

WHY NOT TRY Liberty?

by
John S. Codman

"A fundamental of an effective peace is the assurance to those men who are fighting our battles, that when they come home they will find a country with an economy firm enough and fair enough to provide jobs for all those who are willing to work. I am certain that private enterprise will be able to provide the vast majority of those jobs."—President Roosevelt.

THERE is certainly reason to believe that after the war, as in the past, most jobs will be in private enterprise. However, what reason is there to suppose that after the war there will be jobs for all those who are willing to work? Involuntary unemployment has always been chronic in our social order, and at times of panic and business depression it has been terrifically acute. Why then does the President expect that it will be different after this war? Will it be brought about through a wider control of industry by government, or will it come through a lessening of the restrictions on private enterprise which have existed throughout our history and have culminated in the "New Deal"? In other words, will our next step be still further away from liberty, or shall we move to make our liberty more nearly complete?

The American people have chosen representative democracy as their form of government, but it is clear to all that the social order as at present established is very, very far from being satisfactory. Many are the ideas which are suggested to improve



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it, but in nearly all cases their advocates are proposing a government "planned economy" giving more and more power to the State to direct our lives and to dictate to us what we must or must not do. All such plans mean loss of liberty.

The business man's fear of such plans has been recently expressed by Mr. William P. Withrow, Retiring President of the National Association of Manufacturers, in these words:

"The business man is not afraid of the word, 'planning.' . . . But business is perturbed over the sort of planning which looks to Government as the financing instrument and architect of prosperity, which calls for a permanent program of large-scale Government spending to provide employment and buying power."

Generally speaking, those who advocate the numerous collectivist plans for the control of the individual by the State, have reached the conclusion that liberty is something which has been tried and found wanting, and so cannot be a remedy for an unsatisfactory social order. Therefore, they believe that control by the State must be substituted. It is not that they definitely repudiate liberty as the dictators have done. On the contrary they still claim to believe in it, but they do not trust it very far. They perceive that in spite of the fact that the per capita productive power of the United States is ample to provide material comfort for all, nevertheless the phenomenon of involuntary un-

employment, with all the misery it entails, is always with us in peace time, while in war time it is the major threat to a satisfactory post-war condition. They realize also that there is a great mass of underprivileged citizens, and that before the war one-third of the people were ill-fed, ill-clothed and ill-housed, as the President has pointed out. Therefore, if these things are, as they think, the results of liberty, then in despair of liberty they turn to the State to do the planning for the future and in its wisdom to provide for all.

BUT there are those who do not believe that liberty must be further restricted in order that unemployment, under-privilege and wretched living conditions may cease to be. On the contrary, they believe that only a very limited liberty exists today, or has ever existed, in the United States. So what they ask for is not less liberty, but more, and they venture to suggest that the social maladjustments under which we live are the direct result of our failure to realize the essential economic prerequisites of liberty.

It is safe to assume that the great majority of Americans believe today that the principles of liberty enunciated in the Declaration of Independence are the principles upon which this nation was founded, and must continue to be accepted if the nation is to endure. As stated in the Declaration these principles are as follows:

"That all men are created equal; that they are endowed by their Creator with certain inalienable rights; that among these are life, liberty and the pursuit of happiness."

There is no need to suppose that the authors of the Declaration were so naive as to have meant by the words "all men are created equal" that all men were created with equal ability, nor do most Americans believe anything of the sort. To them the Declaration is simply the statement of the natural rights of every individual to his life, to his liberty and to an equal opportunity to enjoy his liberty.

There are those who contend that there is no such thing as a "natural right." No attempt will be made here to argue this somewhat metaphysical question. It is sufficient to say that if there is no such thing as a "natural right," then it seems impossible to imagine any basis for a social order that can be either just or workable. On July 22, 1941, Mr. Sumner Welles expressed himself as convinced:

"That no peace which may be made in the future would be valid or lasting unless it established fully and adequately the natural right of all peoples."

Without argument, then, the Welles statement of the natural rights of the individual is assumed as the basis of what is to follow.

The liberty of the individual, necessarily has one limitation, which is that it shall not extend to interference with the liberties of other individuals. Freedom to murder and to rob forms no part of individual liberty, nor does freedom to use force, for any other purpose than for the defense of liberty. Therefore every organized group of individuals, a city, a state, or a nation must restrict in many ways the freedom of its individual members in order to secure true liberty for all its members. Some sort of control of individual conduct becomes necessary, and for this purpose, as stated in the Declaration of Independence, "governments are instituted among men, deriving their just powers from the consent of the governed."

