

# Economics of Democracy

"I have read your 'Economics of Democracy.' You did a good job. The high-brow professors now have a chance to get the idea into their wooden heads without reading several hundred pages, and they have less chance to stumble over non-essentials."

So writes John Z. White, veteran Chicago Geogist, to DR. F. MASON PADELFOED, whose "compendium," as the author himself styles his brochure, was begun as a serial in the December, 1942, issue of THE FREEMAN and is concluded with this number.

*We live in a world of Law: Contemporaneously with the development of society to a point where an organized government becomes necessary, and with the growth of government, land comes to have a value for use sufficient to defray in full that government's every legitimate expense. In brief: True Rent equals the cost of efficient government.*

While it must be conceded that governments are rarely efficient, and also that no methods are known whereby Rent, as an entity, can be scientifically computed, we may reasonably assume, not only that the Rent of privately owned land will, in normal times, support the government, but also that when as much Rent as is needed is taken by governments there will not be left in the possession of individuals enough to make possible any hurtful land speculation.

By taxing Rent we reduce to a vanishing point the selling price, and investment value, of land, and virtually create a public domain. This establishes economic liberty.

By ceasing altogether to tax products of labor we lessen costs of production and prices of products, and thus raise to the maximum real wages. This makes possible an equitable distribution of wealth.

The man who builds not-taxed houses, and produces not-taxed commodities, on free land, is truly free. The farmer or manufacturer who would induce this free worker to enter his employ must offer a satisfactory wage. Competition is now between employers who would hire laborers, and not between laborers who compete with each other for jobs. Involuntary unemployment is improbable—is indeed, impossible.

We shall err on the conservative side probably if we value the annual Rent of the land in the United States at something like \$9,500,000,000. When we tax in full land Rent we shall un-tax land improvements and labor goods, etc. When we appropriate annually, by taxation, nine and one-half billions of dollars of Rent we shall eliminate other taxes whose total is not less than the same amount. Not-taxed products of not-taxed machinery will then sell for correspondingly reduced

prices—which is to say that the purchasing power of the dollar will be greatly increased.

The substitution of one tax on Rent for the multitude of taxes which now are imposed on industry should increase the buying power of American consumers, at the least, by the equivalent of a wages increase of \$9,500,000,000 a year. The gain undoubtedly will be more.

Semi-official statistical reports indicate that in prosperous years there are produced in the United States labor products valued at as much as seventy-five billions of dollars.

What constitutes an ethically defensible rate of Interest, I do not know. I feel sure, however, that owners of Capital can have no reasonable cause for complaint if, in any year in which wealth valued at seventy-five billions of dollars is produced, they receive \$9,000,000,000—which is Interest at six per cent on an estimated Capital of \$150,000,000,000. Let us assume that annual Rent is \$9,500,000,000; that annual Speculative Rent is \$3,000,000,000; and that total annual Taxes are \$12,500,000,000.

## Products

If Rent only is taxed, \$75,000,000,000 will equal Wages  
 Rent-taxes Interest  
 plus \$9,500,000,000 plus \$9,000,000,000. Therefore Wages  
 Products Rent-taxes  
 will equal \$75,000,000,000 minus \$9,500,000,000 minus  
 Interest  
 \$9,000,000,000—then \$56,500,000,000.

Under existing conditions, public revenue being  
 Products  
 secured chiefly by indirect taxation, \$75,000,000,000  
 Rent Interest  
 equal Wages plus \$9,500,000,000 plus \$9,000,000,000 plus  
 Taxes Speculative Rent  
 \$12,500,000,000 plus \$3,000,000,000. Therefore Wages  
 Products Rent  
 equal \$75,000,000,000 minus \$9,500,000,000 minus  
 Interest Taxes Speculative Rent  
 \$9,000,000,000 minus \$12,500,000,000 minus \$3,000,000,000  
 —then \$41,000,000,000.

It would appear that by ceasing to tax private property we shall increase the purchasing power of American consumers of American-made goods by as much as is represented by a Wages increase of \$15,500,000,000 a year—the amount varying, of course, as business conditions vary from year to year. This sum represents the purchaser's handicap which is created by unjust and unscientific legislation.

By no possible governmental economies, or system of industrial regimentation which can be enforced in a political democracy, can this handicap be overcome. While now-existing tax laws continue in force, as the cause, this purchaser's handicap, as the effect, must remain. Our tax laws must be changed.

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The argument that, as men acting in good faith have invested money in land, the State has no moral right to impose taxes which, as they absorb Rent, reduce to practically nothing the capital value of such holdings, is of little or no worth. A title to land is as good, and only as good, as that of the original conveyer. An original title which is not based on force or fraud, or both, probably cannot be found. Therefore, from a moral standpoint, no land title is good. But our laws have encouraged traffic in land—have in fact compelled its purchase and sale. Because of this fact many even ardent advocates of Rent taxation deem it best that the change be gradually made.

The local government which levies upon a building a two and five-tenths per cent tax—and this is common—confiscates its entire value in forty years. When the carrying charges and necessary expenditures for the upkeep of a building come to equal the original cost of construction the initial investment in the property may be said to have disappeared. This being true we may assume that the life of the average investment in real estate improvements is not above twenty years. If owners of land, in the same number of years, see their capital investments in it disappear they can have no reasonable grounds for complaint; they will have been accorded exactly the treatment which investors in real estate improvements have usually received.

As a matter of fact the owner of adequately improved land, if he owns also the improvements, will lose nothing: As his equity in land grows less as the tax on Rent increases, his equity in the improvements will increase as taxes on these improvements are reduced.

Taxes on wealth and capital and incomes, and stocks and bonds and inheritances, and imports, may be gradually reduced, and at the same time taxes on Rent may be increased until finally no taxes whatever are imposed upon private property, and socially-created wealth only is taken for governmental use. When this point has been reached such wealth as is produced will be divided between those who work, those who create and therefore

have rightful title to Rent, and those who own capital. Then will *Products* equal *Wages* plus *Rent-taxes* plus *Interest*. Then will *Wages* equal *Products* minus *Rent-taxes* minus *Interest*. Then will economic justice have been achieved.

In making the first levies under the Rent taxation system taxes may be apportioned on the basis of capital values of land. From these we may determine the relative value of one parcel of land to others, and thus secure a series of fractions indicating the fractional part of the budget which each owner of land should pay. For example, if the land in the city is valued at \$200,000,000; if the city's annual expenditures are \$10,000,000; and if a centrally-located lot is valued at \$25,000, the tax on it will be  $\frac{25,000}{200,000,000}$  of \$10,000,000—then \$1,250. Another lot, valued at \$500, will be taxed  $\frac{500}{200,000,000}$  of \$10,000,000—then \$25. Once the system is established capital values, as a basis for assessments, may cease to be important.

That society which sanctions the private ownership of tools and machinery—instruments of production—is capitalistic. In the present stage of human development an orderly capitalistic system makes possible a greater measure of individual prosperity and happiness than does any other of which we have knowledge. In it no caste barriers exist. Any worker may become an owner of capital and an employer of Labor, if he so desires. Whether he will do business as an individual, or as a member of a cooperating group, is optional with him. Property rights are vital. That which the individual owns he may use, sell, give away, or bequeath. To the degree that his right to do any of these things is abridged, his property rights are encroached upon. It follows that the right to own capital is not limited to those who use it. A title to any property is valid if traceable to the producer.

Just how, or into what, a free capitalistic system may ultimately develop, no one can foretell. Orderly development we need not fear. But we must regard with apprehension any proposal which involves the substi-