Unemployment and Our Revenue Problem

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Mr. Codman asks and answers the question: Is unemployment a natural or an artificial condition in modern civilization? He insists that it is "an absurd artificial phenomenon" and can therefore be done away with. In an entertaining chapter on "Robinson Crusoe up-to-date" he illustrates how this can be done.

I. The Absurdity of Involuntary Unemployment

Whatever may be the real or fancied diversity of interest between the so-called wage-earning class and their employers the business men of the country, on one thing at least both sides will agree, namely: that the curious and chronic phenomenon of involuntary unemployment is an unmitigated curse. Of this there can be no doubt whatever among the wage-earners who must sell their labour in a market overcrowded with competitors for a limited number of jobs; an among business men there must be few indeed today who really believe that the opportunity to buy labor cheap because of a scarcity of jobs, is in any way an adequate compensation for the loss of purchasing-power which follows from unemployment and the resulting low wages. When unemployment is acute and wages are low, business is usually depressed and its profits are uncertain or, all too frequently for many, entirely absent.

Assuming, then, that we can all agree concerning the baneful effects of involuntary unemployment, which, for convenience, I shall hereafter designate by the one word "unemployment" — are we not all immensely interested to discover what maladjustment of our economic system is the cause of this unnatural phenomenon? For surely it is unnatural that a man should lack the opportunity to utilize his faculties in earning a living. Theoretically, under our present form of government, every individual is free to employ himself in the production of those things which he needs, or of those things which he can exchange for what he needs; or, if he prefers, he is free to sell his labour to others in return for wages by means of which he can purchase what he needs. Practically, however, the great majority of our people have no opportunity to produce unless they can find someone to employ them, and at times there are millions for whom employers can not be found.

A vast amount of time and energy is wasted in the endeavour to secure accurate information concerning the extent, character and distribution of unemployment with a view to ameliorating it when it is acute; but it is seldom recognized that if even one able-bodied man is unable to find an opportunity to use his powers, an unnatural condition exists. When millions find themselves in such a position it is plain that the situation is unnatural to the point of absurdity.

We are accustomed to say that there is no demand for the labour of the unemployed, but all we can mean by such a statement is that no employer wants their services. We must admit that there is the same demand for the labour of every many that there was

for the labour of Robinson Crusoe alone on his island, namely: the need of satisfying his own wants. Why, then, can not this demand be met?

Robinson Crusoe needed no employer. He required only that there be no interference with his use of the natural resources of the island. Here, then, in this country, where we have natural resources greatly exceeding the needs of our comparatively scanty population, where we have all the advantages of modern knowledge concerning methods of facilitating production in co-operation with our fellow-men, why should not all of us who are able-bodied and sane-minded be able to earn an independent living far better than that to which a Crusoe could aspire, instead of being periodically obliged, many of us, to walk the streets begging for an opportunity to work? Such an existence is even worse than the loneliness of a Crusoe; for it is better to live alone, or nearly alone, as so many pioneers have done from choice, than to dwell in a society where opportunity for all to make a living independent either does not exist or is denied, and where dependence on the charity of others becomes therefore a necessity.

Let us face the question. Is the lack of economic opportunity, evidenced by unemployment for some even in prosperous times and by unemployment for millions in times of stress, a necessary concomitant of civilization; or is economic opportunity in some way denied or abridged in so-called civilized society; and is unemployment, therefore, but a symptom of economic maladjustment arising from an artificial cause and hence preventable? If we accept the former view that unemployment is natural and abiding, then we ought to revise all our theories of what constitutes virtue. It has been our habit to praise the individual who through his determination secures a job, and by his industry and ability holds on to it. But if unemployment is a natural phenomenon, ought we not instead to admire the individual who, rather than take a position which some one else could fill, would prefer to starve to death? To be sure some one must do the work or the nation can not live, and if no one else can do a certain job as well as can the reader, for example, it might be argued that he should hold that job if he can, as a matter of duty to society. But if the work can be done just as well by another, does not true altruism require him to step aside and let the other person do it? That people actually hold this view is shown by the not uncommon opinion that a person with an independent income should not render any public or private service with or without pay, or engage in industry with or without profit to himself, if by so doing he deprives some needy competitor of an opportunity.

If unemployment be, in fact, a natural phenomenon of civilization, then the industry of the individual is not, as we have supposed, for the good of all, and our industrial system must always remain what to many it seems to be today, namely: a dog-eat-dog fight for opportunity; a system in which competition has come largely to mean, not the competition in service which is properly called "the life of trade," but a cut-throat fight for opportunity which can lead to nothing but selfishness and crime.

It is difficult, however, even when one faces squarely the facts of present-day existence, to believe that this curse of unemployment is natural and will always exist in

greater or less degree. But if it is not natural, then it is artificial and consequently preventable.

In further proof that unemployment is an artificial and extraordinary phenomenon, let us consider in connexion with it some of the glaring inconsistencies and incongruities which exist in the industrial organization of civilized society. In the first place, it may be observed that when civilized nations are engaged in wholesale destruction of lives and property, the phenomenon all but disappears. Then the services of the individual are so much in demand that governments even compel him to labour, and the need of production for purposes of destruction becomes to great that no one need be idle or feel himself to be useless, unless perchance he inquire too closely into the ultimate value to humanity of his occupation. But when peace returns, the need of the services of every one to satisfy the manifold needs and desires of all, seems no longer to exist. Gradually unemployment reappears, then becomes acute, and what some of us have the colossal effrontery to call "overproduction" and "surplus products" are once again in evidence, while millions remain without proper food, clothing and shelter.

Then also, when the destruction ends and the victorious governments feel that they must have material indemnification for their losses, they at once become fearful lest the acceptance of indemnities in any form may mean unemployment for their people. Thus there begins a frantic attempt simultaneously to demand and to refuse. The vanquished must be made to pay, but if they offer to restore the devastation in the regions of the victors, the offer is refused because it will deprive the people of the victorious countries of the opportunity to do it themselves. If goods are offered in order that the victors may the more easily and quickly restore the devastation by their own labour, this offer also is refused because it is only by producing the goods themselves that the victors can avoid or lessen unemployment. Even the offer of goods in trade, that is, in exchange for goods produced by the victors themselves, is feared, lest it injure the industries of their peoples and produce unemployment. Therefore, up go the tariff-barriers of the victorious nations. In every so-called civilized country unemployment is always so dreaded that the government fears to allow its citizens to accept freely from foreigners either services or goods.[1]

Undoubtedly, involuntary unemployment is an absurdly artificial phenomenon and undoubtedly, therefore, it can be done away with — but how? The tendency of the times is to postpone the solution of every question while private and public agencies pile up a mass of unrelated and often unimportant statistical information by means of which the judgment of the people is confused. It is better to depend less upon statistics, which often exaggerate the importance of superficial symptoms, and to depend rather more upon the reasoning-faculties of the human mind. Then, frequently, the truth is found to be obvious and simple.

[1] See Appendix: "How to Secure the German Indemnity." for a development of this subject.

II. Robinson Crusoe Up-to-Date

If Daniel Defoe were to rewrite in these times his history of Robinson Crusoe, he would doubtless be aware of the necessity of altering it greatly. In the light of present-day industrial conditions, Crusoe's first though after the shipwreck would have been to get a job, and his despair in finding himself entirely alone with no hope of an employer would be vividly portrayed by the author of his history.