WE CAN now turn to the consideration of those economic factors in the social order which are essential to individual liberty under any form of government. What are these prerequisites without which we must fail to secure the liberty which the Declaration of Independence promised, and what are the economic consequences that must follow the failure to insist upon them?

In order that each individual may enjoy the right to life, the right to liberty and the right to an equal opportunity to enjoy his liberty, the following economic rights must be accorded him.

1. The right of access, on equal terms with every other individual, to the resources of nature and to a portion of the surface of the earth in order that he may work and live.

2. The right of ownership in the products of his labor, including the right freely to exchange his products for the products of other producers, be they fellow citizens or foreigners.

As between states these rights gained substantial recognition in the now famous "Atlantic Charter," the joint declaration of the President of the United States and the Prime Minister of His Majesty's Government, in these words:

"They (their countries) will endeavor, with due respect for existing obligations, to further the enjoyment by all states, great or small, victor or vanquished, of access, on equal terms, to the trade and to the raw materials of the world which are needed for their economic prosperity."

Is it not even more important to further the enjoyment by all individuals, in all countries, of access on equal terms to the trade and to the

raw materials of their own countries? How does Mr. Wendell Willkie answer this question? In his book "One World," page 79, he writes as follows:

"When we talk of freedom and opportunity for all nations, the mocking paradoxes in our own society become so clear they can no longer be ignored. If we want to talk about freedom, we must mean freedom for others as well as ourselves, and we must mean freedom for everyone inside our frontiers as well as outside."

At first sight it may seem that the institution of private ownership of land is a violation of the first of the essential economic rights presented above. It would, however, be unwise to jump to such a conclusion. It would be better first to inquire as to what may be the justification and the advantages, if any, of the institution of private ownership of land, and then to consider how, in co-existence with it, the right of the individual is, or can be, preserved.

Private ownership of land originates almost universally as a grant from the State which confers upon the so-called owner the privilege of monopolizing a specified portion of the land in the community. Although in strict legal theory the State (in England, the Crown) remains the landlord and the owner is merely a tenant in fee simple, this tenancy gives unlimited and rent-free control of the land in question backed by the full power of the State. Such being the case, two questions arise, first, why should the community grant such a privilege, and second, what should the community expect to receive in payment for the privilege, if granted?

The soundest reason, and perhaps the only reason, why the community should grant title to land to any individual or group, is to secure the user of land from interference by others, or in other words to secure for him the second prerequisite of liberty, the right of the producer to his product. Since, however, this guaranteed freedom from interference represents a valuable privilege, it would seem to be clear that the title holder should pay to the community what the privilege is worth in order that the rights of others may be protected.

As according to the principle of law enunciated above, every land owner is in fact a tenant of the State, the simplest method of securing this payment for the privilege of ownership would be for him to pay rent to the State for his location. This, however, is not the practice in the United States. Instead of granting title and securing payment for the privilege accorded, it has been our practice

from the beginning to recognize titles to land, not as privileges which should be paid for, but as property rights for which no payment to the State is required. It is true that land owners are required to pay "real estate" taxes, but these are not demanded as payment for a privilege. They are simply compulsory contributions usually based on the theory of ability to pay, with no realization that a monopolistic privilege is involved. Such taxes are levied on assessed valuations of buildings and improvements as well as on assessed valuations of locations on the land, and it may be that on well improved property the taxes will exceed the rental value of the location, while on unimproved property the taxes will be far less than the rental value.

Before we can appraise the effects on our social order of this practice of securing government revenue from land owners by means of "real estate" taxes, instead of by the collection of the rental value of their locations on the land, it must be understood just what is meant by "the rental value of location" or more simply by the brief term "rent." As used in the writings of economists generally, the term "rent" means solely such rent as can be obtained from a tenant for a location on the land. It definitely does not include rent for the use of buildings or other improvements on the land. So defined, rent is often called "ground rent."

With this understanding of what rent is, we have next to consider why it is that a tenant is willing to pay it. Obviously, for any particular location, it must be for certain advantages which the tenant expects to find there. In part these advantages may be supplied by nature such as agricultural fertility, favorable climate, potential water power, coal or oil or other minerals in the ground, or proximity to a harbor, a river, a forest, etc. None of these advantages, however, are of any value unless there is a population to exploit them, and they will not result in rent on any location unless there is a competitive demand for such advantages. It is the presence of population, therefore, which gives rise to rent, and its amount in any particular case depends almost entirely upon the services of the community which are available at such location.

