

JOHN S. CODMAN

Executive Registry
10-3548

STATOTHR



May 6, 1958

Mr. Allen W. Dulles
Central Intelligence Agency
Washington, D. C.

Dear Mr. Dulles:

In the Christian Science Monitor of April 29, in referring to Soviet influence and control, you are quoted to the effect that in the economic and subversive fields "the fateful battles of the cold war, in the foreseeable future, will be fought."

It seems to me that in the economic field, Russia is outstripping us and will continue to do so unless we can do away with involuntary unemployment and excessive taxation. There are reported to be five million unemployed in this country today and there are practically no unemployed in Russia. No wonder that Communism and Socialism are making headway in our country.

We need to set our house in order and how to do so I have outlined in the enclosed article. I hope you will read it and will note especially where I have made a mark on page 2.

ILLEGIB

Sincerely yours,

John S. Codman

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Enclosure

EXECUTIVE REGISTRY FILE

the burden became too great to be borne, and when once the check to industry was felt, the whole structure of speculation collapsed with disastrous consequences to title holders, industrialists and wage earners alike.

At last prices of title to land became deflated, and industry was in consequence able slowly to recover. But, must we again go through a period of business depression and unemployment? There is every reason to expect it. Land prices are rising again as the result of prosperity, and as time goes on the business men and wage earners will see those values, which should be used for public purposes and consequent reduction of taxes, passing instead into private hands and finally pushed up to such speculative heights that industry will again stagger and finally collapse.

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

And now it may be asked just how far taxes can be reduced so as to constitute a "sweeping reduction". There are many persons who maintain that ground rent (rental value of land) can never be sufficient for the needs of our governments, municipal, state and federal. It is insufficient now, but need not be in the future, if proper steps are taken.

The idea that ground rent cannot fully meet the requirements of government, is due to the failure to consider an important factor in the problem, namely, that taxes have a depressing effect on ground rent. It surely is obvious that land on which it is possible to make a tax-free improvement is more valuable than land which carries with it the certainty that, if improvements are made, a part of their value will be confiscated through taxation. Therefore, as taxes on improvements are removed, ground rent will rise.

The first step should be to collect the existing ground rent into the local treasury and to reduce or abolish the local taxation. This will give a tremendous stimulus to business, which will tend still further to increase the amount of the ground rent, leaving a surplus available for state and federal revenue. Then it will become possible to reduce the state and federal taxes, and thus, step by step as taxes are removed, ground rent will continue to rise and will ultimately be sufficient for all the legitimate needs of government — local, state and federal.

BOSTON, MASSACHUSETTS
APRIL, 1957

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Single copies 5¢, special rates for quantities.

RELIEF FROM TAXES

by
JOHN STURGIS CODMAN

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

The great obstruction to the industry of the country can be summed up in the word "taxation". It cannot of course be said that this obstruction is unapparent to the American people, but it probably is true that the detrimental effect of it on the industrial prosperity of the nation is not fully appreciated. More important, however, as standing in the way of the removal of this great obstruction, is the far too prevalent idea that taxation as we have it, is inevitable, and that all that can be done is to shift the burden from time to time so that it may be carried with a little less difficulty. Meanwhile taxes steadily increase and multiply in character and the drag on industry grows greater.

The local taxes on buildings and personal property are a direct discouragement to manufacturing, farming and transportation, to merchandising both at wholesale and retail, and to home owning.

Income taxes devised to avoid in part the burden of local taxes and to furnish revenue to the state and federal governments are no less burdensome. If levied on the net income of industrial concerns they check the re-investment of funds in expanding and cheapening production. If levied on dividends and bond interest in order to catch the rich, income taxes check the investment of funds in commercial enterprise, while if levied on salaries and wages they are a direct burden on the enterprising and industrious. The sales tax, adopted in a number of states and urged in some quarters for the federal government, adds directly to cost, increases prices, restricts demand and falls with unerring force on those least able to bear it.

There are still many other onerous taxes, the mention of which space does not permit, and finally there are the constantly increasing demands for information to be furnished by the taxpayers at their own expense under compulsion, in the form of tax returns, reports, questionnaires, etc. These demands involve not only an appalling waste of time and energy on the part of taxpayers, but the taxpayers must also support

a huge body of unproductive workers required to gather together and verify these returns, to collect the taxes, and to exact penalties for failure of taxpayers to meet all requirements.

Is the problem really one that cannot be solved? Must we through taxation continue to strangle business, restrict purchasing power and aggravate unemployment in order to secure revenue for our federal, state and municipal governments? Yes, it would seem so, unless we come to a realizing sense of the great privilege the people of this country have been according to individuals and groups, for which privilege the people as a whole have not received, and are not receiving, adequate compensation. When the people are ready to demand this compensation it will be possible to get relief from the burden of taxation. Until they do demand it, there is little hope for relief, but every prospect of an increasing burden.

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

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

At this point a reader may perhaps object that, as a matter of fact, the holder of title to land does pay for his privilege when he pays the tax on what is called his "land value", which usually means the fair selling value of the title. It is true that such a tax does constitute, in effect, a partial payment for his privilege; but, on the other hand, if his title can be sold at a price in spite of the tax, it can only be because the tax does not represent the full value of his privilege. In fact, if a title to land sells for a price, such price represents nothing more than a premi-

um which arises because the full value of the privilege of owning the title is not collected in full. If it were collected in full, a land title could have no price.

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

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

Moreover, the rental value of locations is peculiarly the creation of the community, rather than that of the titleholder, because such value is due to the density, character and activities of the population, and to the security afforded and facilities offered by the government. The failure to collect these rental values as payment for services rendered, forces our governments, state, federal and municipal, to secure their revenue through the direct taxation of industry.

The second and most serious of the unfortunate consequences of failure to collect full payment for the privilege of holding title to land, is that it creates a motive for holding title to land, other than to make use of it for industrial or home owning purposes. This motive leads to the practice of holding title to land as an investment or a speculation with the definite purpose of securing an unearned profit from the rise in the value of the privilege resulting from the business activity of others, from expenditure of public and private funds and from increasing population. Thus the private holding of title to land instead of being an aid to industry becomes a burden. The absence of payment for privilege encourages the title holders to withhold land from use, or to demand abnormally high prices or high location rents from those who require land for industrial or home owning purposes. Thus the title holder often becomes a stumbling block to industry, a parasite who must be bought off before industry can secure its first requisite, the land upon which to do business.

Throughout the years from 1923 to 1929 business was prospering and many were very foolishly predicting that this prosperity was to be permanent. But it was this very prosperity which was leading to the inevitable crash. Throughout the period land prices and location rents were steadily rising and title holders were able to demand and to get a steadily increasing tribute from the business men and wage earners. Finally, as these prices were forced by speculative enthusiasm beyond all reason,