After he had "walked the streets" in vain, however, it would undoubtedly have at least occurred to Crusoe, since he was a man of unusual ingenuity, that he might just as well be his own employer. He would then have hastened back to the wreck, and, as he did in the original version of the story, he would have landed what stores and tools he found there and with these as his stock in trade would have started to do business.

Very soon, however, another question would begin to trouble him, namely: how to do business without a landlord; but having already overcome one difficulty, his resourceful might would easily surmount this second one, and finding that no one interfered with him and not seeing any "no trespassing" signs about, he would promptly decide to be his own landlord and would hand himself a title to the island by right of discovery or conquest. Then at last his modern mind would be at rest, and in his own person would be represented all those who share in the products of industry under the institutions of civilization. He would be, first, the landowner, secondly, the tenant and employer of labour, and thirdly, the employee or wage-earner.

When this new version of the story reached the discovery of the footprint in the sand, there would be great rejoicing on Crusoe's part, not because he would anticipate the arrival of an employer or a landlord (all that idea would have been forgotten), but because now he would see visions of many tenants from whom he would receive rent, some acting as employers and some as wage-earners, and upon whose shoulders he would be able to throw the burden of organizing and carrying on production.

Since the savages encountered by Crusoe could hardly be expected to recognize his title to the island, the story might well continue as in the original version, ending with the defeat of the cannibals and the release of their prisoner, Man Friday. Then another change in the story would be necessary, since, with his modern views, Crusoe could not hold Friday as a slave. He would therefore free Friday and would offer to rent to him for, let us say, so many cocoanuts, a small portion of the island, so that Friday might have at least a place to rest his head at night, while during the day he could work on Crusoe's estates and thus earn enough cocoanuts to pay the rent, and to buy from Crusoe a few of the other things which he (Friday) might need and had himself produced.

The social arrangements of the island community would now begin to resemble the institutions of modern civilization, but it would require the presence of a few more civilized beings to make the resemblance really close. This could easily by arranged by supposing that another shipwreck had thrown a group of men, women and children upon the island. These new arrivals, being assumed to be thoroughly civilize, would

of course recognize Crusoe's prior title to the island, and their first thought, therefore, would be to secure jobs in his service, or to rent from him (or even to buy if they had anything to offer) some portion of the island. It may be assumed that some, at least, of the newcomers would secure leases of the land, if not freeholds, and that some of the others, but perhaps not all, would secure jobs either from Crusoe or his tenants. Thus very soon the society of the island would be capable of some such classification as the following:

1. Robinson Crusoe himself, owning the island through right of discovery or conquest and living comfortably, without need of labour, on the rents received from his tenants.

2. Crusoe's tenants, striving to utilize their opportunities in production, often organizing and directing the labor of others, but squeezed between Crusoe's demand for all the rent he can get and the demands of employees for all the wages they can get.

3. Those neither owning nor renting land and therefore without opportunity to produce except as employees. These hire themselves out, when they can, to Crusoe's producing tenants, helping the latter to pay Crusoe's rents and receiving their portion of what is left to the producers after paying Crusoe.

Now in such a society as this, Crusoe would be in a position to dictate to what extent others should use the island for productive purposes, and he would expect tribute to be paid to him whenever his permission was granted for the use of any part of it. When his demands were not too exacting and he was willing to rent even the best locations at reasonable prices, his tenants would have the hope of some profit from production and would employ many others to assist them. At times, however, observing the prosperity of his tenants, Crusoe would be tempted to try for a larger share of the product of industry, and by demanding higher rents would check business, force it perhaps to be carried forward on inferior locations, thus diminishing his tenants' ability to employ the labour of others. In such a society opportunity to produce would be restricted, unemployment would be chronic and at times acute, and the cause of this condition would obviously be Crusoe's ownership of the island.

Let us take one step farther in the story of Robinson Crusoe. Let us suppose that he has died, that the island is no longer owned by one individual, but has, through successive division of estates and through sales from time to time, passed into the hands of a considerable number of persons who, however, still aggregate but a small minority of the whole people. Let us suppose that most of these new owners of the island have obtained their holdings by actual purchase and that many even have paid too high a price for the privilege and are therefore "land poor," that is, are unable to sell what they hold for as much as they paid for it. Is there any reason to suppose that the economic conditions in the island will be to any material extent changed by this division of land-ownership? Not at all; for the power to control the use of the island and to exact tribute from the producers without rendering any service in return will remain as before. Those who own no land will still be dependent on others for the opportunity to produce, and the competition of these landless persons among themselves will force them to pay high rents or prices for land, or to accept the position of employees at low

wages, while unemployment of a greater or less number will still be a feature of the system. In other words, to summarize briefly, those who own the island will determine, just as Crusoe did, to what extent its productive capacity shall be utilized and how many of the inhabitants shall have the opportunity to earn a living.

Now, finally, let us suppose that the people of the island are determined to end a state of affairs so unsatisfactory to the great majority of present and future generations. What would be the best way to proceed? Would it be to dispossess the landowners and abolish the system of private property in land? By no means. Such a proceeding would be unnecessary and therefore unwise. The proper step to take would be obvious as soon as the people of the island came to recognize the following principles essential to community life:

First, as recognized by every modern State, that the people as a whole are sovereign. Second, that therefore the island was in fact the property of the whole people. Third, that individual possession of a part of the island was not therefore absolute in its nature, but was essentially a privilege conferred on the holders by the people as a whole.[2]

From these principles the conclusion follows that the holders of the privilege of exclusive possession of land should be required to pay periodically proper compensation to the people as a whole. It also follows naturally that this compensation for privilege should be in proportion to the value of the opportunity afforded and should not depend upon the use of that opportunity. In other words, he who utilized his opportunity should pay no more and no less than another who with equal opportunity failed to make use of it. If this plan were put into effect, the economic troubles of the island would rapidly disappear, as it would become distinctly unprofitable for landowners to withhold valuable opportunities from industry. Since they would have to pay for their opportunities what they were worth, whether they used them or not, they could not afford to let valuable opportunities lie idle. They would be under pressure to employ labour, and if they were not willing to do so they would feel obliged to rent or sell their holdings to others who in their turn would employ labour. Furthermore, this pressure upon landowners would make it impossible to demand excessive rentals or prices. Thus the inducement to landowners to restrict or obstruct industry would be removed, while at the same time the payments for privilege would furnish revenue to the community to be used for community purposes, thus avoiding the necessity of penalizing industry by taxation.

It has been the object of this new version of the story of Robinson Crusoe to demonstrate that unemployment with all its evil consequences is certain to exist if private possession of the land and the natural resources of a State is permitted, unless

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

"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

the power to withhold valuable land from industry is prevent, by requiring from the holders an adequate and properly proportionate payment for the privilege of ownership. To what extent and in what manner is this requirement met in a modern state?

III. Securing Payment for Privilege

The preceding discussion has, I hope, made it clear that unemployment is an artificial phenomenon, and that it is certain to exist in a society which invites the restriction of opportunity by permitting private possession of land without adequate compensation to the community for the privilege. It has also, I hope, been made sufficiently clear that the institution of private possession of land, with its many advantages, is not in itself the cause of unemployment, and that a system of leasing by the State would have the same result if the privilege of possession were granted for an inadequate rental. In either case the use of valuable opportunities would be denied to industry and chronic unemployment would result. Since, therefore, there are in the United States enormously valuable economic opportunities lying idle, and since unemployment is chronic, is it not possible that this condition may be the result of inadequate payment for the privilege of possessing land and natural resources? It would be well to consider just how, if at all, landowners pay for their privileges and, whether the payments, if any, are made, are adequate and proportion to value.

