

## Bourgeois Confusion and Proletarian Myopia

By HARRY GUNNISON BROWN

### I

ON A NUMBER of occasions I have received propaganda circulars of an organization calling itself the Tool Owners Union. Its purpose is said to be the promotion of "national action to safeguard the foundation of national well-being and strength—the human right of every American to be secure in his ownership of property and tools, and to enjoy the legitimate, competitive earnings therefrom, free from excessive taxation, inflation and confiscation at the hands of anyone." Its "Platform for Progress" says: "We are the group whose thrift and self-denial have accumulated the savings which make possible our country's tools of production." And it goes on to claim that "we are the primary benefactors of the nation because a modern nation is no greater than its stock of tools." It refers to "50 million thrifty tool owners whose self-denial made possible the tools that are the very foundation of our national strength and material welfare." It appeals to "the human right of every individual . . . to be safeguarded in his person and his productive property (tools) against excessive taxation, monetary manipulation and confiscation at the hands of anyone." And it comments on the harmful effects of "destroying the incentive to save and to risk in productive enterprise."

Here indeed might be a beginning of a sharp distinction. There are the tools that men make and the making of which, in a free enterprise system, does depend on the voluntary saving of millions. But there are also natural resources, e.g., rich subsoil mineral deposits, and there are superlatively valuable city sites. Surely these natural resources were *not brought into existence by the saving of members of the tool owners union or of any of those in whose behalf they assume to speak.* And, no less surely, the billions of dollars of site value in New York City are obviously the consequence of the geological forces that made New York harbor and of the way that many millions of persons have settled in and about New York City and in the territories tributary to it. *They are not properly or fairly attributable to or imputable to "tool owners" alone.*

But nothing that I have seen in the propaganda of the Tool Owners Union indicates the slightest interest in the distinction between capital

and land, between the means of production that men are enabled to make by virtue of thrift and, on the other hand, the location advantages (and, therefore, site values) that are so largely a by-product of the activities and choice of habitat of many millions of both savers and workers. Surely there is a significant difference between deriving an income from productive capital which, except for one's saving, would not even have come into existence *and* deriving an income through being in a strategic position to make others pay one for *permission* to work and to live on a part of the earth made desirable by community development—or, for that matter, by geological forces.

The Tool Owners Union, since it expresses concern regarding ownership of property *and* tools, appears to be defending the private enjoyment of natural resource royalties and the rent of all other land, including city sites, *equally* with the private enjoyment of income from *capital*, *i.e.*, from the "tools" which saving or thrift or "self-denial" does really make possible. If this is its purpose, there is a bit of the disingenuous about its propaganda, since its *argument* deals only with "the threat to incentive" and the danger of there being "no longer an incentive to provide new tools." In short, it seems to be seeking funds to support private enjoyment of income from both land *and* capital by means of argument which is relevant only to income from capital and with no suggestion to any of the readers being appealed to that the argument used has no relevancy to the case of land rent.

*Is not the moral case of nearly all of our conservative defenders of income from property tremendously weakened by their refusal to make this basic distinction?* Is not their purely economic argument made confusing, not to say ridiculous, when it stresses the importance of private income on capital as "an incentive to provide new tools," and yet manifests not the faintest sign of interest in transferring even a tiny bit of the tax burden from the tools that men make to the geologically-produced and community-produced value of land? And this despite the fact that no taxes or very low taxes on land values, encourage the holding of good land out of use and thereby further reduce the efficiency of our economic system! How can such alleged friends of free private enterprise reasonably expect to arouse enthusiastic support among the masses—except as the masses are effectively deceived!—for a program which thus seems to defend incomes from property that are *unearned* equally with incomes from property that are *earned*?

