

CAPITALISM CAN BE SAVED

A PROMINENT Captain of Industry in an address last spring made an appeal "for action now" on behalf of our capitalistic system. It is certainly high time that such an appeal were made in view of the steady drift throughout the world toward various forms of collectivism, all tending toward complete governmental ownership and loss of freedom.

Broadly what our Captain of Industry has to suggest in his appeal is "a plan of action for so improving the effectiveness of our system that it will yield ever-increasing opportunities for more and more of our people." He then adds that before such a plan can be determined, "we should take a long, hard look at our system to find out what makes it tick, what has made it strong, what its weaknesses are and how they can be corrected."

It is right here, however, that our Captain's further suggestions bog down into vagueness and superficiality, and this largely because he centers his attention on questions of cash and credit instead of on the fundamental questions of production and distribution. Furthermore, if he really understood these fundamental questions, he would not take such a pessimistic position as he expresses in the following: "Perhaps you will agree with me that the complexities of the problem are such that (1) it will take the collective wisdom of all of us—government, business, labor, agriculture and the educators—to help us work our way toward our goal and (2) there is no money magic, no one formula or cure for the boom-bust cycle."

Of the first of these suggestions, it can be said that a real study, made without prejudice or self interest by competent persons, would be far more valuable than the pulling and hauling of the various interests named by our Captain. Also, to say that there is no one cure for the boom-bust cycle, is to maintain that because our Captain knows no one cure, there can be none.

By JOHN S. CODMAN
Treas. and Dir., Fabreeka Products Co.
Boston, Mass.

As a matter of fact, there are certain artificial restrictions on production and trade existing in our social order that may well be sufficient to account for the approaching failure of Capitalism. These restrictions are reasonably plain to see and their removal would bring us the freedom we all hope for; but, of which what little we have had, we are now fearing to lose. Unless, however, these restrictions are removed, it is hopeless to expect that anything can be done to save our freedom. What then are these artificial restrictions?

Most conspicuous of all restrictions, though not the most serious one, is our system of raising revenue for public purposes by means of taxation. Of this our Captain says quite properly that our tax system needs "a complete recast." As of today it is based on no sound principles, is completely arbitrary and utterly destructive to the industry of the country. Until however an even more serious restriction is recognized and removed, it is not possible to see to what extent taxation can be abated.

This even more serious restriction of production is to be found in a rather generally overlooked feature of our system of land tenure. The principal feature of that system, however, namely the feature of private ownership of our natural resources and the sites upon which we have our homes and do our business is not necessarily restrictive. Private ownership of land has the merit of giving security from interference in its use to those who hold titles to land, and it acts, therefore, as an incentive to the proper use of their holdings. On the other hand, it should be recognized that the private ownership of land, carrying with it a guarantee of non-interference

from others backed by the full power of the state, is a privilege for which the owner should make adequate payment into the public treasury. For, if this is not done, then the privilege becomes a monopoly by means of which those without land can be exploited and actually deprived of their rights to life, liberty and the pursuit of happiness as guaranteed by the Declaration of Independence.

The remedy is, of course, simple, namely that he who holds title to land should be required to pay in full for the privilege he is granted. It is in this respect, however, that our system of land tenure is faulty. Adequate compensation for the privilege of holding title to land is very far from being required, with the two-fold result that valuable natural resources and valuable sites for home or business purposes can be and are withheld from use, and our governments are deprived of a vast revenue the loss of which can only be made up by means of the destructive taxes which today are levied on industry and enterprise. And this withholding of valuable land from use, for speculative or other purposes, together with destructive taxes are restrictions on production of so serious a nature that it is hard to see how the capitalistic system can possibly be a success while these restrictions remain.

To make Capitalism successful it is necessary to do away with these artificial restrictions. To accomplish this we should require of every holder of a title to a location on the land, that he pay into the public treasury the full value of his privilege, namely, the annual rental value of his location which he secures or can secure from a tenant. On the other hand we should free every title holder from taxes on the development or utilization of his property. Thus we should curb speculation in the value of land titles and, at the same time, free enterprise and industry from the dead

hand of taxation. At present every attempt to utilize a location on the land for business or residential purposes is penalized by taxation, while the withholding of valuable land from use is definitely encouraged.