It is true that landowners in the United States do make, in the form of taxes, a payment to the community. Nevertheless, it is also true that for the privilege of landownership as such, no compensation is required by any government, federal, state or municipal, and that, therefore, whatsoever payment is made to these governments is merely incidental to the needs of revenue for governmental purposes. If no revenue were required, or if revenue were supplied from some outside source, then no taxes would be levied, and the owners of the land would hold their privileges without compensating the community and would therefore be in a position to monopolize opportunity and thus control the lives of others. That some tax is levied upon landowners may be looked upon as a sort of happy accident. Since, however, it is not required as a payment for privilege, but is levied as part of a general tax on property, there results a great disproportion in the relation of the amount of tax to the value of the opportunity. Those landowners who fail to utilize their opportunities pay relatively little for their privileges, while others, who with no greater opportunities make use of them in industry or for home purposes, are required to pay very much more. Thus the enterprising and industrious are sacrificed to the forestallers of opportunity.

For example, in Massachusetts, the holder of unused land is required to pay only the municipal tax on the supposed market-value of his holdings, which value, moreover, is usually assessed at too low a figure for the very reason that the land is unused. On the other hand, if the owner erects buildings and makes other improvements on his land, he is taxed by the municipality on all this property as well as on his land,

and at the same rate. Should the owner be a corporation endeavouring to enter into productive industry, not only does the corporation have to pay taxes to the municipality on its buildings, improvements and machinery, but in addition it must pay to the Commonwealth another property-tax on its "corporate excess," which is the market-value of its capital stock in excess of the value of its property locally taxed; and it must also pay to the federal government a "capital-stock tax" on the market-value of its capital stock in excess of $5000. If in spite of these penalties on doing business the corporation can still make a profit and therefore can continue its productive activities, it becomes subject to still further exactions levied by the state and federal governments. Principal among these last are the taxes, state and federal, on net income.

The following illustration is submitted in order to give some idea of the amount of these various taxes which a corporation is called upon to pay as a penalty for using its land for productive purposes, as compared with the amount it is required to pay if it makes no use of its opportunity. Let us assume, first, a plot of suburban land valued at $10,000 and entirely unused, being held perhaps to secure a profit from its rise in value as the city grows in population. The only tax levied upon it would be the local tax of perhaps twenty-five dollars in $1000, or a total of $250 annually. Next let us assume a similar plot of land of equal value, and therefore representing an equal opportunity, but in use by a corporation for manufacturing-purposes. We may, in regard to the corporation's business, make the following additional assumptions, which seem fairly reasonable:

Value of buildings	$20,000
Value of machinery	5,000
Value of capital stock (Market value)	60,000
Net income	5,000

On these assumptions taxes will be as follows:

Municipal tax on land at twenty-five dollars per thousand (the average rate in Massachusetts)	$250.00
Ditto on buildings	500.00
Ditto on machinery	125.00
State tax on "corporate excess" of $35,000 ($60,000 minus $35,000[a]) at five dollars per $1000	125.00
Federal tax on capital stock over $5000, at one dollar per $1000	55.00
State tax on net income at $2\frac{1}{2}$ per cent	125.00
Federal tax on net income over $2000 at $12\frac{1}{2}$ per cent	375.00
Total	$1555.00

[a] Land, buildings and machinery, $35,000.

In this illustration the tax on the land without regard to use, which may be considered the tax on the privilege of possession, is only $250. The additional taxes levied because of the use of the land in industry amount to $1305, or more than five times as much. Thus the practice of withholding land from industry for speculative purposes is directly encouraged while its use in industry is heavily penalized.

The above example is probably not exceptional. There is reason to believe that the tax on the use of land is in even a greater ratio than five to one as compared with the tax on the privilege of holding. Other taxes not paid directly by the corporation in the above illustration, but which nevertheless discourage industry, are import taxes on the materials of industry, various stamp and other miscellaneous excise-taxes and (very important) the income-taxes levied on the wages and salaries of its employees, on the interest of its creditors and on the dividends of its stockholders.

It has been estimated by a committee of the Boston Chamber of Commerce that in 1920, the taxes, municipal, state and federal, for Massachusetts amounted to $457 million. But the tax on land exclusive of buildings in that year was only about $48 million, and since a portion of that land-tax was laid on improvements other than buildings, something should properly be deducted from the above figure of $48 million to arrive at the actual tax levied on the value of sites without regard to use.

One need look no farther than the above facts for the cause of recurring business depression, of unemployment accompanied by low wages, of poverty, disease and crime. Throughout the country industry and enterprise are loaded down with taxes and restrictions in order that those who control opportunity may escape with a trifling payment for the privilege. Why rail against profiteers and monopolists when we deliberately encourage monopoly and speculation by not requiring adequate payment for the holding

of opportunities? Why break our hearts over depression in business and all the horrors that go with it, when we not only allow the opportunities indispensable to business to be withheld from use, but in addition ruin business with the penalties which we impose upon it? That industry accomplishes what it does under the circumstances is a demonstration of the remarkable ability of individuals and groups to make headway under the most difficult conditions and it is an indication of what wonderful results industry might accomplish if freed from the restrictions of monopoly and from the blighting effects of governmental penalties.

Unemployment will remain and business depressions will continue to occur until those who own the opportunities to produce are required to pay adequately for the privilege, whether they utilize their opportunities or not. Then the power to forestall opportunity in order to get an unearned share of the product of industry will cease to exist. To secure this payment it is not necessary to overthrow our institutions, nor is it even necessary to demand a specific payment for the privilege of land-ownership as such. If it but come to be recognized that this payment for privilege ought to be made, it can be readily secured through taxation. We can tax more fully the ownership of opportunity and can reduce or abolish the taxation of its use.

IV. The Liberation of Industry

Involuntary unemployment appears as the outstanding symptom of economic disorder in modern civilization, and it rises, as I have shown, from the general failure to understand that private possession of land and natural resources can be a socially expedient institution only if the rights of the public are protected against monopoly. I have also shown that protection is complete, if those who hold exclusive possession of land or natural resources are required to pay to the community adequate compensation for the privilege; and I have stated that this compensation can be secured through the taxing-power of the State which is at present exercised in such a manner as to foster monopoly and penalize every form of productive effort.

We may appreciate the close connexion between unemployment and our revenue-problem if we stop to consider that the failure of our government to secure revenue from the payment for privileges has drive it into levying intolerable penalties upon industry. So inured to this by custom have most of us become that we actually believe that the collection and spending of governmental revenue must necessarily be destructive of industry and must necessarily raise the cost of living. This is a fundamental error. The collection of revenue, when taxes are levied as payment for privileges, serves to protect industry from the exactions which monopoly is otherwise able to put upon it. Thus a tax levied on the value of the privilege of land-ownership, instead of depressing industry and raising the cost of living, encourages industry by opening up to its use the most favourable opportunities. It preserves competition, lowers costs and reduces the cost of living.

So, also, the spending of governmental revenue should create values greater than the amount of the expenditure. This, unfortunately, is not true of our federal government, which spends most of its revenue in paying for past wars or in preparing for future ones. It is true, however, to a very great extent of our municipalities, which spend large sums in public improvements, especially for the cheapening of transportation; but unfortunately the effect of these improvements is to increase the value of the land-owning privilege, and therefore what the people gain in one direction they lose in higher rents. Here again, an increase in the amount paid for the privilege of land-ownership would turn these publicly-created values into the public treasury.

