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THE OBJECT OF THIS PUBLICATION IS TO SECURE A FREE EARTH BY ABOLISHING TAXES AND TAKING GROUND RENT FOR PUBLIC USES.

"The Monkey Wrench"

(REPRINTED FROM "THE FREEMAN")



IN THE event of a crisis in our economic conditions, the average American appears to be always ready to load the blame on some group or class, which he accuses of extortionate greed, and at the same time credits with a remarkable power to make that greed effective in robbing the people. As a result, he is all for the Government going after these wicked people with a club; or he hopes for a revolution which will overthrow the Government and enable his own class to grasp power which he fondly imagines will not be misused. How seldom does the average man stop to consider that there may be some serious defect in the mechanism of our economic system for which he is as much responsible as anybody else! On the one hand the wage-earning classes accuse employers of "profiteering," that is to say of taking advantage of unusual circumstances to make huge profits which they then refuse to share with labor. But if so, why blame the employer? Even if these huge profits are not to any great extent the reward for unusual services to the community, but are largely due to combinations, monopolies, hoarding, stock-watering, and speculation; nevertheless, are not the employers merely following the perfectly natural, moral, and unobjectionable principle of producing or buying at the lowest cost, and of selling in the dearest market they can find? If this perfectly natural principle, which every man feels justified in adopting, leads to practices which appear to be not for the public benefit, why, instead of continually invoking governmental interference with business activities, would it not be better to inquire if there may not be something fundamentally unsound in our economic system, whose remedy would cause the abandonment of these practices or would render them harmless?



On the other hand employers are now hurling back at the wage-earners the cry of "labor-profiteering" because of the continual strikes and threats of strikes for higher and higher wages, and are accusing labor of tyranny and of usurping the power of Congress. And yet the wage-earners are only exercising their right to sell their labor in the dearest market, and to refuse to work at all if they do not wish to. In their turn they are making combinations; and in the face of a rising cost of living which outstrips wages, they are using their right to quit work as a threat. Blind they may be in the use of strikes, which by checking productive processes only add to the cost of living, but it is futile to fulminate against them as selfish and extortionate. Either the cost of living must be reduced or wages must be increased; and if the employing classes cannot see any way of accomplishing the former result, why should they expect greater wisdom from the wage-earners? Instead then of urging government interference with labor by legislation against strikes and by legislation suppressing discussion of industrial problems, would it not be better to stop abusing labor and to inquire seriously into the causes of high living-cost?

Meanwhile the dreary round continues. High prices prevent effective demand for products. Production is thus restricted and cost of production increased, still further adding to prices. Wages advanced to meet prices drive up producing-costs, and hence add still more to prices. Higher wages also add to governmental expenditure, thus forcing up taxes; and taxes, as levied today, discourage enterprise and industry, again checking production. Then prices rise again, to be followed by wages and taxes, and so it goes apparently ad infinitum while everybody blames everybody else. What we need now is to cool our anger over the actions of others and quietly to look at the problem as one requiring calm thought rather than ebullient emotion.

Can we not think of any more fundamental remedy for untoward economic conditions than the old, discredited practice of governmental price-fixing, than raids on storage warehouses, injunctions against strikes, and jail-sentences for those who, in someone's opinion, are making too much money? All these things are acts of domestic warfare, stirring up hatred and class-antagonism, and futile because they attack evils instead of preventing them. Is it not time for all classes to stop laying blame on others and to examine the system for which all are responsible?

The consensus of opinion in regard to the high cost of living, indicates that to reduce cost we must increase production. There

can be but little question that this is a correct judgment. Increased supply of goods will doubtless bring down prices. Nevertheless the remedy proposed is only a small part of the answer to the problem. It is entirely unsatisfactory, unless it be shown at the same time how the increase of production can be brought about. It is one thing to urge on everyone the necessity for greater productive effort; and quite another thing to make sure that everyone shall have the opportunity to make the effort, and to secure a decent living while making it. It is useless to demand more work from those who are driven to the limit of effort to make ends meet, and it is bitter irony to demand it from those who seek work in vain. As long as involuntary unemployment is chronic, full productive effort is impossible.

To maintain increasing production, what is required is unrestricted opportunity for all to engage in productive enterprise, free from the toll of monopoly and from the disheartening interference and exactions of government. This condition can be reached and maintained only by removing the obstacles to production and the premiums on speculation which at all times, good or bad, normal or abnormal, are characteristic of our present economic system. There is a monkey-wrench in the machinery of production and the first thing to do is to take it out.