These simple facts are today largely obscured by our unfortunate habit of lumping together under the term "real estate" two things which are as different as chalk from cheese, namely, land and buildings; and then undertaking to tax them both as "real estate" at the same rate, without any regard to the widely different effect of the tax on the separate parts. While taxes on buildings, and in fact all taxes, are definitely a discouragement to productive effort, the so-called "tax on land value" is not really a tax at all but is instead a partial payment for the privilege of ownership, and as such has no injurious effect on enterprise and industry but on the contrary has the effect of checking the "hoarding" of land for speculative purposes, thus helping industry to secure the locations on the land most suitable for its purposes.

It may be objected at this point that the collection of the full rental value of land for public purposes would not provide adequate revenue to supply

the needs of our several governments, local, state and federal. But even if this were granted to be true, the proposed collection would go a long way toward solving the financial problems of our cities and towns. This has been proved from statistical data in a number of cases but these cases cannot be considered here for lack of space.* We can consider, however, and we should consider more fully the meaning of the phrase, "the rental value of land," and what is the nature of the thing itself. To the economists this phrase is equivalent to the single word "rent." To the real estate men it is "ground rent" and for the purposes of the remainder of this article it will be designated as "location rent," as the more descriptive term. Let us then consider location rent, its definition, why it exists and for what it is paid, in order that we may appreciate more fully the reasons why it ought to be collected into the public treasury.

"Location rent" may be defined as the maximum annual rental value which can be obtained for the use of a location on the land, and the amount of the location rent depends upon the special advantages obtainable on the location in question.

It is next of importance to consider what these advantages may be and by whom they are provided. It may be said that some of the advantages are due to geographical position near a harbor, a river, or a mine; or that they exist because of agricultural fertility, or the presence of minerals or oil in the ground, and hence are provided by nature. However, no location rent could arise because of these advantages unless security of possession were guaranteed by the community through its government, and it is therefore only through government that such advantages can be of practical utility. Moreover, in addition to this community service through its government, as the result of which rent arises, there are a multitude of other advantages which arise from the activity of the community, either directly or through government. Such, for example, are the availability of fire and police protection; telephone, telegraph, light and power service; and the presence of churches, theatres, libraries, playgrounds, parks, etc., all of which are advantages for which rent is paid. From this it is apparent that location rent is a socially created value resulting from community service and varying in amount from location to location according to the amount of community service that is required and is available.

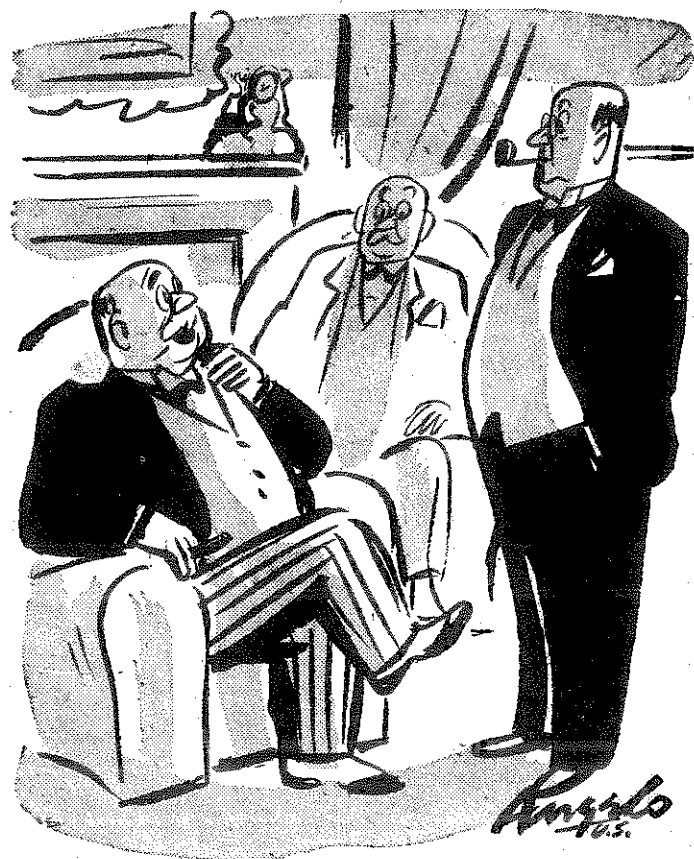
The best location for a department store is at the center of population where exchanges are active and sales are on a grand scale, but such a store needs much community service for which it can well afford to pay. In other words, location rent is high for the kind of site required by a department store. The farmer, on the other hand, does not need community service to an extent at all comparable to that of the department store, but for what service he requires, he is willing to pay a lower rent.

