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WAR TAXES
and
WAR ECONOMICS

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CAN WE FINANCE THE WAR BY TAXATION?

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Presumably the question asked in this title should be supplemented by wording it "Can We Finance the War by Taxation Alone?" The answer is No, but your speaker wonders what can be said other than to reiterate commplaces. He understands that he is not expected to suggest what forms of taxes should be used.

Fortunately the nature of war financing is more widely understood today than it was at the time of the First World War. A larger number of people realize that the real cost of the war must be paid from current income and that purchasers of bonds surrender a part of their current income just as truly as do taxpayers. There are to this a few exceptions, but in general the proposition is correct. In the case of our own country, we must then find ways of diverting to war purposes whatever percentage of current income we decide should be used in that way, to which must be added whatever amounts of this same current income we may divert to the use of other countries allied with us.

There is no reason why we should be reluctant to tax very heavily those persons who are in the higher income brackets. Certainly we need not waste our sympathy on them because they may be compelled to live at as low a standard as any of the rest of us. Unfortunately, however, there are certain complexities that must be mentioned. Among them are the following:

1. There is still some belief that it is possible to postpone the war burden by avoiding taxes and selling bonds, even though this belief is less widespread than in the past. This psychological fact must be recognized.

2. By political pressures, either direct on Congress or through public opinion, the groups in the higher brackets will influence what we do and some will endeavor to keep down the amount of taxes they pay.

3. The amount that can be secured from the higher income group is limited because, though their incomes as individuals or families are large, the aggregate amount of the national income which they receive is small. Thus, in 1935-36 those with incomes of ten thousand dollars or more per year received only 9-83/100 per cent of the national income of that year. If all of their incomes could be taken the amount would fall far short of the war cost.

A further complication arises. While we need not waste sympathy on these groups because they would be compelled to lower their standard of living, we may properly note the contractual obligations into which they have entered. It would not be at all hard to raise their taxes to a point where they would have to default, to a greater or lesser extent, on interest payments, insurance premiums, etc. This would have ramifications that might be serious among their creditors, such as insurance companies, savings banks, etc. Presumably moratoria would have to be arranged and perhaps among many groups in the country.

4. As we approach the lower income groups, there are similar psychological obstacles to overcome, and we may expect their influence to be used against what they may consider unduly high taxes.

5. Finally, it must be remembered that taxation is a delicate matter. Appropriate financial methods are not the only thing to be considered. Maximum productivity, particularly for war purposes, is imperative. There is much to be said for the use of bond sales on the ground that those who purchase bonds do so more voluntarily than taxpayers meet their tax bills. As a consequence, there are less apt to be payments that will disrupt the smooth flow of productive operations.

The net result presumably will be that we shall finance the war in ways that overlap seriously but which may be classified under three headings:

(a) Through greatly increased taxation. There is little danger that the taxes will be so high as to interfere with our economic life along the lines suggested above.

(b) By public borrowing which we may hope can be managed through the sales of bonds to buyers who purchase out of real income instead of borrowing to do so.

(c) The third method which cannot be entirely avoided is inflation.

These three methods are alike in that they are ways of adapting the national income for war uses, and of course inflation is the most objectionable in that it operates in ways that usually offend our sense of justice.

TAXING LAND SPECULATION

Adele L. Nichols

Most citizens have recently experienced spiraling prices and increased costs of living, due to the inflationary tendency of the war production effort. All of us are fairly familiar with the efforts of Government through various agencies, Office of Price Administration and Civilian Supply, Office of Price Administration, and lately, of the Office of Price Control, to place ceilings upon the prices of producers and consumers goods. Tax laws concerning surplus earnings, have been revised to channel war profits into the war effort, instead of to individuals. Various interested groups, have sought to obtain exemptions and exceptions for their interests, from price control laws and regulations of various administrative agencies and those administering them. In particular, we have seen the successful efforts of the farm bloc in obtaining for the Secretary of Agriculture, veto powers in connection with the price administration, where any regulation interferes substantially with the farm program. We are familiar also with the representatives of labor, pleading for themselves special exemptions from control of spiraling wage rates. We have heard little or nothing concerning the one fundamentally important source of revenue and price control in our economic life, namely, the increase of the unearned increment due to speculative holdings in land and realty interests.

I hold that the tendency of prices and wages to increase in times such as these, is dependent upon, if not caused by a monopoly control of the source of production, including the private ownership of land. But whatever may be said concerning this, I think I may fairly establish that any consideration of a check on increase of prices or of wages, has neglected entirely increased increment due to private speculation in land values. Except for the breakdown of the normal laws of supply and demand, the breakdown of our economic market, the price of producer and consumer goods is always offset by the productive capacity of labor in the nation at large, to supply the same or equivalent goods at the market price. Land and land sites are different. Unlike producer or consumer goods, limited only by the productive capacity of labor and capital on one hand and the demand of the market on the other, the supply of land is limited. We are consequently confronted in times like these, with the following factual illustrations.

A company must purchase a large tract of land on which to build a new plant for construction of war materials. The land site lies at a strategic point not far from the company's present facilities, is replete with all requirements for transportation by river, rail and truck, a sufficient labor supply is available as are fuel supplies, power and so forth, and it is the ideal spot for the location of the new plant. The cost of this land, for which there had been no demand in many years, far exceeds its potential value in times of peace, or what it would procure in a normal market. This cost is levied upon

the company and through them, the people of the country and will be paid, for their is no other suitable available site.

