under the act of March 3, 1879.

Incentive Taxation: A Review of Current Publications

In this issue we interpret four contributions to the search for devices of taxation that will encourage production and employment. They are the movement for land value taxation associated with the name of Henry George, Stuart Chase's discussion of postwar finance, C. W. Hazelett's incentive plan, and Lewis H. Kimmel's study of tax policy for business expansion made under the auspices of the Brookings Institution in cooperation with the Senate Committee on Postwar Economic Policy and Planning.

In the year 1902 Congress placed a tax of ten cents per pound on sales of oleomargarine colored so as to resemble butter. In 1904 the Supreme Court of the United States held that the tax was constitutional. The result was that colored oleomargarine was driven from the market, which was the effect intended by the dairy industry that initiated the tax. In 1942 the Supreme Court of the United States upheld "penalty taxes" on the sale of tobacco and wheat in excess of growers' quotas under the agricultural marketing laws. Thus the taxing power has been used by Congress, among other purposes, as an aid in the processes of regulation.

The Movement for Land Value Taxation

Why not emphasize a positive policy and discover effective techniques of taxation generally to encourage enterprise and production, and thus contribute toward the full employment that is recognized as much needed once the process of demobilization begins? This is, of course, not a new question. One of the oldest plans has been identified with the name of Henry George, who put forward his ideas of a single tax on the value of land and natural resources, and the exemption of improvements, as a scheme of "incentive taxation." Henry George did not originate the term or the idea, but for about 60 years it has been identified with his name. The physiocrats of pre-revolutionary France wrote about the single tax idea, but in a much more limited way than George. Henry George took the earlier ideas and with the devotion of an ardent soul created a social movement now found in many countries of the world.

Henry George wished to collect all revenue for public purposes from a levy on the value of land and other natural resources. The device springs, of course, from the widely held concept that the earth is the heritage of mankind and should be enjoyed by all. This thought is found in the Bible, the writings of the early church fathers and in those of Chinese philosophers. The first systematic discussion of the general subject was given by John Locke in the late seventeenth century.

Henry George, who completed his famous work, *Prog-*

ress and Poverty, in 1879, was impressed with the exploitation of natural resources, the wide extent of speculation in land, and tendencies toward monopoly in the ownership of land and other natural resources in the U.S.A. He sought to create in our society "a civilized frontier," which would encourage enterprise and promote the general welfare.

To what extent has this been done? Probably prewar Denmark presented some of the best illustrations. The policy of taking "ground rent for public use," which is simply another term for the tax on land value, has been widely taught in the Folk Schools of Denmark. Many of the principals of these schools have testified that the ideas of Henry George influenced Denmark more than any other country in the world. Before World War II there was also a wide practical application of his ideas of a tax on land, along with a gradual reduction in the taxation of buildings and improvements. In certain localities in Denmark the taxation of buildings and other improvements had been entirely eliminated. It is claimed that the "slum problem" in Copenhagen was to a large extent solved by the application of the ideas of Henry George. For example, there was no tax on buildings valued up to 10,000 kronen, or about \$2,500 at prewar exchange. Thus small homes could be readily built by the people. It is said that families automatically cleared themselves out of the slums. The cooperative movement of Denmark accompanied the reform of the system of land taxation and the popular education as carried on in the Folk Schools. There are Danes who claim that had it not been for the land reforms the Folk Schools and the cooperatives would never have flourished as they did.

Land reforms in the direction of the Georgian scheme have also been carried out extensively in Australia and New Zealand. A report to the Henry George School of Social Science states: "Throughout all Queensland, all

*We are indebted to Margaret E. Bateman, director of the Henry George School of Social Science, New York, for the information contained in this and the following paragraphs. They are based on material to appear in her forthcoming book, *Whose World?*, published by Ideas Unlimited, 60 E. 42nd St., New York, N. Y.

New South Wales (including Sydney), 14 Victorian municipalities, parts of South Australia and West Australia, also a great part of New Zealand including Wellington, they have adopted . . . this reformed system of raising their revenue. All improvements on the land are therefore free from taxation, and so building can go on unrestricted."

