

Taxing Mortgages: Another Red Herring

By Harry Gunnison Brown

There appears to be considerable popularity in the idea of taxing mortgages, and loans in general, presumably on the theory that the holders of mortgages and other claims on borrowers are well-to-do persons who can well afford to pay taxes. And it appears to be popularly believed that unless mortgages are especially taxed, the owners of such claims escape paying their due proportion of the expenses of government.

The fact is that owners of mortgages really pay approximately the same tax, when all physical property is taxed, that the titular owners of such physical property pay on their equities in it. For when capital is taxed, the titular owners receive smaller net income from it; and they cannot and will not pay, therefore, as high interest rates to lenders as otherwise would be possible. If a man hopes to make, through an investment of \$1,000 in improving a farm, a net yearly gain of \$80, or 8 per cent, he can afford to pay not over 8 per cent for the loan that makes the investment possible. But if the improvement is to be taxed at a rate of 3 per cent, he cannot afford to borrow unless the rate accepted by the lender is 3 per cent lower, or, at the maximum, not above 5 per cent. When physical capital is taxed generally throughout the country, therefore, the demand for loans inevitably so declines as to lower the interest that lenders can charge if they lend as much as before.

But to make the argument complete, it is necessary to consider the supply of loans as well as the demand. Here the point is that a 3 per cent tax on all capital means the lender realizes 3 per cent less on savings that he uses himself, e.g., in improving his own farm. If he has saved anything, the comparative advantage of lending and of using is

just the same after such a tax as before. So if, before the tax, he would have been willing to lend at 3 per cent, why should he not be willing, after the tax, to lend at 5 per cent? A tax on all tangible property certainly does not leave untaxed the holders of mortgages, bonds and other claims on borrowers.

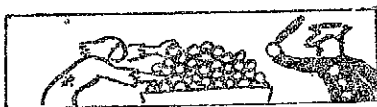
If now there is a special tax on mortgages in addition to any tax laid on tangible capital, such a tax puts an added burden on borrowers—insofar as they can afford to be borrowers. For the great majority of lenders do not have to lend. They can, if they like, use their savings to buy or to build houses, stores, barns, etc. They can, if they like, buy farms instead of lending money to others to buy them. They can, if they like, have tenants on their property, who will owe them a certain amount per year for the use of it, instead of debtors owing them a certain amount per year as interest on loans. If there is a special tax on mortgages and on loans generally, in addition to the tax, if any, on tangible capital, but no special tax on the privilege of having tenants or the privilege of operating property with the aid of hired labor, most persons who have saved anything and who are in a position to lend, WILL REFUSE TO LEND UNLESS THEY ARE PAID HIGHER INTEREST BY ENOUGH TO MAKE UP FOR—OR PRACTICALLY MAKE UP FOR—THE SPECIAL TAX. Therefore, interest rates to borrowers are bound to be higher. In the pretended effort to make things easier for the much-ballyhooed "poor home-owner" and "poor farmer," through putting special taxes on mortgages and loans and thereby—possibly—making a tiny reduction in taxes on real estate, a distinctly HEAVIER burden is put on those home-owners and farmers who can be titular owners only by borrowing and who must now borrow at higher interest rates—or give up the hope of titular ownership and resign themselves to remaining in the status of tenants! Only as such

a tax is evaded, as, in truth, it often is, can it fail to be a real burden and handicap to borrowers.

As long as economic illiteracy is so vast and widespread, it is bound to pay those who are ambitious to enjoy distinguished political careers, to endorse, with great fanfare of publicity and enthusiasm, these quack remedies. Such would-be political careerists will not always be, indeed, altogether insincere, since they spring, largely, from the economically illiterate masses. But the intellectually keener of these comparatively honest careerists (and how many in any walk of life are completely honest, even with themselves?) will perhaps vaguely sense the fact that they can get farther politically, as "leaders," by appealing to current ignorance and prejudice than by seriously analyzing the economic system.

These intellectually keener careerists will, perhaps, vaguely understand that the real truth—should they seriously take the trouble to discover it—might not make them as popular with the masses as the tripe it is customary to feed to them; and that therefore a politician who wants to enjoy the delicious feeling of being sincere and who wants, also, to be able to address really enthusiastic crowds with ringing conviction, does better NOT TO UNDERSTAND ECONOMIC PRINCIPLES TOO WELL. They may somehow sense the fact, though never openly admitting it even to themselves—else how could they continue to publicize their "sincere and honest" convictions?—that one who tries to LEAD, seriously and intelligently and disinterestedly, can seldom be a "leader."

For if these politically ambitious men really applied intelligence to the problem of tenancy versus ownership, and if they were at the same time completely sincere in the intention to state the truth about the



problem, and were not primarily interested in getting the votes of the well-to-do investors in land and of the economically illiterate and prejudiced poor, not only would they NOT seek taxes on mortgages and loans, but they WOULD seek to substitute taxes on the community-produced location value of land for other taxes that now rest heavily on wage earners, tenants and the poorer home owners. For if community-produced location values are taxed—values for which community growth and development are responsible and which are not produced by the labor of individuals—then speculative holding of land does not pay, land is cheaper for tenants to buy, home ownership is easier to achieve and the condition of tenancy is easier to work out of.

Abolition of taxation on mortgages and other loans, so as to make interest rates as low as possible to borrowers, abolition of taxation on the goods poor people buy, abolition of taxation on the improvements and other capital men construct by their labor, put the levy of high taxes on community-produced land values, to the end that sale prices for land may be low—this is the effective route to the decrease of tenancy and the increase of home ownership. **HIGH SALE PRICES FOR LAND ARE NOT A BLESSING BUT ARE, RATHER, AN ECONOMIC AND A SOCIAL CALAMITY.**

But so long as our ambitious politicians feel that their careers are best assured by appealing to the desire of landowners for low taxes on the community-produced location value of land and for high sale prices of land, and by appealing to the notion—easily induced among the economically illiterate and prejudiced poor—that thereby home ownership is to be increased, tenancy decreased, and the “poor homeowners and farmers” aided, little practical progress can be made. A saving remnant among the masses—and even, perhaps, among the literary intelligentsia—must become so well informed that to them, at least, and, gradually, to a larger and larger number, the tripe commonly fed to the masses by ambitious politicians makes these politicians look so silly that they lose both their dignity and their mass appeal.