An Open Letter to Senator O'Mahoney

By HARRY GUNNISON BROWN

Dear Senator O'Mahoney: A recent Associated Press dispatch tells of testimony before the Monopoly Committee, of which you are chairman, by Mr. Patrick Butler, on control of the iron ore market and collusion in establishing the price of iron ore.

But there is an aspect of the question which this news item does not emphasize, and that is the extent to which a few companies own or control our resources both of iron ore and of various other kinds of minerals. That two steel companies have controlled over half of our iron ore deposits; that the Aluminum Company of America controls the world's major sources of bauxite; that last year three companies controlled the potash fields of the United States,—these and other like facts should receive, I think, much more attention than is usually given to them.

Such control of the raw materials from which basic manufactured goods are made most certainly makes relatively easy the limitation of competition and the limitation of output of manufactured goods and the holding up of the prices of those goods. Whatever may be said of collusion among manufacturers and distributors, of unfair methods of competition, and of ownership of patents, nothing can possibly give more—if anything like as much—monopoly price control than can the monopolization of the sources of raw materials. Why is it that this is an aspect of the subject that is practically never mentioned?

An essential element in the effective destruction of such monopoly would appear to be a heavy excise tax (based on value) on the privilege of holding any subsoil deposits. For then it would become highly expensive for any person or company to hold any such deposits beyond what he or it intended to use. Excessive prices for raw materials, to possible competitors unable themselves to produce the materials, would be no longer possible. Sources that were not used would probably be surrendered, thereby making it possible for competitors to use them.

No mere **prohibition** of monopolized ownership—however desirable such prohibition may be as supplementary legislation—can probably accomplish the purpose. Evasion through dummy ownership and through ownership by ostensibly independent but actually allied groups is too easy. And there is always the possibility of time-consuming appeals to the higher courts even if the first court is definitely opposed to such subterfuge. Whatever may be said in favor of prohibition of unified ownership of any kind of natural resources, or of any unduly large ownership, the resource-value excise tax ought certainly to be applied also. That there are political barriers in the way of applying it, I know well enough. To apply it would definitely get results and so, of course, it would arouse the bitterest opposition on the part of well-to-do individuals who or whose publicity men and legislative agents know how to make their opposition most effective.

But we have here not just a problem of monopoly. We have the further problem of whether a few shall derive large personal incomes from the exclusive possession of natural resources, of subsoil deposits for which they are in no way responsible; and whether they shall then be taxed on these incomes at no higher rate than the tax rate on incomes of other kinds. Surely there needs to be, from every point of view, not only a heavy tax on idle subsoil deposits, but also a heavy tax on the royalties or profits drawn from used deposits. Surely the tax on such royalties should be far higher than the tax on income from capital (such as buildings and machinery) that men have had to produce. For such royalties are paid for nothing that the owners of the deposits have done or that any persons have done. They are paid only because our laws permit owners to forbid men to use these gifts of nature, and as a sort of necessary bribe to make the owners stand aside and let industry proceed. And surely such royalties ought to be taxed at a far higher rate than the wages or salary that a man earns by hard labor.

Where there are no royalties but only "profits," because the mine or oil well or other deposit is operated by the owner (personal or corporate), the tax may be levied on the basis of what the royalty would be if the operator and owner were different persons. This "excess profit," i. e., the excess above what an operator would secure for himself if he had to pay royalty to an owner, ought certainly to be taxed as heavily as if it were a formal royalty.

A tax on the basis of output is an altogether different thing and is precisely what we should **not** have. An output tax rests with equal proportionate weight on the deposit which is just worth working and on which, therefore, no royalty is paid or can be paid. An output tax is chiefly a tax on labor. (If the consequently reduced earnings of labor in the taxed line will not be entirely borne by the labor in that line, because some of the labor will rather leave for other lines of industry, this merely means that there will be a relatively decreased output of the taxed goods and a shifting of most of the burden upon labor-in-general in the form of higher prices for the taxed goods.) This is doubtless why we have output taxes and practically never have either royalty taxes or taxes on the privilege of holding natural resources. The owners of these resources have had the determination and—at the expense of the people—the financial means to dominate government, at least to the extent of preventing the establishment of any such taxation. Indeed, they have been able to make the very suggestion of such taxation seem so objectionable and so radical as to practically prevent the proposal from being even talked about. For, however ignorant they may be of economic phenomena in general, they at any rate know very well that they do not want any such tax. On the other hand, the workers do not understand clearly the nature of a royalty or realize its fundamental difference from a truly earned income; and they are easily induced to consent to taxes on their labor, euphemistically described as "taxation of the producing **corporations** according to output."