The report further states: "In every case the system was adopted without friction except from land speculators. So just and beneficial is it in practice, that all attempts to revert to the old system of rating improvements have been overwhelmingly defeated by the votes of the ratepayers."

Louis Wallis, in his book *Burning Question*, (Chicago, Willett, Clark & Co., 1937, \$75) refers to the progress of land value taxation in Australia, and states: "The new method has not been put into exclusive use on a national scale, but it has been employed far enough to prove that it functions effectively, and that the principle is sound."

In laying down a program of economic reform in China, Dr. Sun Yat-Sen once stated: "I intend to devote my future to the promotion of the welfare of the Chinese people as a people. The teachings of your single taxer, Henry George, will be the basis of our program of reform. The land tax as the only means of supporting the government is an infinitely just, reasonable, and equitably distributed tax, and on it we will found our new system."

In relatively a few cities of the United States and Canada steps have been taken to reduce the tax levies on improvements of land and consequently to increase the reliance upon land value taxation. In New York City a partial application of the tax principle we are discussing has been in effect since the year 1939. Under a local law a property owner is given five years' tax exemption on value added by improvements which do not increase the cubic contents of his building.

Actually, the principles outlined in Henry George's book *Progress and Poverty* have not yet been fully adopted anywhere in the world.

The present leaders in this movement are convinced that the greatest progress will be made through education. They emphasize the words of Henry George: "Social reform is not to be secured by noise and shouting; by complaints and denunciations; by the formation of parties or the making of revolutions; but by the awakening of thought and the progress of ideas. Until there be correct thought, there cannot be right action and when there is correct thought, right action will follow."

Problems of Postwar Finance

In No. 3 of a popular "Series of Guide Lines to America's Future," as reported to the Twentieth Century Fund, New York, Stuart Chase discusses problems of postwar finance in the book *Where's The Money Coming From?* (1943, \$1.00).

America has enough productive power to pay the money costs of war, support full employment after victory is won, and ultimately to give this country the highest standards of living it has ever known, Mr. Chase asserts. At the end of this war "the physical structure of the American economy should be the strongest in its history. Plant, raw materials, skilled workers should be available for a vast increase in living standards." Flexible tax devices will play an important part, as is indicated below.

The main job, says Mr. Chase, will be to carry over into peacetime the huge output achieved in wartime, and to do this he advocates what he calls a "compensatory economy." This is a system, he explains, "where businessmen largely own and operate the means of production, but where the government underwrites full employment by its control of existing financial machinery."

Mr. Chase calls such a system "the only practicable hope of those who want a maximum of free enterprise." He says, "In a compensatory economy, the government is responsible for full employment and social security. It is guided and checked by the measuring rod of a regular count of the unemployed. It relies heavily on taxation to keep the dollar circuit in active motion. Public works programs . . . are on file ready for all emergencies, and the economy is also committed to a permanent program of public works in their own right and necessity. Through these and through social security legislation, it becomes possible to assure the budget of essentials—food, shelter, clothing, health services, education—to every American. A compensatory economy appears to be the next logical step."

Looking directly at the question of war and postwar finance, Mr. Chase says, "Well, where DOES the money come from? Where did Russia, Italy, Japan, Germany get the money for their vast military and building programs? Where did Britain and America get the money for colossal war outlays? They got most of it out of the labor of people and machines hitherto underemployed."

In discussing how this principle works, Mr. Chase says, "The question of where's the money coming from has one answer in the case of the individual, and quite a different answer in the case of all individuals united in a nation. As in the matter of debt, it is meaningless to identify the individual with the nation as a whole. That kind of thinking leads into a blind alley. If you have no money, you cannot buy that beautiful new car. Period. But if you, and all your fellow citizens, want to buy a beautiful new river development project or a beautiful new war, there is nothing to stop you from doing so. What you can 'afford' moves into an entirely new dimension.

