

SHALL WE CHOOSE PRIVILEGE

OR

FREE ENTERPRISE

?



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THE war with Germany is won, but the war with Japan continues and is accompanied by a still active demand for labor. Unemployment is at a minimum and wages are high. Yet we all realize that this condition is not permanent and we are filled with dread for a future which may involve us in another business depression and in another period of involuntary unemployment. What can we do to exorcise this spectre is the paramount question of the hour.

There appears to be much pessimism as to whether any answer to this question is to be found under a system of "free enterprise," and as a consequence there are many proposals which involve the entrance of the federal government into the picture either by guaranteeing employment on public works or by compulsory insurance against unemployment. Such proposals, while they may help to allay one spectre, serve only to raise another one, namely that of eventual government control of all industry, and government as the sole employer of labor. The drift toward state socialism is already under way, and socialistic measures are frequently advocated by persons who profess to be, and actually think they are, opposed to socialism.

What then is the reason for the far too prevalent belief that under free enterprise we cannot in peace time have full employment for all those who are willing and able to work? An example of such dreary

beliefs is quoted on the editorial pages of this issue, and is as follows:

"Every businessman who is not kidding himself knows that, if left to its own devices, business would sooner or later run headlong into another 1930."—*Fortune*, June '38.

THERE is good reason, no doubt, for such discouraging beliefs among those who cannot see that business depressions and involuntary unemployment are not natural phenomena, but are the result of man made institutions and laws. Throughout our history we have been cursed with periodic, devastating business depressions and financial panics accompanied by a vast amount of unemployment. Can we truly say that because these troubles arose under a system of free enterprise that free enterprise is therefore a failure and must be abandoned? Is it not more nearly accurate to say that under our institutions and laws, free enterprise has never been permitted to function?

We never have had really free enterprise. From our earliest days there have been legal restrictions on industry which have made free enterprise impossible. To paraphrase a statement from "Private Enterprise and America's Economic Future," quoted editorially in this issue: "The heights free enterprise could reach, if these restrictions were removed, stagger the imagination."

In our early history restrictions

on free enterprise were neither so many, nor so serious in their effects, as they are today, but the principal basic restrictions were embedded in our institutions when they were established, and have since then been followed by a legion of minor restrictions which in many cases are designed to offset certain evil effects which are the unrecognized results of earlier restrictions of a more fundamental nature.

AMONG these minor restrictions there are a number which today may be thought necessary and will remain so until the major restrictions are removed. Such for example are minimum wage laws and other laws, such as the Wagner Act, to protect labor. Then there are the laws which attempt to promote or to regulate competition such as the Sherman Anti-Trust Law, the Robinson-Patman Act and the anti-chain store laws.

These minor restrictions are more than mere annoyances. Too often they result in costly waste of time and labor, but their ill effects are as nothing compared with the ill effects of those restrictions which have become part and parcel of our social order to such an extent that they are seldom questioned and by many are considered to be sacrosanct. But if we are really going to choose between free enterprise and state socialism, the facts must be faced and these major restrictions must be given consideration. What then are these major restrictions?

FIRST, let us turn to the Constitution of the United States. In the fifth amendment to that great document appears the follow-

ing: "nor shall private property be taken for public use, without just compensation." Now there is nothing in these words that seems to indicate that any restriction of free enterprise was contemplated. On the contrary it has all the appearance of an attempt to safeguard industry and enterprise from possible arbitrary exaction by government. But let us turn next to Article One of the Constitution, Section 8, and we find that among the powers granted to Congress is the "power to lay and collect taxes, duties, imposts and excises." How does this comport with the fifth amendment as above quoted? Taxes are supposed to be collected by government as payment for services rendered by government, but can it be said that taxes as levied today by our federal, state and municipal governments on the various taxpayers, individual and corporate, have any relation to the varying services rendered to each of such taxpayers? Is it not true that the only principle that purports to be the basis of our taxation system is the principle of "ability to pay," and that in practice even this principle is abandoned for the principle of "getting where the getting is good"? Such being the case, is it not true that taxation as levied today represents the taking of private property for public use without just compensation?

