TAX FACTS

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THE DISTRIBUTION OF WEALTH

As we gradually slid down into the depression and farmers, merchants and manufacturers found less and less call for their stocks of goods, the first cry that went up was "overproduction." When little children began turning up at school without breakfast, and relief committees called for cast off clothing, it became apparent that overproduction was hardly the proper term for a condition where so many people were inadequately supplied with even the bare necessities of life. The cry was changed to "lack of distribution." It had to be admitted that this is still a very rich country, but the wealth is in the hands of a too small part of the population, hence the trouble is with the distribution, something must be done about the distribution.

What do we mean in political economy by the distribution of wealth, how do we know when it is properly and fairly distributed? Our official "fixers" are making the grave mistake of supposing that the distribution of wealth is regulated and controlled entirely by man-made laws. President Roosevelt, and those who act with and for him, are trying to frame rules and regulations for the distribution of wealth, and they expect these rules to be followed by certain results, which appear to them as the logical consequence. Mr. Roosevelt does not seem to realize that whatever laws man makes for this distribution must be checked or modified by natural law which no legislature can alter or repeal. It is interesting to note that all of these attempts to control distribution are confined to the production of wealth. These well-intentioned gentlemen believe that if they can keep the farmers from planting so much wheat and cotton, if they can limit the hours of labor and establish a minimum wage in factories and business houses, somehow, the products of labor will distribute themselves in such a manner as to bring peace and prosperity to everyone.

The Federal Industrial Recovery Act was designed for the purpose of increasing purchasing power by a more equitable distribution of wealth. On July 9th, President Roosevelt signed the cotton textile code, the first under this recovery act. The President issued a statement commending the textile industry, saying, in part: "In the eyes of the whole public, there was a great conference among the very leaders of our industry, labor and social service, presided over by the government. It considered the most controverted questions in the whole economic problem—wages and hours of labor—and it brought that question to a definite conclusion . . . It (the textile industry) has proved itself the leader of a new thing in economics and government. That took faith and courage and patriotism of the highest order."

It does, indeed, take faith and courage and patriotism of the highest order to attempt a new and untried method of dealing with economic problems. It is most regretable that the science of political economy is so little understood in high places where there is such need for truth and knowledge in this dark hour!

The same press report assures us that President Roosevelt is greatly encouraged by the steady upward trend of industry, but qualifies this statement by saying that the President entertains some fear over the situation, chiefly over the fact that production is outstripping employment and wage levels. "Oddly enough," says the Los Angeles Times, "the excess production is ascribed chiefly to the very method which the President has devised to prevent overproduction. Many industries are being run full blast today by operators who are seeking to pile up large supplies of goods before the high labor costs and production restrictions contemplated in the Federal Industrial Control Act are invoked against them." Even before the Control Act has had an opportunity to start, "it has resulted in the setting up of excessive stocks which the President and his industrial boss, Hugh S. Johnson, are viewing with great distaste. They fear that when the large industries finally are drawn under Federal control, and higher wages and shorter hours are to be enforced, the surpluses piled up will be great enough so that the plant owners will shut down."

The President and Mr. Johnson may well view the situation with surprise, disappointment and perhaps a little chagrin, if the truth were known. Yet, there is nothing strange in the fact that an attempt to establish a balance between production and purchasing power by artificial means should meet with failure. Fortunately, the laws of production and distribution are not dependent on the befogged brains of human beings for enactment and enforcement. They are laws of nature, as immutable as the laws of gravity and the conservation of energy. They will always be here when we choose to recognize them and act with, instead of against, them.

It is difficult for us to see that no matter how complicated or elaborate our modern life may be, the same natural laws are at work in exactly the same way that they are manifest in the simplest life of the most primitive tribe that ever lived. Note the difference in size and structure between the Empire State Building in New York City and the thatched hut of a South Sea Islander. Yet, without adequate support, the roof of the Empire State Building would cave in quite as readily as the thatched roof. You don't change the laws of nature when you replace the wooden plow with a steel tractor, the sailing ship with a modern leviathan of the sea, the rude hut with the fire-proof skyscraper or the oxcart with the ten-ton truck. You don't change the laws, you use them.

That is what we must do with the distribution of wealth—use the natural law that God has provided for that purpose. To understand fully the error that is being made by our government today in its attempt to control the distribution of wealth, it is necessary to understand the underlying principles that govern the production of wealth; and to write a treatise that would cover every phase of this subject, yet confine it to the pages of this little paper, would be like trying to pack an elephant into a nut shell. Houdini might do it, but we confess that we can't. We do want to show, if we can, that in these human laws that have been enacted for the purpose of establishing a fair distribution of the products of labor, no account has been taken of that portion of wealth which is constantly being distributed to the non-producers in society who have no claim to it.