The confusion of ideas on this subject is particularly well exemplified by the methods of our municipalities in the collection of revenues, and especially in the levying of taxes upon real estate. In fact much of this confusion arises directly from the use of the term "real estate," under which we combine two things utterly different in character; one, the land (representing opportunities) the possession of which is clearly a privilege; and the other, the buildings and other improvements upon the land, which are equally clearly the result of human effort in production. To levy a tax upon the former is to require payment for a privilege. To levy a tax on the latter is to penalize human industry. The first tax is preventive of monopoly; the second is destructive of industry. The failure to recognize these vital distinctions results in a practice of lumping together as property in real estate the value of the land-owning privilege and the value of improvements upon land, and levying a tax on both together. In some of our States it is even unconstitutional to tax these values at different rates, so complete is the failure to see that land-ownership is a privilege. But recognition of this fact must come, and come soon, or there is a grave danger that the forces of discontent, justifiably aroused but blind to causes and to consequences, will drive this country into a bureaucratic tyranny or a bloody and fruitless revolution.

At the present moment a strong and militant minority of these forces of discontent is striving for a complete overthrow of the existing economic order. Apparently without the knowledge that monopoly of land and natural resources does and must lead to monopoly also of wealth and credit, it is demanding nationalization of both land and "the tools of industry" and "the abolition of rent, interest and profit." Although these confused ideas are not finding general acceptance, there is nevertheless a widespread desire to penalize wealth, without regard to its source, by re-enacting the federal excess-profits tax and by increasing the surtaxes of the federal income-tax. Many make no distinction between an Astor, growing rich on the tribute paid by the citizens of New York for the use of Manhattan Island, and a Ford, profiting by means of his great service to the community.

To require heavier payment for the privilege of land-ownership would be to turn a larger proportion of the ground rental of New York, a publicly created value, into the public treasury for the benefit of the whole community, and to make possible the reduction of taxation which cripples business. On the other hand, taxes on the profits

of the motor-industry, or any other productive industry, do but discourage business, thus restricting output, increasing costs and prices and aggravating unemployment.

The taxation of profits is economically unsound. In so far as profits are the result of service to the community, a tax upon them discourages enterprise and industry and is therefore contrary to the public interest. But in so far as profits are the result of monopolistic control they can be curtailed or destroyed by the direct taxation of opportunity as represented by the ownership of land and natural resources. Thus, if the United States Steel Corporation is enjoying monopoly profits through its control of ore beds, taxation of these natural resources will put an end to the Corporation's ability to withhold them from use and thus restrict output. It will be obliged to operate these beds or to release them to others who will then be competitors. But taxation of the operations of the Steel Corporation, or taxation of its profits without regard to source, will restrict its operations and add to the cost of steel.

So also with the coal-mines. Today the low taxes on the opportunity represented by their ownership make it possible, and in fact act as an inducement, to let the mines lie idle, thus restricting output and holding up the price of coal, while the taxes on operation penalize mining. The State of Pennsylvania levies a tax on each ton of anthracite mined in the State, which tax is wholly pernicious, adding directly to price and discouraging mining. If such taxes as these were abolished, and increased taxes were levied on the privilege of the ownership of mines, it would be profitable to mine more coal. The best mines, therefore, would be in full operation; there would be more men employed; there would be higher wages, few strikes and cheaper coal.

"Big business" dominates the industry of the country only through its control of natural resources — mines, oil-fields, water power, etc. — but the great majority of corporations and individuals employing labour are not part of "big business" and have no such monopoly, and it is a mistake to suppose that their interest are antagonistic to those of the wage-earners. Most of them, however, are so oppressed by the unjustifiable exactions and restrictions of privilege and government that they are often obliged to oppose the perfectly justifiable demands of the wage-earners for decent wages and constant employment. Yet it is now proposed to penalize industry still further by forcing upon employers the expense of unemployment insurance, or — what is even more foolish — by requiring them to pay wages to those whom they lay off.

Employers and wage-earners alike are vitally interested in unhampered business, and should co-operate to remove taxes and other governmental restrictions upon it. More important still, they should co-operate to secure from the holders of opportunity adequate payment for their privileges. Only thus can industry be freed from the obstruction of monopoly, and only thus will it become possible in the future to secure revenue for government without penalizing industry by taxation.

V. The Nature of Land-Value

In the previous chapters of this book, I have shown that the industry of the United States (and this applies to the civilized countries in general) is restricted and obstructed to such an extent that unemployment with all its accompanying evils is a chronic condition. I have also shown that this condition is primarily due to the failure to secure from the holders of land and natural resources adequate payment for the privilege of exclusive possession, while at the same time, and as a direct result of this failure, revenue is collected for governmental purposes by destructive taxation, of all those engaging in industry including the landowners themselves.

It is pertinent now to inquire to what extent it would be wise and expedient to increase the payments for the privilege of land-ownership, and in what manner the increase can best be made. In determining this, it will be of assistance first to imagine a condition somewhat different from that which actually exists. Let us suppose that actual title to the land and natural resources of the country vests in the people as a whole, as represented by their government, and that when they are required for industrial or residential purposes, these lands and natural resources are leased for an annual rental. Under such a system, obviously, the wise thing to do, in order to protect the interests of all, would be to grant these leases to those who would pay the community the most for them. If, for example, a certain tract of land could be leased in the open market for $7000 a year, the natural thing would be for the government to charge no less than this sum to the tenant of the State. But suppose it did otherwise; suppose it charged the State's tenant only $2000 annually for a tract of land which in his turn he could sub-let to another for $7000; what would be the result? The power to secure $7000 annually in ground-rent from a sub-tenant, while paying to the government only $2000 annually for exactly the same opportunity, would be a privilege having a net value of $5000 a year. Evidently, therefore, the tenant of the State would find that he had a lease which he could transfer to another at a premium, which in this case would be approximately equal to the amount of this net rental of $5000, capitalized at the current rate of interest. Assuming this rate to be five per cent, this lease would carry a premium of somewhere near $100,000, and if it were the regular practice for the State to lease its land for only two-sevenths of its true ground-rental value, as in the above case, all its leases would carry premiums having roughly the same proportion to the rental value; that is, $100 of premium to every seven dollars of ground-rental value. Such a practice would have tremendously evil consequences of the nature already described as resulting from inadequate payment for the privilege of holding land in exclusive possession; and under a system of leasing by the State, the folly of the policy of renting land at so much less than its true rental-value would be so obvious that it would not be tolerated.

Nevertheless the existing system of land-tenure is essentially no different, for the peculiar and injurious feature of our system of so-called private property in land is the small fraction of the rental value which land-owners are required to pay to the State.

As a result, holding title to land has a money-value, which we speak of as the value of the land, but which in reality is the value of the premium which attaches to the title because of the privilege of exemption from payment of full rental to the State. In fact, as I have already pointed out in a previous chapter, land-owners are in theory not required to pay any rental at all for the possession of land; and the only reason that the State succeeds in collecting any of the rental, is because it reserves the right to tax as property the value of the "no-rent" premiums which arise because rent as such is not paid.

