

Economics of Democracy

In which F. MASON PADELFOED, M.D., Fall River physician, continues his interesting exposition of what it is that makes the wheels go round in matters economic.

In our illustration, the best land, as it produces annually \$250 of Rent, will sell, in a five per cent market, for \$5,000. The second grade land, producing as it does but half as much Rent, will have but half this capital value; its price will be \$2,500. The poorest land in use will be free; producing no Rent, it will have neither selling price nor investment value. If a two and one-half per cent tax is levied on land, on the basis of value, net Rent, and then capital value, will be reduced fifty per cent. The best land will then sell for \$2,500; and that of the second grade, for \$1,250. Land at the margin will be taxed not at all.

The selling price, or investment value, of land, is the capitalized value of its net Rent.

In ground Rent we have a fund which comes into existence as society develops. It grows as social expenditures grow. It measures, with an approach to mathematical accuracy, the value of the advantages, both social and natural, which each member of society enjoys. It is the government's natural revenue. Always, it is paid to somebody; if not to the government, then to individuals who, in return, give nothing whatever, in either service or goods. If the community, through its authorized agent, the government, appropriates it, no individual will in consequence be deprived of any property to which he has a rightful claim.

As long as the laws are such as to permit the private appropriation of Rent any person who proposes to build and operate a manufacturing plant must first secure a building site. Whether he buys land, or hires it, the financial burden will be much the same. In the one case it will cost him each year interest on the investment, in the other he will pay, in Rent, not less than the same amount. His overhead, when the plant is completed and in operation, will include this interest, or Rent, interest on money invested in buildings and machinery, and taxes on the entire property, land and improvements.

If society exercises its rightful title to Rent the sale value of land will be practically destroyed. This will make it unnecessary for any would-be manufacturer to invest any money in land.

If Rent suffices to defray the expenses of government, as beyond question it will, in normal times, if the public's business is conducted with due regard for efficiency and economy, no taxes except the one on Rent will be imposed. The improvement tax overhead will then be eliminated.

To illustrate, let us assume that land costs \$40,000, this being the capitalized value of the \$2,000 of Rent which it commands; that buildings cost \$40,000, and machinery,

\$20,000. The overhead must include five per cent interest on the \$100,000 investment, and taxes on the whole property at, say, a thirty dollar rate—\$8,000.

Taxes on improvements having been abolished, and no initial investment in land being necessary, in place of the \$8,000 annual fixed charge, there will be a Rent tax of \$2,000, and interest, say at five per cent, on \$60,000—\$5,000 in place of the previous \$8,000. A saving of \$3,000 a year is made.

This reduction in overhead makes possible a corresponding reduction in the prices of labor goods. Automatically then the purchasing power of the consuming public is increased.

Sight should not be lost of the fact that when we cease to tax buildings and machinery we shall cease also to tax farm improvements, livestock, merchandise, house and office furniture, stocks, bonds, incomes and inheritances.

When ground Rent supports the government, import tariffs, to provide revenue, will not be needed. When all products of private industry are exempted from taxation goods will sell for a natural price—so cheaply in fact as to render unnecessary any import taxes for "protection." Then will international trade be in every way desirable, and always promotive of peace.

Private property in Rent leads to land and capital monopolization. Much valuable land is kept out of use or is inadequately improved. In advance of economic need land at, and even below, the natural margin of cultivation, or use, is taken up by individuals, or by groups, and held for speculative, or non-productive, purposes. This gives to those who own or control land the power to recover from tenants, or from purchasers in the event of sale, or from others in the course of business, any taxes which may be imposed—limited only by the ability of tenants, or others, to pay.

Owners of land, collecting each year many millions of dollars of Rent, naturally make efforts to invest this money in paying enterprises. This can but lead to overbuilding of productive machinery, to the concentration of wealth, and to the creation of great estates in land.

If governments, recognizing that Rent is the property of society, were to treat it as such, less money would be available for investment, and much more, going to Labor as wages, would be spent for consumption goods.

Increased wages and increased mass purchasing power can but result in an orderly increase in capital investments—demand regulating supply. When, however, capital investments are not in response to an increase in demand for products but are instead the consequence of desires to find profitable investments for vast sums of money annually collected as Rent, overbuilding, ruthless and ruinous competition, high-pressure selling, deferred-payment financing, and an ever increasing burden of debt, are inevitable. Also is disaster inevitable.

