

Free Enterprise

—A Dream

Or A Reality

THE article in this issue entitled "Ten Years Hence—Problems of Free Enterprise" is so fine a symposium on the subject of "free enterprise" that more on that subject may well be deemed superfluous. The contributors to the symposium are the editor himself and the two gentlemen whose statements he quotes at length, Messrs. E. F. Hutton and Eric A. Johnston. Not only do they show the importance of free enterprise to the American people and the advantages of such measure of free enterprise as they already have, as compared with any other social order, but, what is more notable, each one sounds a note of warning to the people, not to rest satisfied with things as they are.

"Right now," says the editor, "the greatest issue facing man is how to combine individual freedom and personal dignity with economic security. We declare that free enterprise remains the answer. But as sure as we are alive, it cannot survive unless we do something about it, —"

Then comes Mr. Hutton with the following: "Business has the story that will sell all Americans on America! If business fails in its duty to tell the truth now, the truth may forever remain untold."

And finally Mr. Johnston's words are added: "There'll have to be some changes made to meet new conditions, new concepts, new thinking," and "The new view, which I earnestly recommend holds that capitalism is a human institution, vibrant and evolutionary, capable constantly of adjusting itself to new conditions. There is nothing eternal, nothing sacrosanct about it. Unless it justifies itself by works instead of words, it must go with the wind of change."

Above are the ideas of progressive men who earnestly and actively support a system of "free enterprise," but all three of them seem to have made a certain assumption of doubtful validity, namely that in this country we have today a system of free



By JOHN S. CODMAN

enterprise called "capitalism" which only needs to be preserved or to a certain extent improved, when as a matter of fact, as here it is attempted to show, we have never had a system of enterprise which could really be called "free," hampered as it has been by certain institutions established at the beginning of our history under the Constitution.

It has been said that the American people will not for any long period of time tolerate special privileges nor permit obstructions in the pathway of opportunity. Is it not a fact, however, that the longer obstructions and special privileges are allowed to persist, the more their true character becomes obscure, and the harder grows the task of removing them? In fact are there not today certain unnecessary obstructions in the pathway of opportunity and certain special privileges which have been with us so long that we fail to recognize them as such, and therefore perhaps ascribe our present industrial and economic difficulties to everything but the true causes? So, at least, thinks the writer of this article. In his opinion there is one obstruction of prime importance and one great special privilege, which combined together are quite sufficient to account for the frequent and terrible business depressions which we have periodically suffered, and will surely suffer again after a temporary wave of prosperity, unless we take drastic action to remove the obstruction and to curb the privilege.

The great obstruction to the industry of the country can be summed up by the word "taxation." It cannot of course be said that this obstruction is unapparent to the American people, but it probably is true that the detrimental effect of it on the industrial

prosperity of the nation is not fully appreciated. More important, however, as standing in the way of the removal of this great obstruction, is the far too prevalent idea that taxation, as we have it, is practically inevitable and that all that can be done is to shift the burden from time to time so that it may be carried with a little less difficulty. Meanwhile taxes steadily increase and multiply in character and the drag on industry grows greater.

The local taxes on buildings and other improvements to locations on the land, on merchandise and machinery, on automobiles and on household furniture and equipment are a direct discouragement to manufacturing, farming and transportation, to merchandising both at wholesale and retail, and to home owning. Income taxes devised to avoid in part the burden of local taxes and to furnish revenue to the state and federal governments are little, if any, less burdensome. If levied on the net incomes of industrial concerns they check the re-investment of funds in expanding and cheapening production. If levied on dividends and bond interest in order to catch the rich, income taxes check the investment of funds in commercial enterprise, while if levied on salaries and wages they are a direct burden on the enterprising and industrious. The latest wrinkle in taxation is the sales tax adopted in a number of states and urged in some quarters for the federal government. This tax, however, adds directly to cost, increases prices, restricts demand and falls with unerring force on those least able to bear it. That those who pay the tax do not realize that they are doing so is the poorest kind of an argument in its favor.

There are still many other onerous taxes, the mention of which space does not permit, and finally there are the constantly increasing demands for information to be furnished by the taxpayers at their own expense under compulsion, in the form of tax returns, reports, questionnaires, etc., familiar to every executive. These demands involve not only an appalling waste of time and energy on the part of taxpayers, but the taxpayers must also support a huge body of unproductive workers required to gather together and verify these returns, to collect the taxes, and to exact penalties for failure of taxpayers to meet all requirements.

Is the problem really unsolvable? Must we through taxation continue to strangle business, restrict purchasing power and aggravate unemployment in order to secure revenue for our federal, state and municipal governments? Yes, it would seem so unless we come to a realizing sense of the

great privilege the people of this country have been according to individuals and groups, for which privilege the people as a whole have not received and are not receiving adequate compensation. When the people are ready to demand this compensation it will be possible to get relief from the burden of taxation. Until they do demand it, there is no hope for relief, but every prospect of an increasing burden.