The things that people make with their labor to satisfy human wants are the things that constitute wealth, and the making of them is called production. An article is not fully produced until it is in the possession of the person who desires to use it—the man that we call the consumer. All who handle it or who do anything to help it on its way, artizans, truck drivers, trainmen, stenographers, clerks are its producers. Therefore, transportation and exchange belong properly to production and not to distribution.

If we consider for a moment the activities of a small, primitive group, we find that no question of the distribution of wealth arises. The man who takes a string of fish from the river possesses the fish—and that's that. He angled for them, caught them and they are his. In like manner, the weaver, the potterer, the basket maker owns the blankets or jars or baskets that he has made, but in our state of society where so many people cooperate in the production of pots and pans, we must do a little cogitating before we realize that the right of ownership is still based on production—that is, the thing produced belongs to the producer; and the law of distribution still rests on the right of ownership.

When we ignore this fundamental law and allow wealth to pass into the hands of those who have not labored to produce it, the individuals who did labor cannot receive the full product of their labor. Any form of privilege, a monopoly, a trust, a franchise, a tariff, that allows a man to take more than he has earned, or could possibly earn, either in the form of wages for his labor or interest on his capital, is a form of pilfering that throws the natural distribution of wealth completely out of gear. "Privilege" is the polite term that economists use for what, in common parlance, is called "racket," and if you care to substitute the word racket for privilege, you may arrive more quickly at an understanding of some of the things that are going on in the world about you. Remember, all racketeers don't work in gangs, pack guns and take their victims "for a ride." The vast majority of them are respectable citizens, honored and admired by their fellows. They are racketeers because they are able, through some law, to collect wealth that is not the product of their own labor. The foundation racket, of course, is the land racket. The ownership of land as we permit it today makes it possible for some to take toll of others for its use. In order to use land, those who do not own it must give their labor or the product of their labor.

Every form of special privilege in the country constitutes a leak which permits wealth to flow out of the hands of those who produced it into the hands of someone who did not produce it. To date, neither President Roosevelt nor any of his brain trust (that is a misnomer) has even suggested stopping any of these leaks. These gentlemen expect to obtain a fair distribution of wealth through a few rules and regulations that cannot possibly touch the source of the trouble. Wealth belongs to the people who produce it, and when it is in their hands, it is properly distributed. What they do with it thereafter has nothing to do with this distribution. They may use it or give it away or exchange it, but it must first be in the hands of the producers and not in the hands of those parasites who live on the labor of others.

As Dickens would put it, nothing but the Divine intervention of Providence and the suspension of all natural law could crown with success such plans and proposals as we have before us today.

HARD TIMES

The Bulletin of the National City Bank of New York calls Professor Richard T. Ely "one of the eminent economists of this country, whose works are standard text books, and who in a long career headed the departments of economics of Johns Hopkins and later of the University of Wisconsin." The Bulletin then quotes a paragraph from Professor Ely which is supposed to be his explanation of hard times.

"As our economic life advances, it becomes more and more one of relations. When these relations are disturbed we have Hard Times. It has sometimes been said that we have now all the labor and capital, all the machinery, all the land and all the natural resources that we had during our highest prosperity in 1929; and it is argued that we are just as rich as we were before the crash, and we really ought to be equally prosperous. What is overlooked is that, as our life is one of economic relations, our prosperity depends upon the smooth and easy way in which they work. Unless these relations function properly all the other conditions of prosperity are inadequate."

In other words, if your watch stops and refuses to go, there is something the matter with the works. If the jeweler had no more definite idea about the nature of the trouble in your watch than Professor Ely has of the trouble with our economic machine, you might as well throw your watch out the port hole. The chances are that it will never run again. When we consider that such schools as Johns Hopkins and the University of Wisconsin sanction such silly twaddle as this, it almost ceases to be funny. Anyway, we much prefer the Baron Munchausen. He is just as sensible and far more entertaining.

ALWAYS THE LANDLORD

The Los Angeles Times reports "Development of a strong sentiment in the local apartment-housing industry for a definite movement to advance rentals as soon as practicable, owing to increased operating costs brought about by recent rises in commodity prices." No matter what the excuse, rents would go up when wages increased. They always have and always will as long as economic rent, which belongs to the community, is collected and kept by private individuals. President Roosevelt is trying desperately to boost wages and increase buying power in the hope that better wages will mean more demand for goods which, in turn, will mean more work and better wages. There seems to be a bad break in the circle. As wages go up, rentals go up. The wage earner will not be able to stimulate industry by buying more clothes and food and luxuries. He will give this increase to the landlords of the earth. Too bad, Mr. Roosevelt.

DECLINE IN LAND VALUES

The Commonweal, London, states that the population of England and Wales has declined by over 20,000 during the first three months of 1933. "This decline in population represents a decrease in the annual value of our land of over £250,000. Evidence of this fall in value is to be found in the numerous reports published of cases where land holders have been obliged to reduce rents charged to tenant farmers. It will doubtless also be reflected in lower prices obtained at sales of land in various parts of the country where the demand has not been made abnormal through special circumstances.