Unused land, at and below the natural margin, as it

has no rental value, should be free—a public domain. The area of the United States is 3,026,789 square miles. Its population is 122,774,045. The area of Germany is 183,381 square miles. Germany's population is 62,348,782. The area of France is 212,659 square miles; its population is 40,938,847. The area of the State of Texas is 265,896 square miles. These figures are suggestive indeed; they show pretty plainly what the public domain in the United States might be were the tax laws of the country consistent with the moral law. Most of this land is privately owned. Too little is adequately utilized, or available for use on terms which make its use possible. Hence the increasing army of unemployed.

Land in the public domain should be available at all times for the use of any dissatisfied, or unemployed, worker who cares to take it. *What the worker can earn for himself, on free land, is the natural basis for the whole wage system.*

If unused marginal land were free the exploitation of Labor would be impossible. Where there is no free land workers seeking employment have no alternative but to accept as wages anything that may be offered. This is economic slavery.

Gloss this over as we may, denied the right of self employment, man is not free. He possesses only the right to choose whether he will work for starvation wages, or live at the expense of his family, his charitably disposed friends, or the community. And bitter experience has shown that the opportunity to work, even for starvation wages, is not always to be had.

If an island on which ten persons live is owned by one, this one, obviously, will be able to dictate to the nine the terms under which the land may be used. He can collect from them, as "Rent," all that they produce except, of course, what is absolutely necessary for their bare support. Under landlordism of this character the status of Labor is fixed; from chattel slavery it is but once removed. Political reforms can be of little avail where this condition obtains.

Owing to the complexities of modern life the relationship of cause to effect is less easily traced. But that like causes will produce like effects, we may be sure. The land question is vital. It makes no difference, financially, to the landless worker whether all the land is owned by one man who takes from him all but a pittance, or by thousands of men under a system whereby really productive land is kept beyond his reach, and he is compelled to work upon that from which he can secure only enough to keep himself and his family alive.

Labor, the victim of the tax gatherer, and of an anti-social system of land ownership, is today economically helpless. Only under exceptional circumstances, and by the greatest self-denial, can any worker save enough to make possible his escape from this state of bondage. Some few, it is true, do escape; the many do not.

The poverty of the masses makes necessary a constant widening of the scope of governmental activities. This necessitates higher, and still higher, taxes. As the taxes mount, private initiative and industry are increasingly discouraged, and more and more business enterprises which should be left altogether in the hands of private

owners, come under governmental control, or ownership. Somewhere, there must be a limit: There must sooner or later come a time when private industry can no longer provide the funds that are necessary for the support of government. *What then?*

When it becomes the determined policy of the government to take by taxation *all* of ground Rent, traffic in land will cease to be profitable. Private ownership of land will continue. Land will be owned for use. The monopolization of land will be impossible. Permanent title to any given section will be conditioned upon the payment of an annual "tax" which equals its Rent, or upon the payment of the capitalized value of this Rent in one lump sum.

In the event that the lump sum is paid no taxes thereafter will be paid unless, owing to changing conditions, ground rents in this locality increase.

To illustrate: Assume that the current rate of interest is five per cent, and that the annual Rent of a given parcel of land is \$1,000. If \$20,000 is paid for the land, the person receiving the money, whether principal or agent—say agent of the government—may deposit it and draw from the bank each year, \$1,000. The purchaser of the land, it should be clear, in making this capital payment, pays for all time his taxes on this property.

Unfortunately, when land is bought and sold today the property rights of society are not recognized. The purchaser of land now pays to the individual who sells it, his taxes in capitalized form, and then pays annually to the government another tax equally as great. He therefore pays twice each year for the same public services.

Industry is now compelled, not only to support the government, but also to pay, in what amounts to annual tribute to a land-owning class, a sum at least equal to what is paid in taxes. In no possible way can ruin be averted if this double taxation is continued.

The right of the individual to own land is conceded. Land is made valuable by the growth and activities of a civilized population. The purchaser of land should pay to the seller a fair price for buildings and other improvements, and pay to the city or town the capitalized value of the land's annual Rent. He thereafter should pay no taxes whatever unless conditions change.

This "lump sum" method of tax paying may or may not be practicable; it probably is not. It remains true, nevertheless, that *Under any ethical system of land ownership a title to land, acquired by the payment of the capitalized value of its gross Rent, gives to the purchaser the right to hold this land indefinitely and tax free—except, as stated above, ground rents in this locality increase.*

(To be concluded next month)

Natural Law is the uniform occurrence of Natural phenomena in the same way under the same conditions.

—OSCAR H. GEIGER