## II

PAMPHLETS THAT I HAVE RECEIVED from "The Foundation for Economic Education, Inc." of Irvington-on-Hudson, New York, show a similar trend. One of these is entitled "Controlled vs. Uncontrolled Economy" and is a reprint of a talk by Bradford B. Smith, economist for the United States Steel Corporation, before the Detroit Economic Club. In this pamphlet, Mr. Smith includes the following italicized statement, the only italicized passage in the more than twenty pages of text:

*Strict adherence to the conviction that each is individually entitled to the fruits of his exertion and to their voluntary exchange is the very essence of individual freedom.*

Surely there is nothing in the above quoted passage that justifies a system under which an individual can demand and receive income for giving others his *permission* to sail the *seas*, to breathe the *air* or to work on and live on the *land*. In connection with this general question and, especially, the passage from Mr. Smith's pamphlet quoted above, it is relevant to quote the following from Henry George:

To affirm that a man can rightfully claim exclusive ownership in his own labor when embodied in material things, is to deny that any one can rightfully claim exclusive ownership in land.<sup>1</sup>

But of all this, Mr. Smith seems blissfully unaware. Certainly there is nothing whatever in what he says that indicates awareness of any distinction between land rent and income from capital that men produce.

Does there nevertheless remain any lingering doubt regarding Mr. Smith's understanding of and serious interest in the difference between deriving an income through contribution to the productive process and deriving an income through being in a strategic position to demand payment merely for *permitting* others to use a part of the earth? If so, this doubt must certainly be set at rest by even a cursory examination of Mr. Smith's other pamphlet, also distributed by and, in this case, published by "The Foundation for Economic Education, Inc." and entitled "Liberty and Taxes."

The "Foreword" of this study, written by Leonard E. Read of the Foundation staff, begins with the statement: "A fundamental tenet of the collectivistic philosophy is best expressed in the words of Karl Marx, 'From each according to his abilities, to each according to his needs.'" Smith's essay, Mr. Read says, "examines progressive taxation, that is,

<sup>1</sup> "Progress and Poverty," 50th Anniversary Edition, New York, Robert Schalkenbach Foundation, 1929, pp. 336-7.

'From each according to his abilities,' from the standpoint of its harmony or disharmony with the principle of individual liberty."

In the essay itself, attention should be called especially to the following two paragraphs:

There is no justification in morals or in the principles of individual liberty for progressive taxation. It is the simple looting through law of the more productive by the more numerous but less productive. Its appeal is demagogic, and its result is communism, which in turn is but a transitory stage in the evolution away from liberty into dictatorship. The endorsement of progressive taxation is, knowingly or unknowingly, the endorsement of communism, and sincere endorsement of progressive taxation, motivated often by generosity, is unwittingly one of the worst forces undermining individual liberty in America.

Those defending progressive taxation have no principles to rely upon short of taxation which equates all incomes after taxation. That is why they unwittingly support communism. The progressive taxation argument boils down to vague assertions that the poor cannot pay much and the rich 'ought to pay' higher rates. When asked how much higher, there is no answer save that it is a matter of judgment—which in practice comes down to the venal philosophy of plucking the goose just short of killing it. Acceptance of the idea of progressive taxation thus transforms the legislative process of tax levying into pressure group demand to make the 'other fellow' pay the tax in exchange for the group's political favor, instead of united and uniform decision of proper burden to be placed equally on *all* constituents.<sup>2</sup>

Since Mr. Smith protests thus vigorously against "the simple looting through law of the more productive by the more numerous but less productive," one might reasonably hope to find him opposed to *any* form of "looting through law." How is it then in the case where geological studies and investigation and (perhaps) actual drilling show clearly that there is oil under a particular tract of land, oil which the landowner did not put there, which the landowner did not find, and which the landowner does not help to get? Is there no "looting through law" in a system under which the owner can demand a vast income merely for *permitting* others to withdraw the oil? And would not drastic taxation of such income—rather than taxation of *earned* income—and use of the resulting proceeds for governmental expenses instead of for a privileged few, really be a means of *preventing* "looting through law"?