To illustrate the above, let us again take as an example the tract of land which can be rented in the open market for $7000 and let us determine what will be the approximate selling price of the tract under our present system of requiring no rental to be paid by the owner himself; that is, let us determine the value of the "no-rent" premium attaching to the title. A prospective purchaser of the privilege of appropriating $7000 of ground-rent, will have to consider the loss of interest on funds withdrawn from investment to make the purchase, and the amount of the tax which he will be required to pay annually on the value of the privilege when secured. If then the current rate of interest is five per cent and the rate of taxation is two per cent ($20 per $1000) the prospective purchaser will naturally expect the ground-rent to be at least 7 per cent of his investment which in this case, therefore, he will limit to $100,000, of which $7000 is 7 per cent. In other words, under such conditions, the selling price of a tract of land having a rental value of $7000 would probably not exceed but might approximate $100,000. Now the tax on this sum at the assumed rate of 2 per cent would be $2000, which is two sevenths, or about 30 per cent, of the ground-rent of $7,000; and this figure (30 per cent) is perhaps fairly representative of average conditions throughout the United States. If so, it indicates that about 70 per cent of the ground-rental value of the land is not collected for the benefit of the community, but is being appropriated by the land owners; and in order to make up this loss of revenue, the various governments, federal, state and municipal, are obliged to levy all sorts of pernicious taxes on industry and enterprise.

The owner of an office-building has business-opportunities represented by offices which he leases in return for rents which vary in proportion to the value of the opportunity offered. From these rents he secures all the revenue which is required to operate the building; and it is of no consequence to him whether his tenants make good use of their opportunities or not. If a tenant can not pay the rent, he is expected to vacate; but as long as the rent is paid, the owner of the building does not concern himself about his tenant's business. But now let us suppose that the owner of an office-building, in disposing of the opportunities represented by offices, has adopted a system similar to that in use by modern nations in disposing of the opportunities afforded by exclusive possession of a portion of the public domain, and that you, the reader, have approached the owner of the building for the purpose of leasing an office. In the first place, you will be informed that the owner does not have any offices to dispose of, or at most only the less desirable ones. He will tell you that he charges no rent for offices

and that, therefore, those who hold them do not often give them up, even when they cease to use them themselves, but instead they sub-let them, or sell title to them at a premium; and that if you wish to secure an office you will have to find some one ready to rent or to sell and will have to make terms with him. Should your curiosity then impel you to ask the owner how he secures the revenue required to operate the building he will reply somewhat as follows: — "In the first place, I ascertain the value of the premium which each office-lease carries because of the fact that I charge no rent and, by levying a tax upon this 'no-rent' premium, I collect a small part of the rental value of the office. As, of course, this does not supply me with enough revenue to run the building, I raise what more is needed in a number of different ways, but principally by levying a tax on the value of the equipment in each office, on the capital invested in the business, and on the net income derived therefrom. Also, in order that I may have the necessary information to levy these taxes, I require of each possessor of an office a detailed statement of his business." The absurdity of this proceeding is obvious and yet it is the counterpart of our equally absurd system of land-tenure and collection of revenue.

The remedy for the situation is to collect a larger proportion of ground-rent, and there are two ways in which this may be done. The first is to recognize that a tax on land-value, that is on the "no-rent" premium which title to land carries, is in effect a partial collection of ground-rent, or as John Stuart Mill put it, "the existing land-tax ought not to be regarded as a tax, but as a rent-charge in favour of the public."[3] Next, this land-tax or rent-charge should be increased while actual taxes, properly so called — that is, taxes on buildings and other improvements upon land, on machinery, merchandise, live stock, etc., and on the profits of industry — should be reduced.

This levy of a tax on the no-rent premium is, to be sure, a clumsy method of accomplishing the desired result, and it would be far better to require of all land-owners a payment of rent to the community, based directly upon the potential ground-rental value of their holdings. Whichever method be used, however, whether a land-tax or a direct charge as rent, the amount of ground-rent collected for the benefit of the community should be steadily increased until the increase accomplishes two results: (1) until it destroys all inducement to own land for the purpose of forestalling, or monopolizing it; and (2) until it furnishes sufficient revenue to make unnecessary the penalizing of industry by taxation.

Theoretically, the present system of production is based on the principle of freedom for the individual to produce, and to hold what he produces as his property. It is, therefore, in theory at least, the antithesis of socialism, which aims to control the productive activity of the individual and to distribute the product of industry in accordance with needs. The fault of our present system does not lie in its theory of individual liberty, but in the fact that it fails completely to carry out that theory in practice. We insist on "the right to work," and especially so in these days of strikes when the labour-unions

[3] "Principles of Political Economy," Book V, Chapter 2, Section 6.

appear to be interfering with that right; and we also prate about the sacredness of property-rights. But, at the same time, we deny the right to work, by permitting the monopoly of the basic necessities of industry which are raw materials and land; and we violate the sacredness of property-rights, by permitting the government to confiscate the property of the individual through taxation of the fruits of his industry.

By increasing the rental charge for the privilege of land-ownership, we can break monopoly and abolish taxation, and thus bring into agreement the theory and practice of our system of production. Then we shall have a system of production in accordance with the principles of liberty upon which this nation was founded, a system infinitely superior to any form of socialism which denies the liberty of the individual. At present, however, we can not boast that any such superiority to socialism exists.

VI. Taxation of Land-Value

I have shown that a small portion of the rental value of land is secured for the community by means of the tax levied by all municipalities upon the market-value of the privilege of land-ownership, or, in other words, upon the so-called value of land. I have pointed out that this is a clumsy method of procedure and that it would be far better to replace these taxes on land-value by a direct rent-charge for the privilege of land-ownership, since the nature of the payment would then be unmistakable, and consequently the desirability of increasing it would be apparent. Nevertheless, it is probably that the increase which I have shown to be necessary in the amount of ground-rent to be taken by the community, will be most easily and quickly secured by an increase in the taxes on land-value, merely because that method of collecting ground-rent is already in practical use; and in fact a few localities have already begun to increase these taxes while simultaneously reducing taxes on buildings and on improvements to land and other taxes detrimental to industry.

If much is to be accomplished in this direction, however, it is certain that the public must be educated to understand that the tax on land-value is in truth a payment for a privilege, and is not a tax in the ordinary sense; that is, it is not a burden on the creative effort of mankind. That this is not so understood, even by business men otherwise astute and intelligent, is clear if we consider the widely prevalent but mistaken believe among such men that all taxes, not excepting the tax on land-values, can be, and actually are, shifted to the consumer in the shape of increased prices, and must, therefore necessarily restrict and hamper business.

The recent active campaign by business men for the adoption of a federal sales-tax, which of course would restrict business and increase the cost of living, was clearly the result of the belief that all taxes must have these effects but that the sales-tax would be, perhaps, the least injurious. It is certainly inconceivable that the men behind this movement to increase prices to their own customers and thus to restrict their own business, could have had any understanding of the nature of the tax on land-value, or

could have supposed otherwise than that taxes on land-value, like other taxes, would restrict business and would be shifted to the consumer. Yet clearly this can not be so, as the tax on land-value is but a payment for the privilege of exclusive possession of an opportunity, and is in amount, as I have shown in the last chapter, but a small proportion of the true rental value of that opportunity. It is because this payment for privilege is too small that valuable opportunities are withheld from use and industry is thereby restricted. To increase this payment, through an increase in the tax on land-value, will help to free industry; and therefore instead of raising the cost of living, it will lower it.

