

EARNED INCOME

PUBLIC AND PRIVATE

By JOSEPH S. THOMPSON

PRESIDENT

PACIFIC ELECTRIC MANUFACTURING CORP.

THE FATES of America and Europe are inextricably one. A depression here could ruin us and would ruin Europe. We dread a depression; yet we have done nothing salient or radical to prevent it. The Soviet Politburo eagerly predicts and awaits it.

The basic reason why there are depressions and why prosperity is not normal, general, and constant is that we do not distinguish between TRIBUTE TO PRIVILEGE and RECOMPENSE TO SERVICE, and are indifferent to their diametrically opposite effects.

The fault is not in our political system, the freest and best yet devised. It is not in our industrial system which, based on service, saved the world from German domination and will continue to serve us well unless stifled by "Planned Economy," as planned economy has stifled industry elsewhere.

But when we study our taxation system we find a cancerous growth, developed in the last few years, that threatens to destroy all that makes America great, fostering privilege and hampering industry and service. We take for granted the principles underlying our present taxation system; yet adherence to those principles means national disaster.

The full breadth and importance of Chief Justice Marshall's statement that "The power to tax is the power to destroy" seems never to have been wholly grasped or emphatically enough expressed. Taxation destroys good things as well as bad. The power to tax is the power to control a destructive force and, when used, becomes equivalent to a fine. A fine represses, and an unjust tax represses. Simple reasoning develops the fact that practically every one of our present taxes is automatically and undeniably a fine. It is arbitrary seizure of private earnings or acquirements, and the fact that the money is used for public purposes does not justify its imposition.

But since money is required for public purposes, how else is it to be provided? The answer is simple: *through the values that the community, by its own presence and activities, creates.*

We are all familiar with *earned private income*, earned through

labor, service, or investment, but few have inquired as to whether there might be a true, just *public income*—an income that we all, constituting the community, create jointly as a common fund (just as the individual produces his income of private wealth) an income that can be measured by fact and not by opinion, forming the basis for, and fixing the limit of, responsible public budgeting—
A PUBLIC INCOME COMMUNITY CREATED AND TO BE
COMMUNITY COLLECTED FOR COMMUNITY PURPOSES.

Those who have inquired have been answered by the Physiocrats, by Thomas Carlyle, by Patrick Dove, by Herbert Spencer, by John Stuart Mill, and, in full and complete analysis, by Henry George in his great book, "Progress and Poverty." These men have shown that the public income is closely measured by, and reflected in, and therefore should logically, justly, and intelligently be, the *site value of the land*.

The site value of the land, which is the amount that individuals will pay for its exclusive use, if collected by the community in the way we now collect taxes, would provide and define the *rightful amount* to which the *budget should conform*.

Land costs nothing in human effort or creativeness and gets its value only from the presence of people; so, land rental value might better be called *location value*; and since location value means land in a desirable place among people, land value and location value are really *people value*. The landlord's title to the land is a legally created privilege. It represents no contribution on his part but gives him an unearned tribute (and it is unearned even though it was bought with money that was earned). Solely by their presence the people create this value, and it is theirs. The people should collect it *and nothing else*. Arbitrary assessment might have to be resorted to in time of emergency, but, as it is now understood and imposed, taxation should be reserved as a regulative or repressive curb on acts counter to the public interest.

It sounds like quibbling to speak of abolishing taxes while advocating the public collection of site value; and, since the assessor would define and impose it, and the tax collector would collect it, it does look like a tax on land. But it is not a tax on land. It is payment for the privilege of an advantageous location among people.

It is easy to "capitalize" such an amount. Figure the capital that would earn interest equal to the site value offered. The value of the land is thus set by the site value. Assess it at that value, tax it at the current interest rate, and the public would then collect the value it creates. Taxes would no longer raise the cost of living.

