

Tax Relief — for Monkey Business

By Harry Gunnison Brown

The Brookings Institution, in its study of Federal taxation of undistributed profits, points out the overwhelmingly antagonistic attitude of corporation officials toward this business tax instrument. And at about the time this Brookings pamphlet appeared, Lamot du Pont was telling a convention of the National Association of Manufacturers that business "needs more than a mere breathing spell from legislative experimentation," and that "the business man is the subject of more legislative concern than the criminal" who "enjoys far less uncertainty of the laws prescribing his operations."

We hear, indeed, a good deal of complaint from conservative business leaders, of government interference with business, of government discouragement of initiative, of regimentation and of repressive taxation. That government has been guilty of gross errors of policy there can be no doubt. That government yields too readily to pressure groups who would get special privilege for themselves at the common expense, there is also no doubt.

But if conservatively-minded business leaders really tried to, they could do far more than they are doing—and perhaps far more than most of them really want to do—towards getting rid of restrictions and repressions.

There are two evils of our tax system that involve burdens on productive enterprise and on those engaged in such enterprise. First may be mentioned the taxes levied on trade (sales taxes, for example) and on production. Second, is the low rate of tax on bare-land values. True, it never seems to occur to the average business executive to complain of this latter or to think of it as involving burdens to business.

But the fact is that the less land is taxed the higher is its sale value and the heavier the expense for land which has to be met whenever any business concern purchases a site for its store or its factory. Who does

not know—if he will but look around at the current scene—of the tremendous number of lots held out of use year after year for higher prices than present buyers feel they can pay?

To mention only a couple of cities, it has been pointed out that in the Grand Rapids (Michigan) metropolitan area there is one vacant lot to every improved one, and that there are so many vacant lots in Chicago that were the city to grow in population until 1960 at the rate it was growing prior to the depression, there would still be only 90 per cent of the lots in use!

Who can doubt that such speculative withholding of land from use contributes greatly to the scarcity and dearth of land and thereby to the cost of starting any business? Surely, no **hard-headed** business man who takes pride in his "practical" sense can doubt it!

Suppose now that there were half a dozen states in the union where no sales taxes and no taxes on buildings, machinery or other improvements on or in land, were levied. Suppose that in these states the revenue needed for city, county and state purposes was obtained altogether or almost altogether by drawing on the **community-produced** location value of land.

In New York City alone this **community-produced** value, what owners of land can charge the people of New York for permission to work and to live there, runs to hundreds of millions of dollars every year. This is for permission to use the land with its **community-produced situation advantages** and does not include what is paid for the use of the buildings.

Certainly the states that followed the suggested policy could go very far—even if not the whole way—in

the direction of abolishing other taxes. And the tax on site values would be high enough so that no one could afford to hold good land unimproved and unused in the hope of speculative gains. With the state taking most of the community-produced situation rent of land—but **no longer taking** the income from buildings and other capital—the sale price of land would necessarily decline rapidly.

Such a group of states would be so altogether ideal for the encouragement of industry and thrift and productive enterprise, as to raise the question whether our hard-headed, "practical" business men of conservative bent, who are always denouncing alleged government interference with and discouragement of thrift and productive enterprise, are themselves primarily concerned with encouraging thrift and productive enterprise? Perhaps most of them, after all, don't really care much about this but are using their protestations on the matter as a smoke-screen to conceal their real interest?

For taking taxes off of commodities and sales certainly removes penalties from active industry or from those engaged in it; taking taxes off of buildings, machinery and improvements certainly removes penalties from the thrift or saving without which such capital could never be constructed; and putting taxes on the **community-produced** site rent of land certainly cannot discourage thrift and capital construction by any individual or corporation, since land is the result of the action of geologic forces and since its location advantages are a by-product of the growth and development of the community and of the entire nation. Instead, taxing the site value of land forces owners to **make their land available to industry** without themselves profiting from advantages they did not produce.

If there were half a dozen states of reasonable size and resources that followed such a policy, the returns available to labor and to enterprise and to the **thrift** that makes capital



construction possible, would in those states be definitely increased.

Industries could be started in those states with confidence that there would be no preliminary barriers to surmount, in the form of high land values; with confidence that there would be no taxes on output, widening the necessary margin between wages and other outlays on the one hand and the prices charged consumers on the other hand; and with confidence that there would be no taxes to penalize construction, no taxes proportioned to and increasing with every new machine installed, every new orchard planted, every new building erected, every improvement in height or size or beauty of structure. To such states industry would most certainly tend to go.

To such states workers would wish to go because they could earn more when the best land was not withheld from production and because they would be taxed less (if any) on what they earned and because the cost of home ownership would be greatly lessened.

And into such states the conservative opponents of the system would themselves nevertheless send their savings for investment, however they might protest against the tax system there in force, for in those states the capital constructed by their savings would not be taxed and so their savings would earn more.

So-called "big business," and especially if it had some co-operation from smaller business, could do much to secure the establishment of such a system in at least a few of our states.

If important business executives were to point out again and again to the public that such a system would promote industry, thrift and enterprise in the states adopting it, that they themselves would much prefer to establish plants in jurisdictions where such a tax system was in effect and that when they could find such jurisdictions they would certainly move to establish in them new and larger plants whenever the local resources and location justified it,—if important executives were to say this emphatically, there can be no doubt that their assertions would go far to dissolve prejudice. And it

could hardly be long before there would really be such places where industry could locate.

What then is the trouble? That American business leaders—because of superlative "dumbness"—are incapable of comprehending the advantage to industry and thrift of such a system, if they were not too prejudiced seriously to try, I do not believe. No doubt many of them just don't take the proposal seriously enough to try to understand it.

But undoubtedly there are others to whom such a haven for industry and enterprise and thrift, as I have here outlined, does not appeal because their conscious interests are not those of thrift and enterprise but those of landowning and land speculation. It is because they do not desire a change in tax policy which would prevent them from selling speculatively-held land at a high price; because they do not want a tax policy that keeps them from charging active industry—or charging labor—for community-produced advantages; because they are perfectly willing to have hurdles in the way of thrift and efficiency and industrial activity, so long as their own pockets are filled thereby,—for these reasons they oppose a tax policy which would be, from the point of view of the interests of real industrial activity, of the highest advantage.

But let not these opponents of sane tax reform, be they business men or conservative politicians, pretend any longer that they believe in "rugged individualism."

Let them not claim that they really desire a system under which efficiency receives its full reward or under which thrift receives its full reward or that they really desire a system under which industry is not held back in its stride by unnecessary hurdles.

Let them no longer make caustic comments criticizing Bolshevistic Russia for denying its full rewards to thrift and efficiency or for taking these rewards communistically

for government ends, so long as they favor allowing American landlordism, which contributes nothing to industry, to live parasitically upon it, and so long as they desire our government to impose its taxes on efficiency and labor and thrift rather than on community-produced values.

Let's have done with crocodile tears over the awful threat of a communistic regime in which the rewards of industry and efficiency and thrift may be burdened to support inefficiency and idleness, so long as those who shed the tears insist that industry and efficiency and thrift here must pay tribute to landlordism.

If and when our spokesmen of industry really speak for the interests of industry, and not merely for parasitism on industry and hurdles in the path of industry, their advice may be worth something. But, alas—"if and when"!

See: "Progress and Poverty," pp. 300-303; 433-453. Brown, H. G., "The Economic Basis of Tax Reform" (Lucas Brothers, Columbia, Mo., \$2.00), pp. 95-105; 215-241. See also Professor Brown's "Economic Science and the Common Welfare," (Lucas, \$2.75), pp. 21-41; 348-351.