It would certainly be ridiculous to imagine that it could be detrimental to the interests of the community to require a payment for a privilege conferred by the community. Suppose, for example, that some individual had acquired the right to draw annually a certain sum from the public treasury without rendering any service in return, and that this privilege were transferable. Then, unquestionably, the privilege would sell in the open market at a premium and might be taxed as property; but how could such a tax in any way restrict industry or increase the cost of living? So also with the land-owning privilege; adequate payment for it merely safeguards the rights of the community and, instead of discouraging industry, prevents the monopoly of its indispensable prerequisite.

To strengthen our conviction that this is true, let us take another aspect of the question; let us consider what results, under present conditions, must follow an increase of taxes on land-value. In every city and town of this country, there is land of very considerable value which is entirely unused and unimproved. In the big cities these values are stupendous, approximating in greater New York the huge sum of $600,000,000. We are all aware that on such land there are "carrying charges" to be paid, in the shape of lost interest and taxes, and that these charges are to some extent a deterrent from holding land out of use for a long period of time. It ought, then, to be obvious that if, in spite of these charges, lands of great value are nevertheless held out of use, then to increase these charges by increasing the taxes on land-value would be to make the holders more inclined either to utilize their holdings or to dispose of them. The resulting competition among them for purchasers or tenants would cause them to offer their holdings for sale or for rent at lower prices than they had previously asked, to the great benefit of industry which could thus secure its prime necessity, land, at a reduced cost.

It is often said that taxes on real estate increase house-rents; but a little consideration will show the falsity of this notion. It is true that taxes on that part of real estate which consists of buildings are certain to discourage building and to increase house-rents, but taxes on the ground upon which buildings must be erected serve to bring vacant land into the market at lower prices and thus furnish better opportunities for building-purposes. Thus building is encouraged and house-rents are lowered.

It is an unfortunate fact that in most of our States it is either a constitutional requirement or an apparently unbreakable custom to tax land and buildings at the same

rate, and in consequence it is very generally imagined that the burden of taxation on real estate is too heavy and that other sources of revenue must be found. As a matter of fact it is not true that in any municipality of the United States, taxes on real estate as a whole are too heavy. The whole difficulty lies in the above-mentioned requirements of a uniform rate of taxation on all kinds of real estate, with the result that improved real estate is over-taxed, while unimproved real estate escapes with inadequate payments for the privilege its ownership represents.

For purposes of taxation, real estate should always be separated into its component parts; that is, land, on the one hand, and, on the other, buildings and improvements upon the land. While the taxes on the former should be increased, those on the latter should be diminished. Actual results from such a policy may be seen in New York City and in Pittsburgh. In New York, the law exempting new buildings from taxation for a period of ten years, although grossly unjust to the owners of old buildings, is nevertheless furnishing an object lesson in the encouragement of building. In Pittsburgh also, where the assessment of building of their is gradually being reduced to fifty per cent of their value, while the assessment of land is maintained at 100 per cent, building has notably increased.

If, however, involuntary unemployment is to disappear, or, in other words, if restrictions upon the opportunity to produce are to be abolished and "the right to work" is to be firmly established, this policy must be carried much farther and all taxes which penalize industry must be completely done away with, while the tax on land-value, which is the payment for the privilege of land-ownership, must be increased not only to the point of providing sufficient revenue for governmental purposes, but still further if necessary to prevent the monopoly of the land and raw materials provided by nature for the use of all.

The industry of farming is basic, and upon its prosperity depends the prosperity of all industry. Yet our present blind system of collecting revenue bears upon it with especial heaviness. The value of farm land per unit of area is very small, as compared with the value of urban land. If, therefore, farmers were required to pay only for the privilege of land-ownership, the total of taxes collected from them would be much less than now. At present, every productive effort in farming is destructively taxed. Farmers have but little property which they can conceal, while every cent spent in adding to the productiveness of their farms comes promptly under the eyes of the assessors. Everything done to increase fertility — that is, clearing, draining, irrigating and fertilizing — is promptly assessed and taxed, as are also all buildings and improvements to buildings, rolling stock and live stock. Nothing escapes the destroying hand of the government. To make matters worse, it is a common practice to assess unused farm land as much less than its true value. Thus the most important industry of the nation carries a staggering and wholly unnecessary burden imposed by the government, while at the same time encouragement is given to the practice of monopolizing its opportunities. The results of this policy are what might be expected. Huge amounts

of valuable agricultural lan are held out of use, at times speculation is rampant, and tenant-farming is steadily on the increase.

If we seek the industrial salvation of our nation, we must require full payment for privilege and must stop penalizing industry.

VII. The Class-War

In the previous chapters of this book of which this chapter is the last, I feel that I have made clear that the economic distress of civilized society is entirely artificial and therefore preventable, and that it arises from a faulty system of land-tenure which permits the exclusive possession by individuals of the gifts of nature without adequate payment for the privilege. For the existence of this bad system of land-tenure we are all responsible. Therefore it is a narrow-minded point of view which attributes the ills of society to the greed or selfishness of any class in the community, unless it can be shown that there is a class which profits from the present system at the expense of the community and has both the will and the power to prevent a change. That there is any such class may well be doubted. If the system remains unchanged, it is not because of the opposition of any class selfishly interested in keeping things as they are; but rather because of the ignorance and apathy of the great majority of the people who suffer its evil consequences.

At least we may be certain that neither side in the so-called "class war" of today gains nothing from the continuance of the present economic system. This war is between the employers of labour and their employees; that is to say, between those who organize and direct the industry of the country and those who take part in it only as hired help. Both groups alike are wage-earners in the true sense, since both are utilizing their mental and manual abilities in the production of wealth; and both alike are necessarily interested in having production completely untrammelled. Both, therefore, are, or should be, absolutely opposed to the present economic system which restricts the use of natural resources and obliges governments to secure their revenues by means of penalties on production.

The two sides in the class-war of today are fighting over the division of the product of industry; and in the heat of battle they are losing sight of the fact that the amount of this product is greatly reduced because of the restrictions on the use of natural resources, and because of the discouraging interference of government. Not only that, but a large and increasing portion of the product of industry goes to neither of the belligerents. It is absorbed in the form of ground-rent by those who hold the privilege of possessing land and who, as land-owners, contribute nothing to production but merely exact tribute from it.

If there be any excuse for a class-war at all, such a war should not be between the two producing classes, but should be fought with all the producers on one side, and on the other the landowners who take from the producers a part of their product

without rendering any service in return. It would be a mistake, however, to attempt to classify the population into producers and land-owners and to assume an enmity between them, because so many individuals who are producers are also land-owners either directly, or through their interest in corporations as stock-holders or creditors. Even the labourer who lives in lodgings and has not a foot of land to call his own, but who has a deposit in a savings bank, may by virtue of that deposit be a landowner.

Furthermore, it can not be assumed that landowners as a class derive any benefit from the present system. It is true that they can and do absorb a part of the ground-rent foe which they render no service; but this privilege of taking ground-rent, carrying with it the power to interfere with industry and to exact tribute from it, can not be obtained for nothing. The privilege has a market-value which is reflected in the price of land, as I indicated in the fifth chapter of this book, and that price generally offsets any advantage arising from the privilege. This is not always true, of course. In some cases the purchaser may be lucky enough to secure his privilege of land-ownership for much less than it is worth, or after purchase it may greatly increase in value; and because these things frequently happen, land-owners are frequently led into keeping land which they do not use, from those who could make good use of it, in the hope of securing this rise in value. On the other hand, the purchaser of land often pays more for his privilege than it is worth, or sees it decrease in value after purchase. It is true that the price of land on an average is steadily increasing throughout the country, thus forcing industry to pay more and more for its prime necessity, but there are comparatively few land-owners who do not suffer more from the loss in general prosperity which this increase causes, than they do from the increase itself.