"In your collective capacity you can put men and machines hitherto idle to work. . . . You can buy your war and its costly equipment right up to the limit of the nation's manpower, machine-hours, and materials.

"Except for our fears and financial traditions, the same formula can be followed in peacetime. The orders then, however, are for highways, schools and Grand Coulees, or for food, shelter and clothing purchased by those who receive social security benefits. So long as there is slack in the economy, you and your fellow citizens acting through your government can always take it up, by expanding the orders on industry in peace or in war. But you must take it up deliberately and with forethought. The slack will not take itself up in any world that we can now see ahead of us."

In describing a compensatory arrangement under which the government makes up for or "compensates" any gap in private employment, Stuart Chase sets down what he calls the four basic principles in a compensatory economy:

First, businessmen should carry the maximum possible load of production and distribution, so long as the output is sound, in demand, and able to pay its way.

Second, the federal government, in cooperation with local governments and local groups, undertakes to fill any serious gaps in employment left vacant by ordinary business activity. This is done chiefly by financing local projects, not by direct federal construction. Taxation and government investment are the primary levers.

Third, the federal government insures national minimum standards, by social security legislation, and by public works and services in the fields of health, housing, nutrition, education.

Fourth, government benefits should be extended pri-

marily to citizens as *consumers*, rather than to producer groups. Subsidies to keep inefficient businesses afloat—no matter how small and pathetic they may seem, subsidies to farm blocs, subsidies to labor organizations, are not contemplated in this plan. Subsidies to children, mothers, old people, sick people, people temporarily unemployed, are.

Tax policy, says Mr. Chase, is a vital factor in making workable a compensatory system such as he foresees and advocates. "I insist as forcefully as I can that a compensatory economy requires a flexible and efficient tax engine to make it go. By means of such an engine, idle money can be kept from accumulating in the system. By means of it social security benefits are paid for, and public works financed—unless they pay their own way, like a toll bridge. By means of it an inflationary boom can be stopped in its tracks, the national debt can be kept within bounds, the budget balanced over reasonable periods, and businessmen assured of dependable markets.

"Our tax structure . . . should be remodeled and streamlined from stem to stern. First, the tax system should be based squarely on ability to pay; second, it should be simplified." Mr. Chase discusses a number of tax proposals, such as a tax on idle money, incentive taxation, and a spendings' tax to show that tax policy might be used to stimulate production when this was needed and also to act as a brake on a dangerous boom. He says, "In general a tax on idle money would seem more useful as a stimulant against depression, while a spendings' tax might act as a sedative to quiet an over-active boom. The tax lever in one form or another is absolutely cardinal in the compensatory system."

In analyzing the need for making available credit on very low interest rates, Mr. Chase says: "A compensatory economy needs a flexible credit system as well as a flexible tax system. . . . Whether or not we need public credit for alleviating unemployment, we shall certainly need it for self-liquidating public works in their own right—the hospitals, conservation projects, schools, harbor improvements, highways, and the rest, which a modern state demands. And we shall probably need it to help provide employment in the demobilization period."

On the question of public employment, Mr. Chase says, "When the government steps in to underwrite full employment, it has two major fields in which to operate without seriously competing with private business: public works and social security. The latter does not employ anyone directly, except the clerical and professional staff, but it can stimulate employment indirectly by the steady flow of purchasing power which benefit payments encourage."

Hazelett's Incentive Plan

During recent years C. William Hazelett has presented to several congressional committees a one-page tax proposal which he contends would be a solution of all major problems of public finance. His mechanism of incentive taxation contains on the first half of the page a device for a "non-revenue" incentive tax. Under this plan all individuals and corporations having average cash balances in excess of \$300 would pay two per cent of the said balance for each turnover less than eight per year, for "real disbursements," as defined. The theory is that individuals and corporations would provide for sufficient turnover of their cash so as to avoid taxation, and that in this process enterprise would be stimulated and employment be maintained or increased. Mr. Hazelett states that the rate of tax and the number of turnovers on which it is based could only be properly determined first by approximation and later by trial. Changes should also be made

if the volume of unemployment increased, so as to spur enterprise and employment.

