

Feudalism—Modern Version

by ALBERT H. JENKINS

FEUDALISM, the power of some men to command the labor of others through ownership of land, persists here in the midst of capitalism; and from that fact flows a moral and economic wrong so enormous and fundamental that it is poisoning our human relations and destroying our civilization.

Let's bring this down to our own experience. Most of you own a house. You remember its price. Suppose it was \$15,000.

Little more than a decade ago, in 1950, the prices of lots averaged about 10 per cent of the total cost of new homes. Now the lot cost has doubled to 20 per cent and is still rising. At the 20 per cent figure, the buyer of a \$15,000 house paid \$3,000 for the bare land on which it was built. *How long does it take you to earn \$3,000?*

For that length of time, if you were that home buyer, you were the feudal serf of the man who sold the land on which your house was built. In return for your \$3,000, he gave you nothing but his permission to use land which he did not create, and the money value of which he did not create. He commanded, and if you have not yet paid off the mortgage, is still commanding, your labor for the length of time it takes your hard-earned salary to add up to \$3,000.

That \$3,000 was added to your mortgage, and if it's a long-term one, the interest will about double the final land cost to you. Therefore, as a result of the persistence of economic feudalism in this country, the former landowner and the mortgage money lender are commanding your labor for as many months as it takes you to earn

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\$6,000. If you rent the house, you pay the same land cost.

Every time you go to a supermarket or other store and buy anything, you are paying multiple land costs, though they are well hidden. Every step in the production and distribution process—from Mother Earth's resources to the final consumer—in agriculture, mining, manufacturing, wholesaling, retailing and the construction industry—requires use of land. All these steps pile rising land costs one on top of another until the total becomes an unbearable burden. Then comes economic recession or depression.

What can be done to end this hangover of economic feudalism? Most liberals and labor spokesmen, unfortunately, offer no real remedy, but only temporary palliatives which make the patient still sicker.

What they propose, and often get, are public subsidies and government guarantees to give the economic system a "shot in the arm" when it is being stopped by the roadblock of rising land costs. Such artificial stimulation boosts land prices still higher, requires ever-increasing doses, and merely postpones the day of reckoning.

The government housing programs, particularly those for slum clearance and urban redevelopment, are good examples of subsidizing land profiteers

with public money and guaranteeing that the taxpayers will take the losses if land speculators and mortgage money lenders run wild and cause a crash.

More and more urban redevelopment projects are being promoted by smart real estate operators, who reap rich profits from them. A public body buys the land at a high price, pays the heavy expense of clearing off the old buildings, then sells the land to a private developer at about 70 per cent of the price the public body paid for it.

There just isn't enough public money to go very far in that kind of program, and slums are spreading faster than they are being cleared. Such a system has not worked and will not work. It only encourages and rewards the economic feudalists. They got an average of nearly half a million dollars an acre for the land in New York City's public housing projects.

Huge land costs have two results, among others. First, even with the public subsidies, apartments built by private redevelopers must and do rent for far more than can be paid by the low-income families for whom they are supposedly provided. In Washington's Southwest redevelopment area, such rents are reported to be as high as \$300 a month.

Second, the comparatively low rents in public-built and public-owned housing require not only public subsidies for buying and clearing high-priced land, but also continual public subsidies to keep the rents within the reach of low or even middle income families.

Something different—a real remedy—is needed. *What can it be?* Let's approach an answer this way:

Slum property yields its owners profits between 20 and 25 per cent—far more than any other kind of sure-thing investment. That's largely because, the more the buildings deteriorate, the lower their value is assessed and the lower the taxes the owner

pays. Thus he is rewarded for being a "slumlord" more ruthless than ancient feudal landlords.