Doubtless there are in this country certain big interests which are able to exploit the people through the monopolistic control of natural resources, and are reaching out for foreign concessions so that they may also exploit the peoples of other countries. But even those interests are not to be blamed for taking advantage of a system which encourages their attempts to forestall and monopolize opportunity and deliberately penalizes legitimate business. In fact there is no scapegoat upon which the sin of our economic system can be laid. Nor will the bitterness of feeling and abuse of others lead to reform. We are in an economic muddle which is to the disadvantage of all, just as the institution of slavery was to the disadvantage of all, even though the slave-owners were unable to see that it was so.

What is needed now is dispassionate thought and intelligent action. The belief in an unavoidable class-war makes both of these things impossible. How prevalent, however, is this idea of an irrepressible conflict between employers and employees! Not only is it held by the socialists and communists, who expect the war to end in a victory for the proletariat and the establishment of the State as the sole employer of labour; but the idea seems also to be widely accepted by business men and by the leaders of organized labour. How pitiably little have the labour-unions accomplished towards the betterment of the economic position of labour! How little, indeed, can be expected from organizations which rely mainly on collective bargaining backed

by the destructive strike to raise or maintain wages, and whose policy has so often included advocacy of legislation destructive to industry! As long as the phenomenon of involuntary unemployment continues to exist, the competition of the unemployed for jobs will operate with irresistible force to keep wages at a low level; and since strikes can do nothing to reduce unemployment, their use in industrial disputes can only make matters worse.

Among business men there are many who still look upon the employees as the natural enemies of business with whom it is necessary to wage constant war in order to keep wages down, forgetting that by doing so they are destroying the market for their goods. There are many others with more enlightened views who consider their employees to be co-workers and expect to get beneficial results through various forms of welfare-supervision and through profit-sharing and other co-operative schemes; but they are bound to be disappointed, as long as they continue to look with equanimity upon the monopoly of the indispensable requisites of industry and accept as inevitable the penalties put upon industry by government.

There is another phase of the question which needs some discussion. I have previously pointed out that the taxes collected from the people should be, and by municipalities often are, expended in such a way as to create land-values; but that these publicly created values are not taken for the benefit of the community. Examples of this sort of thing are to be met with every day. For instance, the following item appeared in the Boston *Herald* of 27 August, 1922:

> Oxford, 26 August. The tax-rate for the year 1922 has been set at $52.10 a thousand, more than double that of last year, $22.50. The assessors explain the tremendous jump by pointing to a long stretch of cement road, recently laid, and by referring to the doubling of appropriations at the last town meeting.

One cannot be certain from the above that the greatly increased appropriations of the town of Oxford were wholly due to the building of a cement road, but one may infer that a very substantial portion at least was for that purpose, and one may be sure that the road added to the value of much of the land. But the increased value does not go to the town. All that the town can get is the right to tax the increased value at the regular rate of taxation on property. The bulk of the increase goes to the owners of the land. Thus the taxes of the town are spent to enrich individuals, and the deficit must be made up by an increase in the penalties upon industry and homeowning.

In the same paper, of the same data, appeared the following item:

> Real estate in the vicinity of Wollaston, Savin Hill, and the Neponset waterfront will increase greatly in value upon the completion of Neponset Bridge and the construction of the proposed Old Colony Boulevard. In anticipation of increased land-values along the boulevard upon its completion, many

> real estate investors are quietly buying up... As the result of improvements made along the Columbia road boulevard, South Boston, real estate in that section has almost doubled in value since 1917.

In other words, the taxpayers of Boston invest money in civic improvements and private individuals take the greater part of the values thus created; and this sort of thing, we know, is going on all over the country. How foolish, then, is the idea of a class-war, when all classes alike continue to support a system so unsound.

In concluding, I will briefly summarize the situation. Our system of land-tenure permits the private possession of land without adequate payment for the privilege; that is, only a small portion of ground-rent is taken by the community. The right of the land-owner to take the greater part of ground-rent gives rise to a premium on the title to all land having any rental value, which premium is the price of the land, or, in common parlance, its value. From this system, the following evils are the direct result:

1. The activities of the people and the expenditure of public revenue create land-values which in greater part are taken by the land-owners. Thus public funds are appropriated to private individuals.

2. The possibility of rise or fall in land-values makes the possession of land a speculation, and injects a gambling spirit into industry.

3. The failure of government to take sufficient ground-rent for the collective needs of society obliges government to penalize industry and enterprise with destructive taxes.

4. (The principal evil result.) The possibility of increase in land-value, coupled with low taxes for holding land idle and high taxes on its use, leads to the withholding of valuable land from use. Thus economic opportunity is restricted and there is produced the phenomenon of involuntary unemployment, which in turn is the underlying cause of low wages, poverty, crime and disease.

Appendix: How to Secure the German Indemnity[4]

Every man who will allow his reason full sway rather than his passions and emotions, every man who cares more about the restoration of Belgium and France and the other countries devastated by the Germans more than he does about punishing the Germans for the devastation, must realize that the only practical way to secure the great financial indemnity demanded on behalf of the devastated countries is to set the German people to work in productive enterprise. There is, however, a real fear that if this be done the payment of the indemnity may turn out to be a boomerang injuring those who receive

[4] Reprinted from the *Dial*, April, 1919, through the courtesy of the publishers of that paper.

it more than those who pay it. This fear among the statesmen of the Allied nations is well expressed by Lloyd George in a speech made at Newcastle on Nov. 29 last, in which he said that Germany must pay the cost of the war up to the limits of her capacity, and then uttered these words: "But I must use one word of warning. We have to consider the question of Germany's capacity. Whatever happens, Germany is not to be allowed to pay her indemnity by dumping cheap goods upon us. That is the only limit in principle we are laying down. She must not be allowed to pay for her wanton damage and devastation by dumping cheap goods and wrecking our industries." In other words, the danger appears to be that if the Germans are allowed opportunity to produce and exchange, their competition will wreck the industries of other nations, causing unemployment and disaster. Already with the end of war, unemployment is becoming a serious problem everywhere. How then can the Germans be put to work without lessening the opportunities of employment for the peoples of the Allied nations?

There is one way, perhaps, of side-stepping the whole question of giving Germans employment. It can be done by excluding them altogether, or in part, from access to the natural resources of their own country and then securing the indemnity by developing those natural resources by means of Allied and American capital and labour. To be sure, we could hardly say that under such circumstances the Germans would be paying the indemnity. They would simply be deprived of the opportunity to pay; the Allies therefore would have to pay themselves, merely securing the advantage of free access to Germany's natural resources.

In addition, in so far as the Germans were deprived of access to their natural resources, their mines, their agricultural lands and so on, they would become unable to help themselves and would therefore starve or become the objects of Allied and American charity. Neither of these alternatives can be considered. On humanitarian grounds alone the first alternative is out of the question; and further, in either case, a stupendous army of occupation would be required to war upon the German people whether the object was to pauperize them or to starve them. We cannot avoid, therefore, giving employment to the German people if we desire the indemnity paid, and the larger the indemnity demanded the greater must be the opportunities afforded to German labour.