The second half of Mr. Hazelett's page contains the revenue phase of incentive taxation. This he calls a living standards' tax. This simple form of levy would tax the spendings of all individuals but not of corporations. It would grant to each taxpayer an exemption and credit for dependents on a subsistence level. Mr. Hazelett would thus protect the widow's mite and low income groups generally by the personal exemption. Over and above the personal exemption he would levy an all inclusive sales tax which would embrace not only purchases of commodities but all services as well. Mr. Hazelett contends that his proposed "expenditure tax" could be very effective as an anti-inflationary influence. It could, he says, by graduated rates, siphon off any amount of excess purchasing power that might be desirable.

Mr. Hazelett's ideas are elaborated in his recent book *A Dynamic Capitalism*. (New York, Harper and Brothers, 1943, \$2.50.) He believes that the two tax devices described above would eventually eliminate all federal taxes except those on inheritances. For taxation of land he accepts the scheme of Henry George and says it is an important part of incentive taxation. We expect to review this book thoroughly in an early issue.

The Brookings Study¹

As a part of the collaboration of the Brookings Institution with the special Senate Committee on Postwar Economic Policy and Planning, under the chairmanship of Senator Walter F. George, a study of the relation of tax policy to industrial expansion and employment opportunities has been made by Lewis H. Kimmel. (Washington, D. C., Brookings Institution, 1943, 50 cents.) The booklet is not a comprehensive study of the American tax system as a whole. The author simply considered one question, "What modifications of the tax system would contribute to the release of economic power and the expansion of private enterprise?" Mr. Kimmel recognizes that the present tax system of the United States has been developed with several motives—to raise revenues, to influence policies of corporations and to bring about changes in the distribution of income. He recommends changes in the tax structure "designed to reduce to a minimum the restrictive effects of taxation on business and investment expansion." Among the conclusions are the following:

"1. The *excess profits* tax should be repealed after the war. The effective date of repeal is not the decisive factor. If there is a clear and unequivocal policy with respect to the abandonment of this tax, its temporary continuance during the transition years should not materially affect business and investment expansion.

"2. The *corporate income* tax should be considered in relation to its position in the income tax structure as a whole. We favor a single normal tax, which would be collected on all taxable income, individual and corporate. On corporate earnings this tax should be collected at the source. Because of the heavy revenue requirements, this normal or standard rate would have to be substantially higher than prewar normal rates on personal incomes. The corporate income tax levied over and above this normal tax should be held to a low or moderate rate—perhaps in the range of five to ten per cent.

"New manufacturing industries should be exempt from the special corporate income tax for the first three years

¹ The funds for the study were granted by the Falk Foundation.

and be taxed at one half the regular rate for the next two years. . . .

"More liberal depreciation allowances should be permitted on new plant and equipment. In the interest of stimulating investment, the minimum period over which new assets can be amortized might be reduced by one half.

"3. The *federal capital stock* tax and the so-called *declared value excess profits* tax should be repealed.

"4. The rates for state business income taxes should be held to a maximum of about five per cent." The state rates should not be increased as federal business taxes are minimized. "Overlapping state business taxes should be eliminated.

"5. The tax system has long discriminated against earnings on equity capital. Because of the fundamental position of venture capital in the economic structure, equity earnings should be favored—not discriminated against—by the tax laws. Preferential rates on dividend income and other income from equities would have a stimulative effect on venturesome investments; a reduction of one third to one half—based on the average effective rate—is recommended for new equity investments made after the war.

"The maximum contribution to investment and business expansion will be obtained only if the underlying tax structure is placed on a sound basis. The discrimination against all equity earnings which was accentuated by the changes made in 1936 should be reduced to the fullest possible extent."

Mr. Kimmel makes clear that the focus for a tax policy suggested in his study differs fundamentally from other incentive taxation plans, including the one of Mr. Hazelett previously summarized. Mr. Kimmel feels that the central purpose of the plans with which he disagrees is "to compel investment and expansion, regardless of business conditions." Mr. Kimmel believes that these schemes would be punitive rather than stimulative. It is his view that if a tax system is to contribute to the release of productive energy "emphasis must rather be on the removal or avoidance of tax restrictions on business operations and investment."