But, suppose this slum owner spends money to improve his buildings and convert them into decent dwellings, or tears down the wretched old buildings and puts up new ones? Either way, he has not only increased the supply of good housing, but also has provided employment for workers in the building trades and construction materials industries, has benefited manufacturers, merchants, railroads and other carriers, architects, engineers, and the economy in general. But this owner, instead of being rewarded as the other one was, is heavily penalized. The assessor comes around and boosts his valuation and taxes. In effect, this owner is told he committed a crime by improving his property, and from then on must pay an annual fine in the form of taxes.

Federal taxes, too, are full of favors for landowners and speculators. Here's just one example: Earned income pays federal tax rates ranging from 20 to 91 per cent. Unearned profits from land pay only the capital gains tax—from 10 to 25 per cent at most. And Uncle Sam gives back to the landowner much of the local land value taxes he has paid.

That's because such local taxes are deductible from the landowner's taxable income. Thus a wealthy land speculator in the 50 per cent tax bracket can, in effect, deduct half his land tax from his federal income tax. As a result of these and other local, state and federal tax favors, land today carries only 5 per cent of the total tax burden, although land values are one-third of the total national wealth.

This tax system is upside down, according to a school of economic and moral thought fostered by the teachings of Henry George, who wrote a book entitled *Progress and Poverty*. It caused profound controversy in its time, but produced practical results in

some parts of the world, and its teachings are now having a revival here in our own country.

Those who agree with the Henry George philosophy say the man who should be encouraged and rewarded is not the one who let his slum property run down, but the one who did a favor for everyone by improving his old buildings or tearing them down and putting up new and better ones. This owner should not be penalized by a tax increase, the other one should be.

How would that be done? By taxing the land under the buildings at its true economic value, which always is much higher than the present assessed value, and taking taxes entirely off the buildings or other improvements.

But the purpose of the Henry George tax system goes far beyond clearing slums by reversing the impact of local and state taxes. Its purpose is to end the persistent economic feudalism and its attendant evils. It proposes to do that by making it unprofitable to hold land out of use or use it inadequately, while waiting for increasing population and public need to boost the selling price.

No nation can endure under such a perverse tax system, particularly when our taxes now total about 125 billion a year. That's nearly a quarter of the value of our total annual production. Think what a weapon of destruction such an enormous levy is!

More and more people are awakening to this problem and its remedy. I wish I could say it is the liberals and laborites who are leading, but here are some typical facts:

House & Home, the big magazine covering all phases of the home-building industry, is a Luce publication, and as such would generally be considered conservative. But, on the land and tax question, House & Home is "radical" in the old American sense of that word, which has nothing to do with communism. A true radical

is one who goes to the roots of things—seeks out and tries to remedy causes, instead of merely trying to patch up effects. He knows that the only way to stop economic evils is to remove their sources.

The editors of House & Home, through intimate and practical knowledge of the homebuilding industry, became convinced that it is being strangled by high and rising land prices, and that the only remedy is taxing land values more and houses less. It printed a special edition on that subject, and called the land speculator "Public Enemy No. 1."

Feudal lords, big and little, are exacting more and more billions of tribute from the rest of the people. This will get worse as increasing population puts heavier pressure on the land and other natural resources. Warnings came long ago from the classical economists. Two of them—Adam Smith and David Ricardo—foresaw that in times of rapid economic growth and scarcity of workers wages could rise temporarily. All agreed on a general rule which has come to be known as Ricardo's *iron law*—"The natural price of labor is that price which is necessary to enable the workers to subsist and perpetuate their race."

But now the "population explosion" is on and the industrial revolution, instead of helping to prevent unemployment, is creating millions of workers who can't find jobs at even Ricardo's "subsistence wage." Such insecurity will continue until the land and tax questions are answered and answered right.

Poor, blind, ill-informed and misinformed man! He feels that something is fundamentally wrong—something which, as Henry George said, perpetuates poverty in the midst of progress. He does not know that this is the inevitable result of the economic feudalism which puts high and ever-rising prices on what were meant to be the free gifts of Mother Earth.