"We prophesy a declining interest on the part of landholders in the advocacy of birth control."

The Commonweal attributes this decrease in population to an increase in the normal death rate plus a decrease in the birth rate. Both of these tendencies are natural when living becomes increasingly difficult.

THE FOUNDATION

"No one question will solve the great question of luxury *versus* poverty; but I am convinced that the divorcing of the people from the land is the chief cause of our poverty, misery, excessive sickness and death rate. You might settle many big problems with little effect if the land is still to be privately owned and used to extract blackmail on life. The Press are the tools of the exploiters and will give us no help. If the Labour movement forgot everything for two years and concentrated on getting rid of the greatest burden of all—the land grabbers—we should have a land fit for heroes to live in and heroes fit to live in a free land."—Robert Smillie, *Commonweal,* England.

Americanism: Admitting that values were artificial and everybody crazy in 1929; making desperate efforts to restore 1929 conditions.—Corvallis (Ore.) *Gazette-Times.*

How can the British tolerate that awful dole? In ten years it has cost them almost as much as our annual pension bill.—*Chico (Cal.) Record.*

Of course the Japanese will cheerfully agree not to cross international borders with military forces. They always send a man ahead to move the boundary line.—*The New Yorker.*

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A VALUABLE REPORT

A special committee appointed by the American Institute of Architects to study "Taxation, as related to architecture and the practice of the profession," has issued a twenty page pamphlet that is one of the finest articles on taxation that we have seen. Although it is a report of the economic situation and the tax problem as relates to the profession of the architect, it is a clear and concise exposition of the whole situation in which all industry and economic welfare are affected by taxation.

For the first time, so far as we know, a committee studying the tax problem has taken into consideration the two economic factors, land and rent. Other authorities have passed blandly over the land as if it "did not exist, as if Labor and Capital could produce wealth without access to land."

"A building project," says this very unusual report, "embraces two general sub-divisions—structure and site." It is absolutely necessary to divide land from labor products if humanity is ever to have any relief from the "tax burden" and business depressions. We wish that we might publish the entire report, but limited space forbids. Here are some excerpts that ought to prove thought provoking.

"In connection with every building project, the architect should realize that his client either must have bought or leased a privilege to use some site, or he must do so. The measure of the annual value of this privilege is rent (not to be confused with rentals) which, capitalized usually on a twenty year basis, establishes its selling price. These facts justify attention of architects. They mean, that of the sum available for a building project ,the amount paid for the privilege merely to stand a building upon the ground, reduces by that much the amount possible to put into the building."

The report brings out clearly that site advantages, "access to well-lighted, paved streets, parks, boulevards, schools and libraries,—to water, sewer and light services,—to transportation facilities,—to markets, banks, hotels, theatres, churches, stores and office buildings,—to health, police and fire protection; things necessary to the well-being of organized society," these things that are possible only with the presence of population are publicly created values that make certain locations desirable. "Therefore, the rent he (the landowner) receives cannot, on sound business principles, be owing to him; it must be owing to those who produced the wealth embodied in these public improvements,—the community as a whole. Rent is the public's natural income." This committee points out that when the user of the land pays rent for it to an individual, and then pays taxes into the public treasury, he is paying twice for the same service.

"Upon reflection, the committee is surprised that the average building owner is content, year after year, to acquiesce in payment of both rent and taxes, when it is clear that it is to supply the community with the very things for which he pays rent that he pays taxes."

Attention is called to the evils of land speculation and the effect that it has on the building trade. Land provides employment for the architect only when it is brought into use, not when it is held idle.

"Where a site is bought for speculation, tax payments plus purchase price are the cost of opportunity to gamble. They constitute a bet that population will increase, that those engaged in business will need the site, that people will pay taxes to provide public improvements needed by them,—taxes which add nothing to their incomes but must become a charge against all they do or save, yet add value to the site. If he wins, the speculator will recoup both purchase price and tax payments, with interest, in higher selling price or rent, while users will foot the bill. If he loses, he must pay them from his own wealth, because an unused site produces no wealth from which to pay them.

"A good sport does not cry over the outcome of the risk he takes, and ask those from whom he would have taken winnings, that they restore him his losses, even in part, and others should not be allowed to do so successfully. That, however, is what real estate interests are now asking in seeking reduction, or elimination, of site taxes,—a tax juggling that will increase winnings and lessen losses of speculation."

In conclusion, the report states that further illustrations "of effects of laws governing rent and taxes upon the practice of the profession would tend simply to strengthen the view that, if natural and healthy improvement in architecture is to come, double payment of rent and taxes must cease; a legal stop must be made to private appropriation of public values, and public confiscation of private wealth; the public's rent must be used for public purposes; private wealth left inviolate for private purposes; rent must be collected for government revenue, and all taxation of whatever sort must be abolished."