There are some things in our economic system the soundness of which the average man is likely to take for granted. Because the great majority of us (including the writer) are satisfied that our system of private title to land is sound in principle, we fail to consider the possibility that the application of the principle may be defective. Let us then examine our land-system for a moment, and if possible, without prejudice.

In the first place we must recognize that it is a system (adopted from England) of private title, not a system of private property, although generally so considered. The real ownership of the land lies in the sovereign State, not in its individual citizens.¹ The individual citizen, it is true, has exclusive possession as against any other citizen or group of citizens, but this is merely a privilege conferred on him by the State; that is, by the community as a whole. This privilege, moreover, is not irrevocable. At any time, the State can take possession of the land, determining in its courts what compensation should be paid the so-called owner. And the State always will so take possession unless the owner pays his annual rent in the form of taxes. Still another thing which shows a lack of absolute ownership is that the holder

¹"It is a received and undeniable principle of law that all lands in England are held immediately by the King."—Blackstone.

of title to land is restricted in many ways in the use of the land to which he holds title.² In particular, he cannot sell it or give it away, except subject to the jurisdiction of the State. A citizen of one of our States, Massachusetts for example, cannot sell or bequeath his land to a foreign government in such a way as to alienate it from the State's jurisdiction. He can transfer the title to a foreign government, but if so that Government does not secure absolute possession, but must pay taxes to the State of Massachusetts, must obey its laws, must accept its restrictions, and must yield up the land when demanded, for compensation determined in Massachusetts courts.

Practically speaking our system of private title to land is equivalent to a system of leasing by the State, generally, however, through the municipality and for its benefit. The lease is transferable and perpetual, and the rental paid for it is in the form of a tax, variable in amount from year to year.³

On the face of it, this looks like a just and workable system. On the one hand the rights of the individual appear to have protection. The lessee can not be dispossessed of his lease except in case of governmental need, and in such case he must be compensated for loss or damage. Moreover, he is permitted to sell or bequeath the lease to another, and the latter in accepting it assumes the responsibility for the payment of rent to the State. On the other hand, there would seem to be sufficient protection also for the rights of the public in this system of land-tenure, since in case the land increases in value, following increased public demand for it, the rent or tax paid by the lessee is increased, while in case of lessened public demand and consequent decrease in value, the rent or tax is decreased.

What then is wrong with the system? Where is the monkey-wrench in the machinery? It will be found if we examine into the method of determining the annual rental or tax.

Under a perpetual leasing system, such as our so-called system of private property in land has been shown to be, it would seem to be natural for the State to charge the tenant (or so-called owner) an annual rental at least approximating in amount what the State's tenant, in case he did not himself wish to use the land, could obtain from a sub-tenant under a long lease. In other words, it would seem just and wise that the State's tenant should be required, for the exclusive use of a piece of land, to pay in

²"The first thing the student has to do is to get rid of the idea of absolute ownership. Such an idea is quite unknown in English law. No man in law is absolute owner of his lands, but only holds estate in them."—Williams, on Real Property.

³"The existing land tax ought not to be regarded as a tax, but as a rent charge in favour of the public."—J. S. Mill "Principles of Political Economy." Book V, Chapter 2, Section 6.

rent as much, or at least nearly as much, as any sub-tenant would have to pay him for the same privilege of exclusive use. It is, however, a fact (well known but little realized) that under our system of land-tenure the rental or tax paid by the State's tenant is only a small portion of what he can exact from a sub-tenant. To see that this is so, let us consider how the rental of the State's tenant is determined.

The usual process is, first, to determine the value of the State tenant's privilege of exclusive possession, as measured by the premium for which he can dispose of his title, and secondly to tax this value at the local rate of taxation. For example, if the privilege of exclusive possession of a tract of land, or site, is worth \$10,000 (or, in common parlance if the value of the land is \$10,000) and the tax rate is twenty dollars per \$1000, then the annual tax or rent to the State amounts to \$200. What we have now to consider is the comparison of this figure (\$200) with the rent that can be obtained from a sub-tenant.

Since the privilege of owning the land would not be worth \$10,000 unless the rental obtainable were approximately sufficient to pay not only the tax but also the current rate of interest on \$10,000 the rental would amount in this case (assuming five per cent as the interest rate) to about \$700; that is \$200 for the tax and \$500 for interest. This sum (\$700), it will be noted, is three and one-half times the amount of the tax. With a more modest rate of taxation, let us say ten dollars in \$1000, the tax would be only \$100, and the sub-rental value \$600 or six times the tax.