When the founders of this nation wrote the Constitution they showed themselves to be admirably far-sighted in many particulars, but they failed, nevertheless, to remove the institution of chattel slavery, and the nation went through an agony of blood and tears before its abolition was accomplished. They also failed to remove another institution hoary with age and bequeathed to them by their European ancestors, an institution which is responsible for the economic slavery of Europe and is bound in the end to bring similar results in America. This was, and is, the institution of private ownership of land without adequate compensation to the community as a whole for the privilege accorded. Private ownership of land is not in itself a harmful institution. In fact it should be a benign and useful one, but as actually evolved in Europe it has led, through the failure to collect adequate compensation for the privilege of land ownership, to disastrous consequences; and now for some time the same effects have become apparent in America.

Private ownership of land can with justice be defended on the ground that it gives the possessor security for the labor and expense of improving and utilizing his property. It can hardly be expected that a man will build a home, a factory, or a store, will operate a mine or develop a farm if he may at any time be dispossessed or interfered with by another. This legal right, however, should be recognized for what it is, namely as a privilege of the most fundamental character. In fact, what greater legal privilege can there be accorded to any individual or group than the right of exclusive possession of a part of the public domain with that possession guaranteed as against all others by the community itself? This then is the great privilege for which the community fails to require adequate compensation with results that are tremendously far reaching and harmful and the cause of which is not recognized because obscured by too long continued toleration.

At this point a reader may perhaps object that, as a matter of fact, the owner of title to land does pay for his privilege when he pays the tax

on what is called his "land value." It is true that such a tax does constitute a partial payment for his privilege; but, on the other hand, if his title can be sold at a price in spite of the tax, it can only be because the full value of his privilege is not being paid. In fact, if a location on the land sells for a price, such price represents nothing more than a premium which arises because the full value of the privilege of owning the title, of which the annual rental value is the measure, is not collected in full. If it were collected in full, a land title could have no price.

We should bear in mind that every tenant pays in his rent the full value of the privilege of possession of a location on the land as determined by the competition in the market, but the owner pays only a tax on the premium above described, and generally speaking this tax can be shown to be far less than one-half of what his privilege is worth. Let us now consider what are the evil consequences which result from the failure of our government to collect full value for privilege conferred:

First there is the tremendous loss suffered by the community because of the huge rental values of locations on the land which are permitted to pass into the hands of land owners rather than to constitute the community's main source of revenue. The reader should here note that "rental values of locations" are for the locations only and do not include the rental values of any buildings or other improvements which may be on the location. Buildings and improvements are properly the property of their owners and should not be subject to taxation.

The rental values of location are peculiarly the creation of the community, rather than that of the land owner, because they represent values of location or situation which are due to the density, character and activities of the population, and to the security afforded and facilities offered by the government. The failure to collect these rental values as payment for services rendered, forces our governments, state, federal and municipal, to secure their revenue through the direct taxation of industry in violation of the one justification for private ownership of land already mentioned, namely, to secure to the user of land the full value of its use.

The second and most serious of the unfortunate consequences of failure to collect full payment for the privilege of land ownership, is that it creates a motive for owning land other than to make use of it for industrial or home owning purposes. This motive is to treat land ownership as an in-

vestment or a speculation with the definite purpose of securing an unearned profit from the rise in the value of the privilege resulting from the business activity of others, from expenditure of public and private funds and from increasing population. Thus the private ownership of land instead of being an aid to industry becomes a burden. The absence of payment for privilege encourages the land owners to withhold land from use, or to demand abnormally high prices or high location rents from those who require land for industrial or home owning purposes. Thus the land owner often becomes a stumbling block to industry, a parasite who must be bought off before industry can secure its first requisite, the land upon which to do business.

Throughout the years from 1923 to 1929 business was prospering and many were very foolishly predicting that this prosperity was to be permanent. But it was this very prosperity which was leading to the inevitable crash. Throughout the period land prices and location rents were steadily rising and land owners were able to demand a steadily increasing tribute from the business men and wage earners. Finally, as these prices were forced by speculative enthusiasm beyond all reason, the burden became too great to be borne, and when once the check to industry was felt, the whole structure of speculation collapsed with disastrous consequences to land owners, industrialists and wage earners alike.

At last land prices became deflated, and industry was in consequence able slowly to recover.

But, after the war boom and the possible postwar boom, must we again go through a period of business depression and unemployment? There is every reason to expect it. Land prices will rise again as the result of these booms, and as time goes on the business men and wage earners will see these values, which should be used for public purposes and consequent reduction of taxes, passing instead into private hands and finally pushed up to such speculative heights that industry will again stagger and finally collapse.

Is it not time for the business men and wage earners of the country, including those land owners who make adequate use of their locations, to get together and to demand that our governments secure proper compensation for the privilege of land ownership and make a sweeping reduction in taxes so that the business of the country may be really free and thus be saved from another catastrophe?

★★★ THE END.