The Latest About Farm Security

Representative Harold D. Cooley of North Carolina, has introduced H. R. 4384, which aims "to simplify and improve credit services to farmers and promote farm ownership." The bill is the result of exhaustive study made for many months by a subcommittee of the House Committee on Agriculture; Representative Cooley was chairman of the subcommittee. It is referred to the Committee on Agriculture of which Representative Hampton P. Fulmer of South Carolina is chairman.

The bill would transfer the services being rendered to the low income farmers of the nation by the Farm Security Administration to the Farmers' Home Corporation, a governmental agency previously authorized but not used. The Farmers' Home Corporation would be authorized to make operating loans to low income farmers who certify that they cannot secure credit from other sources, (1) in order to enable them to purchase live stock, farm equipment and supplies; (2) for other farm needs; (3) for the refinancing of indebtedness, and (4) for family subsistence. Loans to any one borrower may not exceed \$3,500; the rate of interest is fixed at five per cent, and the total loans to be made in any one fiscal year may not exceed \$125,000,000.

The bill would authorize the Farmers' Home Corporation to continue the type of loans previously made by the

Farm Security Administration for the purpose of enabling tenants to purchase farms. Such loans would be made at four per cent interest, the principal to be repaid over a period of not more than 40 years. A total of \$50,000,000 might be loaned during any one fiscal year.

The bill prohibits loans to cooperatives. It is too early to know the attitude of the friends of the Farm Security Administration toward the new bill. So far as can be learned, however, it would appear that most of its friends will support the new measure because they believe it represents considerable progress in the development of favorable interest on the part of members of the House of Representatives in the basic services rendered by the FSA. The prohibition against loans to cooperatives is deplored by these persons, and attempts will be made to introduce the desired amendments.

Important Liquor Decision

A state has the right to regulate the transportation of liquor through its territory for delivery in another state, according to a unanimous decision of the Supreme Court, handed down on January 31. In spite of the fact that there was no dissenting opinion three justices felt obliged to file separate concurring opinions. The ruling opinion, delivered by Justice Reed, maintained that the case could be determined under the Commerce Clause alone without considering the Twenty-first Amendment. "It is enough that Virginia could conclude, in the absence of contrary federal legislation, that she could not safely permit the transportation of liquor through her territory by those who concededly mean to break federal laws and the laws of a neighboring state."

Justice Black, in his concurring opinion, based his argument on the fact that the Twenty-first Amendment provides for "local, not national, regulation of the liquor traffic." Since there are no federal laws dealing with the interstate transportation of liquor the Virginia law regulating it within the state in order to "enforce local liquor policies" is valid.

Justice Frankfurter, on the other hand, finds that the Virginia law is constitutional "solely because the range of state control over liquor has been extended by the Twenty-first Amendment beyond the permissive bounds of the Commerce Clause." Since a state "in aid of its powers of prohibition, may regulate, without let or hindrance by courts regarding the 'reasonableness' of a regulation, it may do so whether the liquor is openly consigned for consumption within it or intended for consumption there although, by subterfuge too difficult to check, nominally destined elsewhere."

The Peace We Are Making

The situation as we stand "On the Threshold of World Order" is reviewed in lucid summary by Vera Micheles Dean in a brochure under that title which appears in two pamphlets of practically identical content, one published in the January 15 issue of *Social Action* and the other No. 44 of the Foreign Policy Association's *Headline Series* of pamphlets (25 cents each). It is pointed out that determination of the structure of the peace is not now awaiting the end of the war as it did in the last war. Rather, its fundamentals are being decided in conferences as the war is being waged. The questions that arise from the conditions in which the peoples of the world find themselves, the background out of which they developed, and the attitudes with which they must be met if any life worth living is to be built out of available material, are discussed with economy of language.