It appears then that with ordinary rates of taxation ranging from ten dollars to twenty dollars in \$1000, the tenant of the State can exact from a sub-tenant a rental from three and one-half to six times what he himself has to pay for the **very same privilege**, and it is this failure of the State to secure a rent more nearly commensurate with the value of the privilege accorded, which is at the bottom of our economic troubles.

It is not maintained here, however, nor should it be assumed, that land-owners, the tenants of the State, are, as a class, in any way benefited by this system which allows them to hold land for an annual payment so much smaller than what they can secure by sub-letting. The prices they have paid as purchasers of this privilege have perhaps, as often as not, been greater than what the privilege proved to be worth, and they are as much the victims of the bad system as any one else and to no greater extent are they to blame for it. It does, however, as will presently be seen, give them a motive for sabotage, to the great injury of the community.

And now, how does this system restrict production? The unduly low rental paid by the tenant of the State causes restricted production:

(1) by creating high premiums for land titles, or in other words, high prices for land, which represent heavy and unnecessary overhead charges on business enterprise.

(2) by creating a premium on the practice of holding valuable land, unrented and inadequately used, thereby artificially restricting the amount of land available for industrial purposes.

(3) by diverting into private pockets the rental value of the land, the natural revenue of the State, thus making necessary the heavy taxation of all business enterprise.

(1) **High Prices for Land.** ⁴ Abnormally high prices for land are burdensome overhead charges on business, because they force the investment of an excessive amount of capital at the very start, since land on which to do business is the first requisite. High prices of land, often looked upon as community assets, are in fact community liabilities, representing as they do the premium which must be paid before business can be begun. If a larger proportion of the rental value of the land were required to be paid the State, the price of a site would be less, thus reducing the capital required for establishing a business; while the increased rental to the State would be paid out of the business as earned, and would supersede the payment of interest on the capital otherwise necessary. The price of land in the big centers has risen to fabulous figures; and the price of farm-land advanced from \$15.57 per acre in 1900 to \$45.55 per acre in 1915; and only recently it is reported that there is a boom in the prices of farm-land in Iowa and Nebraska, resulting in prices being paid as high as \$600 per acre.

(2) **Speculation.** The increasing price of land not only puts a burdensome overhead charge on business enterprise, but the possibility of big increases in price creates an inducement to hold land, not for the purpose of using it, but in the hope of securing a speculative profit at the expense of the actual user. When this possibility of profit is coupled with a comparatively small annual carrying charge or tax, and with the certainty that the use of land will be penalized by the taxes on improvements, on buildings and on the profits of business, it is not the land-owner who should be blamed if he practices the form of sabotage which consists in holding valuable land out of use. He is no more to blame than

⁴The report for 1919 of the Commissioners of Taxes and Assessments of the City of New York gives the assessed valuation of vacant parcels of land as \$553,434,609. It also states, "Every parcel which contains any improvement, however slight, is counted as improved."

any other citizen equally responsible for a system which creates a motive for an injurious practice. If the greater part of the rental value of the land were taken by the state, this practice could never pay, and would therefore cease. There would thus be removed the most effective restriction on the employment of labor and capital in industry.

That lands of tremendous value are today held out of use, so that industry is forced to maintain itself on land inferior in quality, or less advantageously situated, there is no doubt. The values of vacant and under-improved land in the big cities, as reported by assessing-departments, are astounding; while in the case of agricultural land, so much is held out of use at prohibitive prices that Secretary Lane in his desire to give the soldiers an opportunity to secure farms felt obliged to resort to an expensive and extravagant plan of reclamation.

(3) **Taxation.** Finally, as an obstacle to production there are hampering taxes, local, State and Federal, of great variety. Of these the most discouraging to industry are the local taxes on buildings and improvements, and on machinery and merchandise, the State and Federal taxes on earned incomes and profits, and the Federal tariff-taxes on food, clothing, and other necessaries.

Even the taxes on unearned incomes and on inheritances can at least be looked upon but as a choice of evils. Although they do not check production to the same extent, they nevertheless divert from productive enterprise a vast amount of labor. To realize this we have but to consider the amount of labor involved in their collection, not only by the tax-departments of the State and Federal governments, but by the taxpayers themselves, and the lawyers they hire, in the making of detailed and complicated returns. All these burdensome taxes are made necessary by the failure of our land-system to secure a proper proportion of the rental-value of the land for local, State and Federal governments. It is not difficult to show that these rental-values are alone more than enough to supply all needed revenue.

In summarizing the above, it appears that the first step towards the improvement of economic conditions is to remove the obstacles to production by securing as public revenue a much larger proportion of the rental value of land. The failure to do this constitutes the monkey-wrench in the machinery of production. Unless it is removed, successful operation is not to be expected.

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