

PRACTICAL BENEFITS

THE immediate effect of confining government to its proper sphere, and of meeting its expenses in a just and rational way, would soon be evident in reduced public expenditures and in relieving the crushing burden of taxation. If taxation were imposed in a way that would stimulate production instead of stifling it, earnings of all labor of both brain and brawn, and whether received in pay envelopes, salary checks, professional fees or in the direct product of one's own labor, would be materially augmented. Men toil for the reward which labor brings, and if taxation no longer absorbed a large part of the product, greater incentive would mean greater production.

Bringing land now half used and idle into efficient utilization will broaden opportunities for employment. To the city man, unaccustomed to thinking in terms of land, this may not at first be apparent, but he will profit quite as much as will his country cousin. We may not all betake ourselves to rural acres, but it is human nature to hanker for one's own vine and fig tree and unquestionably there would be a drift back to the country, though many continue to earn the larger part of their livelihood in cities. Not a few would turn back to the farm in earnest, were the farmer no longer confronted with shrinking markets and mounting living costs induced by tariffs. Our schemes of equalization, substituting political manipulation for natural forces, are an admission of the difficulties with which the farmer con-

tends. Were these injustices eliminated, his earnings would be commensurate with those in other callings. The exodus from the cities would lessen competition for both homes and jobs in congested centers, making life easier for those remaining. On this we can only speculate, so we pass it over to see more concretely how the city man would benefit. Today great areas in even our largest cities are idle or occupied by obsolete structures. One observer estimates that land on Manhattan Island is used to only about a quarter of its potential possibilities, because of a tax plan which makes efficient use profitless.

The way in which the tax burden can be transferred from building to site values depends on the relation of the two values, for the higher the former are, relatively the greater must be the increase in land taxation to cover building exemption. This ratio varies widely in different cities, but to arrive at true land value correction is necessary. Assessments reflect only value to the owner and to these must be added the equity already lodged in the city as a source of tax revenue. With this correction, land and building values are generally approximately equal, and when such is the case we must double collections on land to offset the untaxing of the improvements, and tax bills of individual properties would rise or fall according to which is the greater, building or site value.

If the tax rate is three per cent, a lot worth a thousand dollars pays thirty dollars a year, and if we build a ten-thousand-dollar house, the tax bill soars to three hundred and thirty dollars. The owner has a choice of three courses: first, he may have courage and build, but if tenants cannot pay enough to leave a fair return on building costs after taxes are met, he will be out of pocket; second, he may hold his land idle, retarding the development of the city and doing nothing to meet housing needs, taking his chances of

future "unearned increment"; or, third, he may, and often does, quit paying taxes and forfeit his holding, in which cases he loses and the city is saddled with unsaleable property which yields no tax return whatever—a common enough situation.

Under the proposed plan, the owner's tax bill would not be increased a single penny by building, remaining at sixty dollars, whether the lot be occupied by a skyscraper or by dead cats and billboards. If today the tenant can pay on a nine per cent basis to cover three per cent for taxes and six per cent which we assume is necessary to induce building, a gross return at nine per cent will net at that rate to the owner, increasing his income by one-half and giving incentive to building. More houses will go up, business will boom, unemployment will vanish and many will no longer live in habitations scarcely fit for swine. However, if tenants cannot pay at this rate and the house is vacant, as are many houses today, the landlord can cut his "rents" by a third, fill his house, and derive a satisfactory six per cent return.

In practice there would be an averaging: "rents" would fall, houses be filled and returns to owners so increased that new construction would result. We quote "rents," for much of what we call rent is not true rent paid for the use of land, but interest on capital in buildings, fixtures and perhaps furniture. The distinction is evident if we build on leased land with borrowed money—and many of our greatest buildings are erected on such a plan—for then we pay rent for the land and interest on building costs, and the situation is not altered when the same man plays the double rôle of landowner and capitalist.

To the owner of the modest home there would be very real gain, for the ratio of house value to site value is far broader on such properties than on great buildings and

elaborate mansions. For example, an office building worth two millions stands on a site worth one million, and a workingman's house worth three thousand dollars stands on a three-hundred-dollar lot. Both owners profit by the elimination of the tax on the larger item, though it is doubled on the smaller, but the gain to the house owner will be relatively larger: his tax bill will be cut by four-fifths, while taxes on the office building will be reduced only a third. Both will save and—believe it or not—careful studies in many cities indicate that the diminished tax return from these two properties will be balanced by the increased taxes on slums, vacant land, and similar holdings, the owners of which, often in dire straits today, will, however, find it possible to protect themselves by erecting much-needed, untaxed, and, therefore, profitable buildings.