Recently a Government defense agency planning the expansion of defense facilities in the northwest acquired options on uplands in the vicinity of the project. It used a party-line telephone to transact part of its business with owners of the land, and found that as it went from farm owner to farm owner, options on land of equivalent value rose in geometric scale, and out of all proportion to the value of the land. Before the job was finished, due to listening on party-lines, options on land of equivalent value had spiraled to 100% more than the asking price of Farmer A. Naturally, the agency resorted to condemnation proceedings.

Take a familiar example, the increase in land values and rents of habitable dwelling space in the District of Columbia, which I think has reached the proportions almost of a national crisis. Rents of housing facilities have increased 25% to 200%. Whereas a habitable room might as late as 1939 have rented for \$20 to \$40 a month, the same room having been cut in two by beaver board partitions, has rented, each half, for the same amount as formerly paid for the whole. It is proverbial in Washington that one does not rent a room, one rents a bed. Demand for housing Government workers has increased the value of land and rentable habitations without regard to any efforts of the owners of land to improve their facilities, or the services rendered in connection with them. The recent District of Columbia Control Bill attempts locally to do what the Office of Price Control attempts to do with commodities nationally. With the increase of population in Washington and other productive defense centers in the country, who can doubt that owners of hitherto unprofitable land in those areas are realizing a yield beyond their greatest expectations, or that shrewd investors and speculators are acquiring interests in land on the outskirts of productive centers, which due to the swelling tide of workers, must inevitably bring that land within the center, at an increment attributable *only* and *entirely* to the pressure of population and the productive economy within the community concerned.

There can be no doubt that a substantial portion of this increased increment due to the speculative withholding of land is due, not to the efforts of the owners of land, but rather to the productive economy of the community in question, the expansion of the population and causes entirely beyond the control of the owners of the land, but of which they are the ultimate and inevitable beneficiaries. Statistical proof is not needed of the fact that speculative withholding of land has resulted in vastly disproportionate increment, particularly in times like these, whether or not, the increment be as much as I suspect it is, and might be dubbed profiteering. It is sufficient if it be recognized, that any attempt to have all of us contribute to the burden of supporting the war economy, must take into account the economic class of land owners and the increment they enjoy. I think it equally clear that any efforts thus far made to devise methods of thus distributing the burden among various classes of our productive economy, namely, productive capital, labor and land-owners, have ignored completely the latter class. This is not in the interests of our democratic way of life, let alone sound economics.

It does not seem debatable that any consideration of the problem of spiraling prices and the question of distributing the burden, should assume procuring for the community the increment on land holdings which obviously the community itself and not the owner of the land directly brings about. The question then remains, "How is this to be done?"

The city of Canberra, Australia, provides a fit example, being possessed of a logical and highly successful system of gathering for the use of the people through the agency of the Government the full economic value of land and land sites. The use of the land is granted to the highest bidder on a mutually satisfactory short-term lease. Should the value of the land increase during the period of the lease, the renter is satisfied with

his very slight saving during the balance of the term, knowing that at the end of the period, the rate will be adjusted and the rent increased, in accordance with the increase of productive possibilities of the site, and knowing also that if he won't pay the increased amount, someone else will, while should the value decrease, his rent at the end of the lease period will be adjusted downward, to conform to the change in production value.

There is no reason why we should not adopt this system of taxation. This system includes ending the penalty for improvement of the rented land, by immediately increased assessments following the erection of a building on the land site, or of any work done on the land with an eye toward improvement. Take the three blocks bounded by Pennsylvania, New York Avenues, 14th and 15th Streets here in Washington. These three blocks comprise in land value, out of a total of some five thousand blocks in the District of Columbia, approximately 3% of the total land value, but the value of the buildings is only slightly over 1% of the total value of all buildings in the District.

Let us hypothecate another simpler situation.¹ Suppose the relative value of land and improvements were as one to one and a tax of 3% of the assessed value applied to each. The revenue to the Government would be the same for each. If the 3% now charged in this hypothesis to buildings were transferred to land value, making the total tax rate on land 6%, there would be no difference in the amount due the Government from the owner of the land, if also owner of the building. However, in these three blocks, the assessed value of the land is approximately twice the assessed value of the buildings, so if the tax were doubled on land and removed from buildings the total revenue would be nearly twice the amount now paid *on both*. At the same time, this amount approximates the full economic rent of the land, variously set at 5% to 6% of the capitalized value of the land.

This in a word is the proposal I make, namely, to tax land to the full extent of the economic rent and remove taxes from improvements. This is the system used in forward-looking Canberra. Why can't we work out such a system?

We are concerned with many problems, prime among which is that of financing the war program. Here is a most fruitful source of potential Government Revenue now retained by individuals, with no outcry from indignant citizens.

Second, we are concerned with inflation, yet we permit this vast, disproportionate unearned increment a free play in bidding for the diminishing supply of civilian or consumers goods.

Third, we are concerned with the crisis developing in productive centers, over lack of habitable dwelling space, yet we permit great numbers of sites to be boarded up, or improved only with "taxpayers" or not at all, against such time as the speculative price demanded by the owner shall be acceded to, in order to satisfy his inflated demands.

Fourth, we are concerned with the post-war situation, yet we do not exhaust the possibilities of insuring against a disastrous period of speculation in land and land values. Fifth, since it seems no possible sleight of hand will enable us to pay as we go, our tax burden after the war, will assume astronomical proportions. Why not tap this obvious source of revenue, the most valuable factor in the post-war production picture?

This is a suggested measure, which if taken immediately, will have far more than a merely fiscal effect. The ethical misconceptions hidden behind the private control of land is, in us, a bad habit of thinking, due to its protective mantle of "status quo." This need not be so. Ending this fault in our tax system would greatly alleviate mal-adjustment in our economic scheme, and make unnecessary useless palliatives, with which we are now dosing ourselves.