Or how is it in the case of the titles to New York City lots when, as has happened, the growth of the tributary country makes it important that millions of persons live on and near New York harbor in order that

<sup>2</sup> *Loc. cit.*, p. 13.

the world commerce on which all of us depend may be most effectively carried on? For this means that the owners of New York City land are in a position to secure hundreds of millions of dollars a year merely for *permitting* men and women to work and live where the rest of us need to have them work and live in order that our wants may be adequately served. Is there here nothing which might reasonably be described as "looting through law"? And should not drastic taxation of the annual rental value of such land be eagerly supported by persons who, like Mr. Bradford B. Smith, so strenuously protest against the "looting . . . of the more productive by the . . . less productive"? For land-value taxation definitely does *not* penalize "the more productive" as such or *discourage* production. Instead it *encourages* production, as those who have allowed themselves to examine the evidence carefully and with unprejudiced eyes, well know.

But Mr. Smith, like many others who stress their firm and unalterable opposition to communism and to various communistic trends in recent legislation, shows no appreciation of a reform which would go far to make communistic propaganda hopeless, by making free enterprise operate more effectively and fairly than it has ever operated hitherto. He objects, indeed, to taxes that penalize "the more productive." Nevertheless, he evidences no interest in or sympathy for the alternative system of using, to support government, geologically-produced and community-produced values. Instead, he states definitely that: "If individual income is to be taxed, all of it, from whatever source derived, by whomever received, in whatever amount, should be taxed at the same rate."<sup>3</sup>

### III

MUCH MORE PRETENTIOUS than the publications thus far referred to is a book entitled "The American Individual Enterprise System,"<sup>4</sup> prepared by the Economic Principles Commission of the National Association of Manufacturers and covering more than 1,100 pages. The "Commission" which prepared the work was made up about half and half of business executives and economists.

In Chapter XVII, entitled "Achievements under the Enterprise System," the authors express the view that, under this system, incomes received are, except in the case of monopolies, and ought to be, in proportion to service rendered.<sup>5</sup> Those who produce more, the authors believe, should

<sup>3</sup> *Ibid.*, p. 15.

<sup>4</sup> New York, McGraw-Hill Book Company, 1946.

<sup>5</sup> *Op. cit.*, pp. 905-6.

have more. Indeed, the authors contend that this "incentive to maximum effort" has been "the mainspring of our national achievement" and that "impairment of this incentive" operates to decrease our production and bring suffering to all of us.<sup>6</sup>

In this extended study of the individual enterprise system, over 120 pages are given to a chapter on "Trends in Public Finance." As might be expected, there is criticism of highly progressive income taxes as a discouragement to risk taking and to individual incentive<sup>7</sup> and (in a later chapter<sup>8</sup>) to the saving without which there can be no capital. *What, then, is the compelling inhibition that prevents even a passing mention of a tax that has no such discouraging effect on incentive, risk taking or thrift, that, indeed, discourages only a speculative holding of land out of use, which speculative holding is itself a barrier to efficient production, and that does not add to the tax burdens of the poor?* Land-value taxation is the one kind of taxation that is most completely consistent with the principles which are appealed to in defense of free private enterprise against socialism and communism. It is consistent with the essential genius of the private enterprise system. It does not interfere with but, rather, promotes those economic results which business executives, "capitalists" and economists profess to seek. *Is it not permissible, therefore, to feel a bit of amusement at their vociferous protestations of support for the principles of the free private enterprise system? Is it not permissible to question whether they really understand the principles in which they pretend to believe? And may we not fairly say that the case they make for private enterprise, as against various regimented systems or "isms" is an appreciably weaker case because they fail to point out the full possibilities of a self-consistent private enterprise system? How much right have they to complain if their encomiums on the virtues of private enterprise as rewarding efficiency, enterprise and thrift are at times greeted by some of the common folks they seek to persuade, with lifted eyebrows or even with hoots and jeers? Is such warped and evasive argument by representatives of the propertied class really the most effective way to persuade unpropertied workers to eschew communistic and socialistic ideology?*

## IV

BUT, IN TRUTH, WE SUFFER from an intellectual confusion which affects "liberals," "progressives" and "radicals" no less than it affects propertied

<sup>6</sup> *Op. cit.*, p. 907.

<sup>7</sup> *Op. cit.*, p. 753.