The public collection of site value simply means a charge by

the public for a choice location in the midst of the public. The parking meter is a perfect example of this principle. If you want to use a desirable part of a public street, you pay the current value into a public fund. The parking meter principle should apply to all land. The simple mechanism to correct our revenue system would use present methods, equipment, and personnel, arriving by the test of the market at the desirability of all parcels and periodically adjusting appraisal to absorb the site value offered by the occupants. There is nothing of arbitrary opinion in this, nor would the site value be created by enactment. It would be a straight business matter, and little change would be needed in our laws.

Our failure to discern the difference between PRIVILEGE and SERVICE is stupid enough in its direct impact on our revenue policy, but it also creates a by-product, *land speculation*, which terribly hinders our progress and security. There is nothing spectacular about the land speculator. Quietly and conservatively he comes into possession of the title deed to a location, an area, for the purpose of (1) using it, (2) charging someone else for its use, or (3) selling his title at an increased price. If he uses it, he retains a public revenue. If he charges others for its use, he collects a public revenue. IN NEITHER CASE IS HIS MONEY USEFULLY INVESTED, and in both he hopes that the third purpose will be served. He hopes that more people will need the land, increasing its rental value.

When he buys it for the third purpose, straight speculation, to sell it later at a higher price, he becomes an obstructionist. He serves no good purpose. He does nothing useful. He is a legalized holdup man. He makes building, living, and working more expensive.

He could say to himself and to the community, "Someone will need this location in the near future; the growing population will make it more and more desirable; so, since the people will not collect what they create here, I will. I will get in this someone's way and prevent him from using this place until he pays me to get out of his way. I will not have to perform any service for him; the people will do that. He will not even get 'value received' from me because as soon as he begins to use the place, the people will fine him with 'taxes' for improving it. They fine anyone who builds a home or brings a business or service to their community. But they will not fine me; they are already letting me usurp a part of their wealth. I levy a tribute on progress. I capitalize other men's energies. The more they fine those who produce or render service, the more unearned value I gain." This is the unconscious soliloquy of the land speculator.

You may question this sweeping and positive singling out of site

values. What about Corporations? Monopolies? Bonds and Stocks? Capital?

Corporations are formed to perform service or to exploit through privilege, or frequently, to combine the two. To the extent that they perform service, they should retain their earnings, however great. To the extent that they exploit through privilege, they should not be supported by the law.

Monopolies, other than land, are simply opportunities for someone to get a little more than he deserves for what he gives, until competition or buyer resistance checks him.

Bonds and stocks are simply evidence of ownership in corporations that may be good and useful or evil and leechlike. Remove privilege, and they will adjust with the change.

Capital is a tool, and the man who creates it should retain what he earns from its use. The difference which sharply and cleanly separates land rental from payment for the use of buildings, tools, stocks in trade—in short, from *capital*—is that land costs nothing in human effort. Everything else is humanly produced. Money invested in the privilege of exacting tribute in the form of land rent is not capital. It is not usefully invested. "Capital is wealth used to create more wealth."

Resentment against big corporations is purely habit or label thinking. Most corporations spend fabulous sums in research seeking new products, processes, and economies, and you buy from them, not because you have to, but because you want their product. You can buy something else or do without. But you DO HAVE to have a little space on earth. That is a monopoly you cannot escape.

It would seem to be beyond dispute that the threat of depression would be remotely distant if the imbalance of our stupid taxation and the stifling barrier to our progress, land speculation, were both removed by recognition of this simple fact: THE RENTAL WHICH USERS WILL PAY FOR LAND IS THE TRUE PUBLIC INCOME. IT IS A VALUE CREATED BY THE PUBLIC. TAXATION OF INDUSTRY AND THE HOME IS UNJUST, ARBITRARY, AND DESTRUCTIVE. IT SEIZES PRIVATE PROPERTY.

When we learn this and adopt it for ourselves, we will be fitted to lead the world to prosperous peace.

San Francisco
May 1949

Published by the
ROBERT SCHALKENBACH FOUNDATION
50 EAST 69TH STREET, NEW YORK 21, N. Y.

Five cents each