Among these community services are some that are usually the direct services of government, such as national defense, police and fire protection, water supply and sewers, maintenance and lighting of streets, public

schools, public libraries, etc. Other community services are usually available from public service corporations, such as transportation facilities, light and power service, and telegraph and telephone service. Also there are community services available which arise from the private activities of the community. Among these are schools, churches, theatres, hotels, restaurants and much else.

Rent is much higher for those locations where a high character of community service is required and is available, which usually is the case where the population is the most dense and the most active. For example, a department store must have a location which will be convenient for a large number of people. It must have well lighted streets, good transportation service, traffic control, light and power services, etc. Also prompt police and fire protection must be available. For these advantages a high rent per unit of area will willingly be paid. On the other hand, a location which would be satisfactory for farming purposes does not need to be easily available to many people, nor does it require so much community service. Its rent, therefore, per unit of area will be much less.

From the above it follows that rent (call it ground rent, location rent, public-service rent or community-service rent, whichever the reader may prefer) is not due to the action taken on any particular location, but is the result of the advantages and services available at the location arising from the activities of the public around and about such location, both near and far. It is, therefore, a value which can be properly claimed only by the public.

Considering now the position of the user of a location paying rent to a title holder, it is plain that the competition of the market will oblige him to pay the full rental value, or in other words he will pay in full for community service. Instead, however, of paying the community for the service the community renders, the tenant makes his payment of rent to the land owner.

It is necessary to pause here for a moment to point out that the true measure of the value of any location is the rent that can be obtained from a tenant, not the price for which the location will sell. The latter is mainly determined by that portion of the rent collectible which the title holder can keep for himself. If the community, through its government, takes some of the rent in the form of a tax or otherwise, then the price of the

location will not be as high as if all the rent were retained by the title holder.

In fact, the price of the location is approximately the amount of the rent retainable by the title holder (his net rent) capitalized at the current rate of interest. If, for example, we assume that the current rate of interest is 5% and the full rent of a particular location is \$1,000, then the table below indicates what will be the approximate prices of the location for different amounts of net rent.

ASSUMED TAX	NET RENT	PRICE
None	\$1,000	\$20,000
\$ 200	800	16,000
375	625	12,500
500	500	10,000
1,000	0	0

Now the significant fact indicated by the above figures is that, if a location has a selling price, such price is approximately the price of the privilege accorded the title holder to collect the socially created rent and to appropriate some or all of it for himself. That, in the United States, he usually is permitted to appropriate more than half of the rent, is explainable as follows:

If we assume a tax rate of 50 in \$1,000, that is 5%, we can see from the table above, which assumes an interest rate also of 5%, that, when the price is \$10,000, (assumed also as the assessed valuation) then the \$1,000 total rent is divided equally between the title holder and the tax collector, \$500 to each, that is to each 5% of the price of \$10,000. But 50 in \$1,000 is an abnormally high tax rate. Probably as an average of municipalities it is very considerably less. If, for instance, we assume a tax rate of 30 per \$1,000, that is 3%, we have as shown in the table above, a price of \$12,500, assumed also as the assessed valuation; and a tax of 3% of this figure, namely \$375. This means that, out of the rent of \$1,000, the community secures only \$375, leaving to the title holder, as his net rent, \$625 or 62½%.

IT is safe to say it is a nation-wide practice to allow the title holder to appropriate at least half of the rent, and in most cases considerably more than half. What now are the consequences of this practice? In particular, there are three, all of which are restrictive of industry and are, therefore, a discouragement to employment.

The first and most obviously evil consequence is of course that our various governmental bodies municipi-

pal, state and federal, in failing to collect the greater portion of the vast rent fund, are forced to make up the deficit by means of a multitudinous variety of taxes, destructive to the incentive to produce, vastly expensive to collect, and in direct violation of the right of the producer to his product.

A SECOND evil consequence of allowing holders of titles to land to take for themselves the greater part of the socially created or community created rent fund, is the encouragement to the holding of titles, not for use, but for speculative purposes. With the prospect of higher rents in sight on account of some expected community improvement or activity, and having to pay as taxation only a comparatively small proportion of the current rental value, the title holder of unused or inadequately used land will often refuse to sell or rent to a would-be user except at an abnormally high price, and if that price is not obtainable immediately, he will continue to hold his land unused in the hope of securing his price at a later date.