From the above it follows that location rent, being a socially created value, it is only just and expedient that it should be collected into the public treasury. To permit it, instead, to pass in greater part into private hands as we do today, is to permit a misappropriation of public funds to private parties, which practice if continued will leave untouched the double curse of land speculation and taxation.

No! To rectify our social order we are not confronted with any such complexities as are frightening our Captain of Industry. It is mainly a question of ceasing to continue the unwise practices which we now permit.

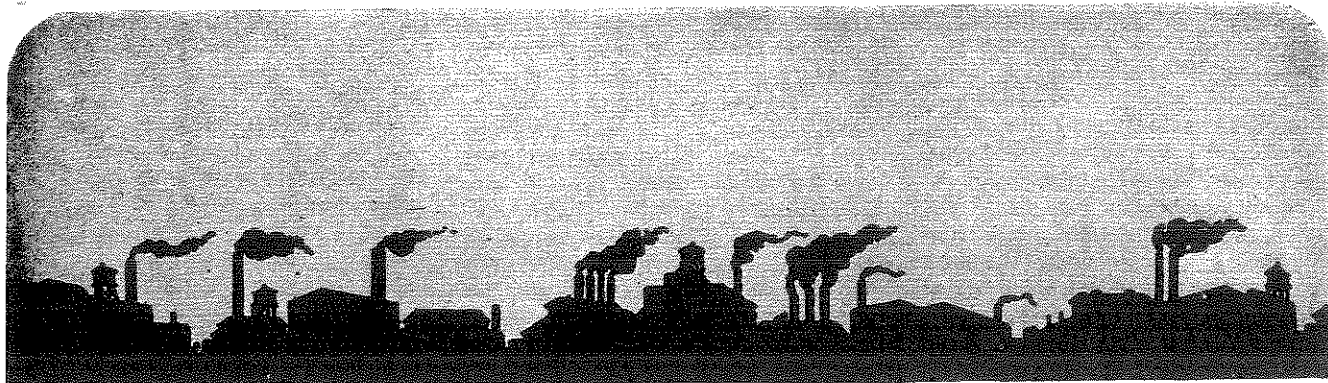
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*See "The Self Supporting City" by Gilbert Tucker published by the Schalkenbach Foundation, 50 East 69th St., New York City; and "Ground Rent, The Natural Municipal Income," obtainable from John S. Codman, 222 Summer St., Boston.



Courtesy Chicago Sun

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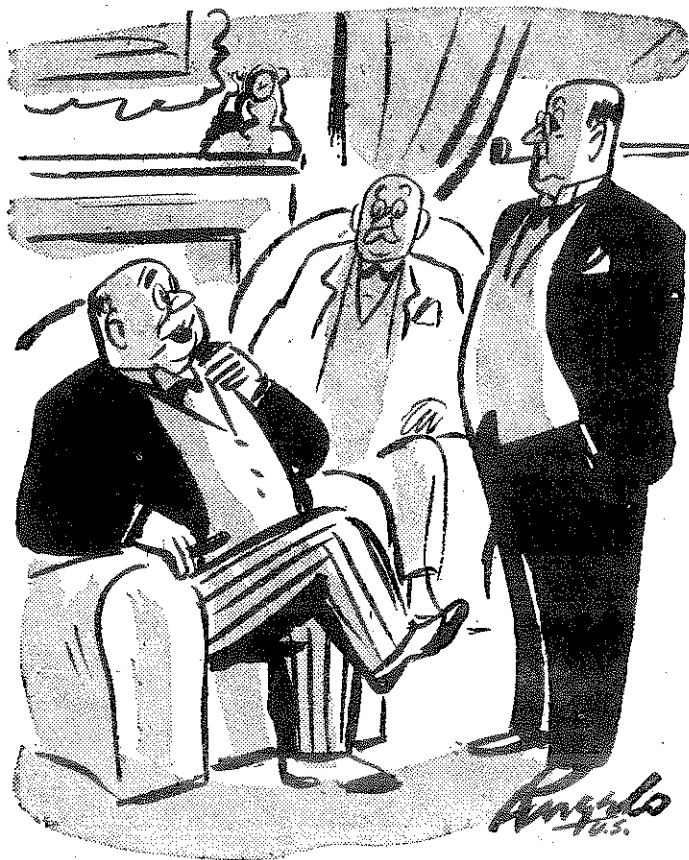
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