Were the government to collect the full ground rent, which does not include the false rent on buildings, a paradox would be presented, but one not so contradictory as it looks: land values would go down, and true rents, collected for the good of all, would go up. The value of land, the price at which it is held, is the net return to the owner, capitalized at the prevailing rate of interest. If money is worth six per cent, a lot which yields sixty dollars a year, after taxes are met, is valued at a thousand dollars, but occupancy costs the tenant ninety dollars. Actually the lot is worth fifteen hundred dollars, a thousand to the owner, who gets sixty dollars in return, and five hundred to the state, which collects thirty dollars. Were all taxes remitted, the owner would hold it at its full valuation, for he would pocket all that the tenant pays. But the process of valuing is not so simple, for owners often capitalize not only present returns but also future hopes, and speculation enters the picture. In the wild Florida days the absurd prices at which land changed hands had no relation whatever to present yields

but were based wholly on foolish dreams of what the future might bring—and didn't! And today, with taxes virtually prohibiting all improvement and development, they often obliterate use-values, putting all the emphasis on speculation; so, in resulting confusion, land values, which should be about the most stable with which we have to deal, are often as uncertain as picking a winning team. No wonder there is wide and wild fluctuation, bringing large unearned gains one day and ruin the next. Were taxes to absorb all ground rent, the sales price of land would fall theoretically to zero, but the value of buildings and tenure would be greatly increased. We would care little about outright ownership but leasehold would become increasingly desirable. True rents, the values attaching to use and occupancy, would rise and become an increasing source of revenue to be redistributed to all in the services of government.

The effects on capital will be the same as on labor, and its return will increase just as will wages, for interest is as truly the reward of labor as is a wage. Man is a tool-using animal and capital is that portion of wealth which is conserved and applied to future production, instead of being used up in the satisfaction of today's desires. We have a choice in the disposition of what our toil produces: we may consume it or husband it. The farmer may eat spring chickens or he may raise them, to add to his capital in the form of a laying flock. He may grind his grain or save it for seed, but he cannot have it both ways. The chickens he eats will never lay eggs nor will grain baked into bread ripen into next year's crop. The executive may take his pay in a salary to be spent today, or in stock increasing future income but meeting no needs of the present.

Disregarding capital, production is divided between rent to the landowner and wages to the producer, but in accumulating capital there is a third factor in production, of sec-

ondary nature and derived from the primary two. If the worker elect to receive that deferred, prolonged, and generally greater return which we call interest, he must forego spending, for he cannot save and invest funds used to meet current needs. If stockholders plow back into a business all the earnings, they will have no dividends to support families and run yachts but they will build a future income. Our choice depends largely on the necessary calls of today, for often all must go to the butcher and baker, leaving nothing. Often decision is influenced by unconsciously weighing the rates of wages and probable interest levels, and our choice determines whether we and other men shall labor in what we call consumption trades or in capital industries.

The untaxing of buildings would increase materially the interest earned by capital in houses, and might, for a time, throw that return out of balance with the earnings of carpenters and bricklayers. This would soon right itself, for if the return on building investment rose to nine per cent a flow of money now idle would be immediately attracted into construction. There would be increased demand for labor, the unemployed would have jobs, and wages would rise, nor would the effect be confined to the building trades. Steel, brick, stone, lumber and all that goes into building would be required; factories making heating, plumbing and electrical equipment would thrive; wall paper, paint, and furniture would be in demand, and the transport of these things would react on railroads, highway building, and the motor industry. Houses must be serviced by streets, water supplies, sewers, transit systems, and utilities, and they must be insured, with benefits reaching through all industry. Again, labor would be in demand and wages would go up.

Both theoretical reasoning and experience show that wage levels and interest rates rise and fall together, not immediately or in each specific case but generally. In good

times both are high and in times of depression both suffer. The effect of capital is to add to the efficiency of labor, increasing its production and therefore its potential earnings. High wages make the use of capital profitable by saving labor, and high interest rates lead to the production of more capital, creating demand for labor in its production. Each helps the other. There are, of course, passing discrepancies, but their effect is not to throw men out of employment, but only to divert labor from consumption to capital trades, or vice versa, according to whether wages or interest are relatively the higher. Notwithstanding common impressions, there is no real conflict between capital and labor: their cause is one, with relations mutual and reciprocal, for both are true producers. The opposition is between these two on a united front and landowners receiving rent. It is simple arithmetic: the less the landlord takes the greater will be the balance to be divided between the producers in wages for current production and interest on past production. Rent there must always be, for it represents the difference in the relative desirability of different holdings, but discussion of the law of rent has no place here. The vital point is that if it is collected by government it will be returned to all in public services and meet the heavy costs now imposed on industry and on productive labor. Were we to see this simple truth, we would soon have an end of labor wars. Producers would unite to regain the full enjoyment of what is justly theirs and it would be only the dog-in-the-manger who persists in refusal to do anything for himself or for the common life who would suffer.