If the tax on the privilege of holding subsoil deposits is as high as it properly ought to be, and if the tax on royalty income from such deposits is likewise adequately heavy (in recognition of the fact that a royalty income is not an individually earned income and should belong mostly to the entire people), then these two taxes together would of course be excessive. But the solution is simple. The tax reckoned on the value of the privilege of holding and the tax reckoned on the royalty should be alternative with each other, the one applied in each case being the one which would be the larger. Thus, if the resource is held unused or but slightly used—e. g., for the purpose of restricting output—the tax on the privilege of holding would obviously be the higher. And it should be the tax applied, to the end that such restriction be sufficiently penalized. On the other hand, if the resource is being worked to the full and the subsoil deposits are being removed at a very rapid rate, the royalty tax ought certainly to be used, to the end that the whole people may enjoy the proceeds from the resource, rather than a very few private owners (or corporation stockholders) who are in no sense responsible for the existence of the resource they are so rapidly exhausting.

If these suggestions were adopted, the public interest would be served in every way. First, as I have already emphasized, monopolistic limitation of output would be heavily penalized and would probably be thereafter completely prevented, certainly so if some very simple supplementary legislation were also adopted. Second, all of the American people, rather than an insignificant few privileged far beyond their fellows, would enjoy the gains from America's subsoil deposits. And third, conservation of these resources for the benefit of future generations of Americans would be rendered easy and inexpensive.

At present, such efforts as we make at conservation, in the oil industry at least, seem to be managed primarily in the interest of those who own and control these subsoil deposits and to whom other Americans must pay tribute for **permission** to perform the labor of utilizing them. For this "conservation" takes the form of arbitrary restrictions on output with the **primary object of holding up the price.** Doubtless such limitation of output does, in some degree, conserve the resource for future generations. But it does this primarily for the privileged owners of the resource and not for the public. The main pressure is from those who want to secure a higher price for oil, and so to make the public pay a higher price. It is, essentially, a monopolistic restriction for private benefit, in which, however, several of our state governments have actively connived.

But if we seriously wanted conservation in the **public** interest, and were willing to consider seriously the objections to large privileged private income from nature's subterranean bounty, we could easily find a solution in the tax program outlined in the foregoing paragraphs. Such a tax program would give to the public the principal monetary benefit of any restriction, since a restriction which raised the price of oil and so the royalties of oil land owners would proportionately raise the tax. And such a tax system, through making privately owned subsoil resources lower in sale value, would make it easy for government to purchase—using for the purpose part of the tax money so collected —such substantial part of these resources as it might seem desirable to hold for the benefit of our children and grandchildren. The tax system I have proposed would, therefore, at the same time effectively aid in the abolition of monopoly, give the entire American public a substantial part of an income drawn from subsoil deposits which, in some countries, belong formally and wholly to the public, and promote conservation in the interest of succeeding generations.

Our Federal government does not now tax all incomes at the same rate. Thus, it taxes larger incomes, even if **earned** by the hardest kind of work, at a higher rate than smaller incomes. And there seems no good reason why it should not levy a much higher tax, whether normal tax or surtax or both, on incomes that are in the nature of royalties from resources which no owner is in any sense responsible for than on incomes from buildings, machinery, steamships and other capital that can come into existence only by labor and saving. Is it not utterly preposterous that a nation which is willing at any time to impose tobacco taxes, processing taxes, and sales taxes, all of which burden the wages of the poor, should be unwilling even to consider such a royalty tax except in pained and shocked surprise? Surely, not to be willing to consider such an alternative resource-value and royalty tax as I have herein suggested, is to refuse to make capitalism consistent with the very principles on which it is commonly defended; and is to insist on keeping it a system that penalizes efficiency and thrift, that exempts privilege from the tax burdens privilege ought to bear, that permits monopolistic withholding of natural resources from development and so reduces the demand for labor, with resulting diminished employment or lowered wages or both. No such utterly inconsistent and inadequate capitalism can arouse the enthusiasm of the masses in its defense, against totalitarian propaganda and pressure, that a proper system of free capitalistic industry ought to and would arouse.