It might be thought, however, that if German labour must be employed, then at least it should not be employed for the profit of German capitalists, but should be employed directly in the service of the Allied nations; and it might be suggested, therefore, that Allied capital, or confiscated German capital, or both, should be used in the employment of Germans in Germany. But to this suggestion of directly diverting capital to the employment of Germans in German all the labouring men in every Allied country would protest. They will insist that, at this time of all times when employment appears to be scarce, all capital available shall be employed at home.

Another plan of securing reparation, which has actually been suggested, is that German labourers shall be forced to go into Belgium and France and there be made to repair the actual damage done, rebuilding the shattered cities and towns, repairing

the damaged minds, and restoring the devastated fields. This would look like stern justice to some people, who fail to consider that the particular Germans forced into this slavery would almost surely be those least responsible for the outbreak of the war and the atrocities committed in carrying it on. Justice aside, however, it is certain that any such plan would be condemned at once by the labouring classes of the devastated regions. They would no more permit their jobs to be taken away from them in this way by Germans than they would permit the government to use convicts as strike breakers. This plan, too, is entirely out of the question.

It appears then that after all it will be necessary to permit the Germans to exploit their own resources by their own labour and capital; and that the more quickly and effectively they are able to produce, the more quickly will the Allies receive the indemnities demanded.

But does it follow that the Allied nations and ourselves should trade with the Germans? If it will enable the Germans to produce more quickly and effectively, it would seem that the Allies ought to allow trade with them, and we also, if we desire to help the Allies; but if, as Lloyd George seems to think, the dumping of cheap goods will wreck British industries, or our industries, then surely we ought to think twice about it. How to secure indemnity to a nation, without injuring the nation getting the indemnity, seems in truth to be a real puzzle despite the apparent absurdity of the idea at first thought. It may be that Lloyd George, in warning against the dumping of cheap goods, refers only to the practice of selling goods in a foreign country at less than the cost of production. This seems unlikely, however, since any good cheap enough to be imported from Germany, whether sold at less cost or not, would, if imported, displace similar goods in the markets of the importing country and would, therefore, be just as likely to wreck home industries.

What is more, it would seem that cheap goods from France or Italy or from this country would also wreck the industries of Great Britain. If, therefore, Lloyd George is to allow the importation of such goods, he is in the position of permitting the destruction of British industries out of deference to his Allies; or if, on the other hand, the danger from cheap goods is imaginary, he is then in the position of penalizing the Germans for no reason at all — with the result that they will be less able to pay the indemnity.

In fact, if the cheap goods argument is not a fake, it might be suggested that a good way for the Allies to deal with Germany would be to prevent her from exporting anything to the Allied countries and at the same time to forbid the German government to establish a tariff on Allied goods imported into Germany. In this way it might be argued that the cheap goods would go into Germany instead of out, and thus it would be the German industries that would be wrecked rather than those of the Allies.

The first objection to this suggestion is that wrecking German industries would hinder the payment of the indemnity. Second, however, and more important, the plan would not work out as above supposed because if the Germans could not export any-

thing they would have no means of paying for the imports, and for that reason no imports would there be.

To some it would seem that the best plan would be to allow nature to take its course, or in other words to permit trade between the Germans and other peoples without governmental interference. It is certain that if this were done, trade would soon spring up not only between Germans and English, between Germans and Americans, but also even between Germans and French. Unless trading is mutually advantageous to the traders, it will not take place. On the other hand, if mutually advantageous, nothing will stop it except direct governmental interference. Perhaps the interference of government with the trade of its citizens may not always be harmful, but at all events it is certain that if the Allied governments are all going to put restrictions on German trade, the Germans will not be able to pay the indemnity as soon as they otherwise could. Unless they can import raw materials, their industries cannot prosper, and unless they can export their manufactures to pay for the imports, then they cannot obtain the raw materials. They will have to be sufficient unto themselves, using only their own raw materials which are limited in character; thus their productive powers will be stunted and the indemnity will be hard to exact. Moreover, too much economic pressure on the German people will drive them into a bloody revolution; then all hope of getting reparation for Belgium, France, Serbia, Poland and Roumania will be gone.

The conclusion seems to be unavoidable that the Allies ought, for their own sake, to permit the Germans to exploit their own natural resources with their own labour and capital, and ought to accord them also liberal trading privileges in order to increase their productive power. The Allies might very wisely go even further, however, and in order to insure that the productive power of the Germans shall be increased to a maximum, they might dictate to them just how the revenue required to run the government and pay the indemnity should be raised. The Allies may well insist that the method adopted be one that will stimulate productive effort, that will encourage the enterprising and industrious Germans, and will prevent the monopoly of economic opportunities.

This can best be done by making all owners of agricultural land, of mines, of water power, and of valuable urban sites pay over for the benefit of the Allied governments as indemnity the full rental value of the exclusive privileges enjoyed through such ownership. These payments should not include rental for agricultural improvements, nor for mine shafts and machinery, nor for hydro-electric installations, nor for buildings of any kind, but only rental for the privilege of exclusive access to natural resources.

Such a plan ought to be welcome to the great mass of the German people. Sentimentally, it would make little difference to the factory hands, to the peasants, to the tenant farmers, to the employers, and to the owners of German capital if the rent which had in any case to be paid to the discredited Junker and landlord class were simply passed on to the allies to settle the indemnity. Practically, however, the plan would be of great advantage to the productive and enterprising classes, since, in the first place, they would be relieved of taxation to just the extent that the Junkers had to

pay; and — what is more important — access to natural resources would no longer be open to them only at exorbitant prices, or closed to them altogether. The power of the land-owning class to withhold natural resources from use or to demand for their use industry-prohibiting rentals would be broken. Being obliged to pay over to the Allies the full rental values of the natural resources, whether used or unused, the land-owning class would be under the imperious necessity of renting or selling to the industrious classes, or of giving them employment. No longer would it pay to own the land and other natural resources merely to draw tribute from others.

The plan would redound enormously also to the advantage of the Allies. With free access to the natural resources and raw materials of industry, unemployment among the German people would largely disappear. With the German people all busily engaged in productive enterprise, the indemnity which the Allied nations desire to obtain as quickly as possible would be forthcoming in a remarkably short time, and the fear, moreover, that Germany might become a plague spot of revolution and anarchy, or be restored to its former autocratic masters, would soon fade away.

At this point, however, the reader may protest that if this plan is carried out, the German people, freed from the shackles of monopoly, will be on the high road to become the most prosperous and happy people in Europe, if not in the world — and this as a reward for their guilt in bringing on the most criminal assault on civilization in all history. True, but nevertheless the Allied peoples will have got what they wanted, namely, quick payment to the people of the devastated regions and a stable government in Germany, one neither aggressive nor anarchistic because of the happiness and contentment of its people.

If, finally, the question arises, how then should the Allied peoples gain an equal prosperity and contentment, the answer is plain: Let them, too, destroy the monopoly of their natural resources by forcing the holders to pay in full for the value of their privileges, payments not to be made to any foreign governments, but to their own people. Then the preposterous phenomenon of unemployment will disappear from among the Allied nations as well as in Germany; the labouring classes, freed from the competition of the unemployed, will secure the full value of their labour; and the great captains of industry, freed from monopolistic exactions, will be able to establish greater industries than the world has yet seen, in which the savings of the workers will be invested.

Then will the time come when a League of Free Nations will be in truth a permanent reality and the peace of the world will be definitely assured.

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John Sturgis Codman
Unemployment and Our Revenue Problem
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<hgarchives.org> & <wealthandwant.com>
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