Confusion of capital with land leads to costly mistakes. It is a common practice in accounting to lump together these totally diverse things, and many who imagine that they are deriving interest from capital and earnings from manage-

ment actually draw their income from rent. In one case, a business man, coming to understand true relationships, found that what he imagined was profit from his business was actually income from land. Disentangling his receipts of rent, wages and interest, he found that all his profits accrued from his valuable location. Selling his realty and investing the proceeds, he found himself in possession of increased income without the hazards and grind of business.

Since capital is nothing whatever but the tools of production, the implements of the farmer, the sewing machine of the seamstress, and the kit of the mechanic are capital and their owners are as truly capitalists, though in a small way, as is the Wall Street magnate. If a man owns a thousand machines and lets them out surely he is a capitalist and just as truly is the little fellow who uses his own capital. The income of the well-equipped worker is made up of two components, wages for labor and interest on capital, for, if he lets his tools to another, his wages are no greater than those of any other unequipped worker. By every criterion interest is justified: it is the reward of labor, enjoyed only at the cost of doing without today. This apparent digression may make clear why both labor and capital would profit.

Real estate taxation is emphasized because it offers a good illustration of these principles in a situation calling loudly for relief. A difficulty is sometimes seen in differentiating between land and improvements, but this is no great problem: the two values are often unscrambled today by separate assessment and it is often worked out in the case of leased farm lands. Indeed, the matter of assessment is a strong argument, for the value of land is far more easily reached, especially with speculation eliminated and use-value restored, than the value of anything else. Land cannot be concealed: it may be seen, measured, and appraised by anyone and disparities in assessment are glaringly ap-

parent, leaving little room for discrimination or even for honest error. Surely it is easier to appraise than the value of houses and furniture or the contents of safe-deposit boxes or to determine and define real income. Men are fallible and sometimes corruptible, and inequities will persist, but they would be far less frequent than they are today.

Economists agree that land taxes are direct taxes, coming positively and finally out of the pocket of those who pay and not to be re-collected in advanced prices to consumers. The reason is apparent if we recall that the value of land is fixed only by demand, with no reference to costs. Practically, untaxing the use of land will render tenure so increasingly profitable that rent will be a relatively small factor. If the owner is unable to derive a rent that will cover his tax increase he will follow one of two courses: he will use his land profitably, perhaps erecting an untaxed building, or he will sell to someone who will put it to efficient use. This side of direct taxation is an important one, for indirect taxes find favor with the politician because of their very evil, the evil of concealing the taxes and how, when and where collected. They meet the old adage of getting the maximum of feathers with the minimum of squawking. But why should not the poor goose squawk when he is being plucked? To make the taxpayer conscious of what is taken from him is the surest way to arouse him to the government's extravagance, waste and graft and its intrusion into alien fields. Were all taxes direct there would be a great advance toward better and purer government.

The taxation of cigarettes offers an example of indirect taxation. Of the sixteen cents or more paid for a pack, only some five cents goes for the cigarettes, the remainder serving to refund taxes paid all along the way—stamp taxes, local and national; taxes on manufacturers, wholesalers, and retailers, and taxes on tobacco growing and marketing. Be-

sides all these, there are taxes on buildings, stores, light, heat and power, and even on employment in every phase of the business, all to be ultimately paid by the consumer, although the taxes are concealed and shuffled about in a way which keeps him from knowing how he is being mulcted. If all these were abolished, and if the smoker who uses a pack a day were required to purchase annually at the city hall a license costing some thirty-five dollars, how long would such a tax be tolerated? And yet he goes on paying a greater sum indirectly because he does not know that he is paying it. Nothing is further from the truth than the saying that what one does not know does not hurt him, for evils which we know and feel will be resented and resisted, while clandestine and unfelt oppression is tolerated.

Enormous gains would result to the common life from a sane revision of our tax plan. Unemployment would disappear; unmerited poverty would no longer drain our treasury for relief in countless forms; the housing problem would be on its way to solution, with profit instead of at heavy cost, and "social security" would not be demanded by a self-respecting citizenry able to make provision for the future. The slum is an expensive luxury. Decent living conditions often cut by as much as fifty per cent the costs of fire, police and health protection, courts, dependency, penal institutions and crime. There would be a considerable saving in tax collection costs, in accounting, spying and reporting and there would be far less litigation and legislation.