<sup>8</sup> See, especially, page 954.

conservatives. For the most part the members of these protesting groups seem to confine their reforming zeal to the advocacy of quack remedies for poverty, and of taxation to "soak" the recipients of the larger incomes *utterly regardless of source.*

Yet, as regards taxation, it is *simply not true* that a tax policy thus directed is most advantageous to wage earners as such, notwithstanding that it may appeal to the class prejudices of many of them. On the contrary, a careful and unprejudiced economic analysis points unequivocally to the fact that a tax system which would appropriate practically all of the annual rental value of land, would be of greater advantage to the propertyless worker than would be the most drastically progressive taxation of incomes in general, and this even though the latter involved no direct tax at all on any such worker and no tax on any of the goods he might wish to consume. The usual prejudices on this matter of our "proletarians" seem to be as far from economic sense as the ordinary prejudices of our "bourgeoisie." Neither is ordinarily interested in or seems to have any understanding of the distinction between land rent as an unearned income and, on the other hand, income from labor and from the capital that men make. And thus the "class struggle" of which communists and socialists prate, in so far as there is such a struggle, ideological or other, is, so to speak, a struggle in the dark, a dispute in which both parties are equally confused, so that neither knows how to set the other right.

## V

IT IS REGRETTABLE that many of our professors of economics do nothing, either in their teaching or their writing, to make the distinction between land rent and the earned incomes of both labor *and* capital clear. The latest example of this neglect—among many such—to come to my attention is the textbook, "The Elements of Economics"<sup>9</sup> by Professor Lorie Tarshis of Stanford University. Professor Tarshis is so utterly unaware of—or uninterested in?—this matter of a distinction between land rent and other incomes that the words "land" and "rent" are not even indexed! But after all, why bother to raise for the contemplation of university and college students embarrassing questions regarding who ought to be made to pay whom for *permission* to enjoy community-produced location advantages, or *permission* to work on and live on the earth in locations where work is reasonably effective and life reasonably pleasant, or for *permission* to withdraw from the earth subsoil deposits! If conservative

<sup>9</sup> New York, Houghton-Mifflin, 1947.

supporters of the *status quo*, and communists eager to destroy free markets and free enterprise, are both—brothers under the skin?—unconcerned about any distinction between capital and land or between the income from constructed capital and the rent of land purely as such, why should it occur to a mere professor of economics that the distinction is important! And wherein can he hope to gain prestige, either with “hide-bound” conservatives or with radical communists who follow “the party line,” by stressing such a distinction or the economic reform to which it points, even if he understands—as, commonly, he does not—its importance for the most effective operation and conceivably, even the preservation, of the free private enterprise system?

The adoption of a land-value tax system in any nation or substantial part of a nation, would operate to raise wages because it would make labor more productive and, therefore, worth more. Since speculative holding of good land out of use would no longer be feasible for owners, labor would be *better provided with land*. The removal of taxation from capital—or even the substantial reduction of such taxation—would operate to increase the amount of capital available to the people of such a nation. Therefore labor would be *better provided with capital, also*. Being better provided with capital *and* with land, labor would surely be more productive and would be able to command higher wages.

This gain in labor productivity is independent of and separate from any gain to labor due to the reduction or removal of any tax that might have previously rested in large part on labor, such as, for example, the tax on cigarettes.

But it is not only in these ways that a land-value tax system would benefit workers,—and without imposing penalties on the saving which is indispensable to the formation of capital. Such a tax system would inevitably tend to cheapen land for homes as well as for industry and commerce. It would, therefore, make living cheaper for those who must hire and pay rent for the space they occupy. It would tend, by cheapening land space in cities and decreasing the tax on constructed capital, to diminish the evil of slums.

Such a tax system must also operate in the direction of encouraging ownership of homes by workers, since the sale prices of lots would be thereby greatly reduced. For the more of the annual rental value of land that is taken in tax, the less remains to be “capitalized” into sale value. Thus, home ownership is made easier. And similarly local governments can more cheaply secure land for parks and for children’s playgrounds.