Here we have the situation of a would-be user of a location on the land forced to pay an abnormal rent to the title holder, or to forego its use altogether. Furthermore, in boom times abnormally high rents will be paid in the belief that the boom will continue, but sooner or later the effect of the abnormal rents is to check production, and as a result to reduce employment and hence purchasing power. This still further checks production. Finally as this situation begins to be apparent, collapse of the boom and panic follow with depression and wide-spread unemployment.

At the present moment the tremendous activities and expenditures of the federal government in the prosecution of the war are creating huge increases of location rent in many places, especially around the military camps, the war material factories and at the seat of the federal government in Washington. But these increases in rent, the direct result of government activity in the war, are not being garnered into the public treasury. Instead they are appropriated by the location owners. Or, if rents have been "frozen," that is if fixed at the current rate as a maximum, by government decree, then, instead of the owners, it is the present tenants who are appropriating the increased rents which others would willingly pay.

Rents should not be frozen. Their natural increase due to the war effort

should be permitted, but the increase should be taken to help finance the war and thus to relieve the burden of taxation.

As previously pointed out the selling price of a title to land represents the value of the privilege of collecting and keeping a part of the rent. Such being the case, the greater the proportion of the rent which the title holder is permitted to keep, the higher is the price of the title. Here then is still a third evil consequence of permitting the title holder to collect and keep that which properly should be taken by the community. For the buyer of land for commercial or res-

A. Our government will need immense revenue after the war.

B. Heavy taxes on business profits may cripple our economy drying out the reservoir of our national income.

C. What to do, how to raise the needed Federal income—?

Mr. Codman offers a solution.

idential purposes must first spend a large proportion of his financial resources on the purchase of a location, and the greater this proportion, the less is left to spend on the building or other improvements.

VICE-PRESIDENT WALLACE in his address before The Free World Association on May 8, 1942, said:

"But I believe that here in our own country we will continue to find the best expression for our own and the general good under a system which will give the greatest incentive and opportunity for individual enterprise."

Can we, however, expect "the greatest incentive and opportunity for individual enterprise" under an economic system which permits the State to confiscate the property of its citizens in order to make up the deficit resulting from the practice of giving away to private parties the bulk of the socially created rent?

The first thing for us to do is to change these conditions. Until we do so, we have not really tried liberty and, until we do try it, we are wasting time in considering any form of collectivist action involving greater power to government.

The necessary step to be taken to secure true liberty, and "the fundamental of an effective peace" through private enterprise, as envisioned by the President, is to establish the socially created rent as the main source

of government revenue. Such a step will permit a tremendous reduction in taxes, and will also mean an enormous saving in administrative labor and expense. Bureaucracy will be greatly reduced, together with government prying into what should be private affairs. Then also will be eliminated a vast amount of unproductive labor by the taxpayers and government officials in making out and checking complicated returns and reports.

There can be no excuse for the violation of the right of the producer to his product, by taxes on buildings, on personal property, on incomes, on gifts, on payrolls, on sales and exchanges, or by means of tariffs and other trade restrictions, unless full collection of rent (location rent) is found to be inadequate. The rent of land belongs to the people. It is the first duty of government to collect it. Unless this is done, destructive taxes must continue to be levied; and high selling prices for locations on the land will continue to prevail. Land speculation, resulting in the withholding of valuable land from use except at abnormally high rents or prices, will continue to restrict production, and to such an extent at times as to become the primary cause of financial panic, business depression and wide spread unemployment.

Under such conditions, jobs for all are impossible. If, however, our governments will collect the natural revenue of the people, namely, the rental value of location, and thus are able to remove the handicaps to industry and the restrictions on trade, what reason is there to suppose that there will be any limit to the number of jobs that will be found in private enterprise?

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At this point the reader, who has followed the argument, may want some practical suggestion as to how our governments should proceed to "collect the natural revenue of the people." To go into this administrative question in detail would unduly increase the length of this article, which has aimed to establish the principle of the collection of location rent for public purposes and the reduction or abolition of taxes. This much may, however, be said here, namely, that the first action to be taken would be for the States of the Union to require, or at least permit, the cities and towns, within their borders, to raise their revenues by the collection of location rents instead of as now by taxes on real estate and personal property.