Nothing has been said of education, but here, too, there would be hope of reform and economy. Desirable as is general education, present methods are costly and leave much to be desired. With the wise and necessary separation of church and state, our public schools are completely divorced from any religious background, but can we say that an education which ignores spiritual values can be anything but

lame and incomplete? Even in secular aspects there is controversy and discontent, and, with control coming increasingly under political domination, vicious consequences become more and more apparent.

It is obviously the duty of administration to provide teaching which it believes to be sound, and to oppose instruction which it considers fallacious. After paying one set of school bills through taxes, direct and indirect, few can afford to incur a second set and must perforce send their children to public schools, having no choice but to submit to the opinions of others, however opposed to their own creeds and convictions.

We hold no brief for schools which implant narrow dogma, but we do believe that it is our right to choose schools of whatever type we prefer, be they Jewish, Catholic, Protestant, fundamentalist, liberal, or what not, for only by enjoying freedom of choice can we have an education which is truly free. Aside from religious aspects, there are other unavoidable defects in a system which forces all into one cast-iron mold. Supported at common cost, the public school system must conform to the will of the majority. The support of voters must be maintained and the rank and file be pleased, and since all want their children to go through the mill with the better qualified, the machinery must be set to grind all the grist which comes to it, regardless of fitness. Increase the output, give diplomas to all, and make every child fit the bed of Procrustes. So standards are lowered—in one great city frankly abandoned and students promoted from class to class regardless of achievement—to enable as many as possible to acquire whatever prestige and jobs go with white collars. If the multitude cannot appreciate real education, all must be content with the counterfeit, and there is an old saying about pearls and swine.

Public schools must of necessity avoid controversial teaching which shapes opinion in matters vital to democracy. There must be no politics, no mention of anything distasteful to creed, party, race, or interest, and all economic teaching is neglected or emasculated. They often pussyfoot in discussing essential things, and, dumping a lot of undigested, ill-considered, and often more than doubtful "facts" into juvenile minds, leave them to ferment into crackpot and dangerous notions—and this we call education!

Public education and free education are as far apart as the poles. Even in the commonly accepted sense there can be no education which is not paid for. It is only a question of how we shall pay: whether we shall buy voluntarily what we want or be compelled to purchase what others think best for us. That the present plan is unfair is evidenced by the fact that many, in spite of the financial burden, voluntarily incur double school bills—bills paid in taxation and bills for tuition in private or parochial schools.

In schools which stand on their merits and not on politics there is a stimulus totally lacking under public control. We all know how the red tape of politics leads to inefficiency. In one city unforeseen demand for instruction in Spanish led to requiring two teachers of other tongues to teach classes in that language, of which they were as ignorant as they were of Chaldee. To hold their jobs, they struggle with private tutors and endeavor to keep one hop ahead of their classes, passing on to their unfortunate pupils the pure Castilian picked up the week before.

As for expense, there is little doubt that our children could be not only better educated in schools of their own choice but that the cost would be lower. To give specific figures is beyond present purposes, nor is it easy, for published costs of public education often exclude many essential items, such as buildings and overhead. Government

figures show that training which costs an average of \$23 in regular vocational schools cost \$167 under the NYA and dragged over a very much longer period, and those who have studied the situation concluded that, under local and private administration, seven students can be educated at the cost of putting one through the hopper of the late NYA. An annual item of over a quarter of a million dollars for long distance calls gives some small indication of the waste under political operation. In the regular public school system it apparently costs over two hundred dollars a year to educate each student, surely a high price, considering the training given, as against the cost of private schools.

Some measure of public instruction will long be necessary, for the state cannot afford to let future voters grow up in black ignorance. But under true freedom and the greater prosperity which it would bring, the situation would largely right itself. With increased incomes, parents would send children to schools of their own choice, and this would automatically lessen the demand on the public system. Private institutions would again flourish, instead of folding up every day, unable to survive when patronage means a double drain on pocketbooks. Independent schools would thrive or perish as they met the demand of patrons, and an education fitted to needs, aptitudes, and convictions would become available to choose from as we would; but, with education coming increasingly under the thumb of government, first local, then state and then national, an education which is truly free must soon disappear. If this control persists, we shall be on our way to a totalitarianism in this all-important field, and, following the lead of other countries, education will be fitted to the tastes of our officials.