Instead of thus relying on a relatively simple tax system that does *not* penalize efficiency and thrift and that *interferes* only with *restrictions* on the use of the earth and with the enjoyment of *unearned* incomes, "proletarian" leaders in general—and most of our "social planners"—look to regimentation of economic life and to dictatorial control for betterment of the condition of the masses. Thereby they apparently expect to avoid low wages and poor housing conditions while ignoring the fundamental economic causes of these evils. Consistently with their ideology of "planning" and regimentation, they demand laws *fixing* wages at given minimum levels regardless whether the productivity of the workers makes such wages possible without extensive unemployment. And they seek to deal with the high cost of housing by taxing some persons in order to provide subsidized housing for other persons, thus probably contributing to poor housing conditions for a part of those taxed, because of the very taxes which subsidize improved housing for the selected few permitted to enjoy it! Through it all, the one thing—and it is a very fundamental thing—which the "planners" seemingly will not seriously consider, is an increase in taxation of the privately unearned annual rental value of land. And similarly, the "liberals" and "planners" hope to reduce tenancy by means of various governmentally financed programs, but generally refuse to emphasize—or even to consider—a tax system that would *remove the basic obstacle of high land prices* and that would, at the same time, remove tax penalties on the efficiency and thrift which are so essential to the best working of free private enterprise.

It is about the superficial and governmentally-controlled programs that journalists editorialize and politicians orate. It is in the advocacy of these that our most admired political heroes win new plaudits as friends of the "common people" or "the forgotten man." The tumult and the shouting among the spokesmen for labor, among the "liberal" sponsors of "social planning" and in the halls of our legislative bodies are largely concerned with these. And yet it is superlatively important that attention be given to the truly fundamental causes of the evils from which we continually suffer.

#### VI

A THOROUGHLY SELF-CONSISTENT SYSTEM of free enterprise and free markets we have never had and it may be that we are further from it now than we have been for generations.

Our legislators and administrators continually and persistently hobble and regiment our economic activities.

They interfere with freedom by placing tariff restrictions on foreign trade and, though they have lately moved, in our trade agreements program, in the direction of freer trade, opposition to the consistent carrying out of this program is continually flaring up in our Congress.

They provide in legislation for quotas to limit the production of various crops so as to hold up prices, thus doing for the producers of these crops what industrialists are prosecuted for trying to do among themselves for the goods of their production.

They purchase food crops with government funds secured by taxing the people, and destroy them, in order to make them scarce and high in price in a hungry world.

They subsidize exports so as to make certain agricultural products scarce in the domestic market and high in price and, to add insult to the injury of consumers, the funds for this are drawn from taxes which are paid, in large degree, by Americans whose food bills are thus to be increased. Yet during war-time price control they subsidized the *production* of specific goods with the idea of thereby making these goods *low* in price!

They operate our system of money and bank credit in such a way as to bring, alternately, inflation with its disturbing evils and deflation with its accompanying bankruptcies and unemployment.

And all the while they persistently apply heavy taxes upon efficiency and thrift and to goods largely used by the poor, and in doing so they simultaneously facilitate the waste of speculative holding of vacant land out of use.

Though contending throughout that they are strong supporters of the private enterprise system and—of course!—*utterly* opposed to the *wicked communists*, they have followed policies calculated to make this system into a miserable caricature of what it ought to be and could be, to keep many men and women and children tortured and unhappy beyond any necessity, and to bring the private enterprise system into a discredit that, on the basis of its proper essence and principles, it does not deserve. Then they turn to Russia and Yugoslavia and to our own minuscule group of communists and tell us that it is *these* who are the principal threat to the free enterprise system!

Yet if we would but make our private enterprise system self-consistent and consistent with the principles appealed to in its defense, we could increase immensely its attractiveness and its appeal as against any and all systems of regimented socialism. Such a private enterprise system—if *only we had it* in the United States—could be exhibited to the other

peoples of the world without the apologies to which the honest and understanding are inevitably driven in attempting to defend our present *caricature* of it. Such a reformed and *self-consistent* private enterprise system could be exhibited—and its principles explained—proudly, with high confidence that neither communists nor any other advocates of any controlled or socially “planned” regimented economy could offer to a distressed humanity any comparable salvation from the ineptness and injustices of its unhappy past.

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