EVEN the definition of taxes as given in the standard dictionaries indicates that they are not expected to bear any relation to the services for which they are supposed to be a payment. According to Webster taxes are "a charge or burden, usually pecuniary, laid upon persons and property for public purposes; a forced contribution of wealth to meet the public needs of a government." Such being the case, taxes become, as is generally recognized, a major restriction on the industry of the country and a stupendous obstacle in the way of securing free enterprise. But what can we do about it? Is there any way of raising revenue for government purposes which will require contributions only in proportion to services rendered and will thus make these contributions no longer a burden but a payment for advantages received?

Probably there is no way of accomplishing this result completely and accurately, but we can go a long way toward such a goal when we come to realize that there is a fund

the value of which results from community activity, including the acts of government, and that it should therefore be collected into the public treasury for the benefit of all. At present this fund is collected by private parties who are permitted to keep the major portion of it for themselves, thus forcing our governments to levy taxes and therefore, to restrict industry. What is this fund?

TO answer this question let us first ask another one. When a tenant occupying a location on the land pays the rent for the location, for what advantages or services is he actually paying? It will be noted that we are speaking here only of the rent of the location, call it the "location rent," which does not include any rent paid for the use of a building or other product of labor supplied by the owner of the land.

This location rent is paid solely for the advantages of the location and these advantages, as we all know, may vary enormously as between one location and another. In part these advantages may arise from natural conditions such as agricultural fertility, favorable climate, potential water power, coal or oil or minerals in the ground, a proximity to a harbor, a river, a forest, etc. None of these advantages, however, is of any value unless there is a population to exploit them, and they will not result in location rent unless there is a competitive demand for such advantages.

It is the presence of population, therefore, which gives rise to location rent and its amount in any particular case depends upon what the population has to offer at the location in the way of community services, including those of government among which is the guarantee of security of tenure. Location rent then is a value which can properly be claimed and should be claimed by the public, not as a tax but as payment for public services.

TO whom however does a tenant pay the location rent? Does he pay it to the public? No, certainly not! He pays it to a private party, namely the holder of the title to the location, and the latter under our laws is under no obligation to pass it on to the public but has the privilege of appropriating it for himself, subject only to a possible tax on the assessed market value of his privilege. This market value of a privilege is usually thought of

as "land value," but it actually is nothing otherwise than the premium which the holder of a title to a location can obtain on the sale of his title, because of the privilege accorded to him of appropriating a part of the publicly created location rent.

As already indicated the failure to collect this fund (location rent) in full into the public treasury forces our governments to levy taxes and these taxes are one of the major restrictions on industry. They are not, however, the only ones. There are others which result from the same cause, namely the private appropriation of the location rent. One of these is so-called "land speculation" which is a precursor of all our business depressions. It is actually speculation in the value of the privilege described above, and is grievously restrictive to industry, leading directly to the withholding of valuable land from its proper use.

Still a third major restriction results from the same cause. Whenever a would-be user of land wishes to purchase a location for industrial purposes he must first pay the premium that goes with the title, and therefore, just so much less of his resources are available to be used as capital in the carrying on of his business.

TO summarize there are three major restrictions on industry, all three of which are the result of the same cause, namely the granting of a privilege for inadequate compensation. When we are prepared to demand full payment for privilege we can have free enterprise. Until that time it will remain but a dream, and the drift to state socialism will continue with ever increasing speed.

Full collection, for the benefit of the people, of the vast location rent fund, will make possible a huge reduction of destructive taxes, will destroy land speculation completely and will open up the land for use by lowering the price of sites.

At present only our municipalities collect any part of the location rent. They do this by means of that part of the "real estate" tax which is levied on "land value." Our federal government collects none of it, but gets all its revenue in the hard way by means of taxes which are injurious in their effects and are extremely costly to collect.

Shall we continue to maintain privilege, or shall we prefer to establish free enterprise? The choice lies with us.