cational Association of agents of the school book trust, may possibly open the eyes of some of the innocents in educational circles with reference to this organization. There was really no novelty about the discovery, except the publicity it got.

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TAXATION AND CAPITALIZATION.*

One of the most significant features of modern corporate growth is the increasing capitalization of market opportunities.

The ability and energy of officials of large corporations have, in recent years, been directed toward stock and bond manipulations, rather than toward technical betterment. This change in the quality of managerial ability marks definitely and unmistakably the trend away from the sphere of competitive industry, and toward the somewhat indefinite realm of monopoly; or, more accurately, of restricted competition.

Economists can no longer, without self-stultification, overlook the influence of this change. Economic theory is no longer justified in basing its postulates upon the bygone premises of small industrial units and free competition. The theories of the older school of English economists are not applicable, except in a limited degree, to the modern era of corporate industry and large scale production.

A national industrial system which is burdened with an inert mass of unproductive individuals and which gives opportunity for extensive private monopolistic gains, will, like an unlubricated engine, wear itself out overcoming frictional difficulties in its internal organism.

Although superficial writers frequently point with pride to the prosperity of the United States, more discriminating students of statistics see elements of weakness and signs of increasing inefficiency in our national industrial system when viewed as an organized whole. The discerning investigator finds wastes in unnecessary freight movements, in the multiplication of brokers, lawyers, bankers, transporters and personal servants, in the development of plants to make machines which add to the complexity of an already complex system of production, in the increasing demand for luxuries, in the rapidly growing mass of securities based upon the capitalization of special privileges or market opportunities,—wastes which no amount of statistics resting upon rising prices and paper valuations can completely obscure.

It is proposed, then, to discuss briefly in this editorial some of the problems centering around the capitalization of market opportunities.

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The two most widespread and typical forms of market-opportunity rents are the incomes derived from land as distinguished from improvements, and from franchises granted by governmental authorities. The two forms of market opportunity are very similar. Private ownership of land and private ownership of franchises are privileges. They are allowed by society and sustained by legal enactments, and may be changed if public sentiment becomes sufficiently crystallized in opposition.

One great objection urged against government ownership of public utilities and against socialism, is that private initiative would be reduced, that "the sterner energy, the greater care in the use of tools, machinery and plant, saving in waste of materials and products," would disappear. But however much these qualities are produced in the kinds of business enterprise which do not contain important elements of monopoly, they cannot be said to be conserved in enterprises involving strong monopoly powers. Professor Ely asserts that the tendency of monopoly is toward deterioration in the quality of the product. This "sterner energy" is lacking in exactly the degree to which permanent capitalization of market opportunities, or of special and unique privileges, enters into the business. If the desirable qualities of individual energy and initiative, and of greater care in business, are to be retained, the opportunity to permanently capitalize monopoly returns must be limited.

In order to bring about such a desideratum, a distinction must be drawn between interest, and rents or "premiums" of various kinds, and this distinction must be clearly recognized. The demand for government ownership and for socialism is strengthened by the prevalence of large incomes drawn from the permanent capitalization of market opportunities. Socialism would divert these incomes from individual pockets to the public purse, but probably at the expense of progress and personal ability. On the other hand the chance to permanently make market opportunities private income bearers, while it may increase a certain questionable sort of private initiative and individual liberty, tends to destroy the same

*This editorial by the Professor of Economics and History at Albion College, Michigan, is, like that by Prof. John R. Commons of the Wisconsin University (vol. x, p. 1205), a valuable indication of a current of scholarly thought which has now set in with so much force that it can neither be held back nor turned aside.

qualities in the many, and also to destroy the proper ratio between efforts and returns from efforts. Individual initiative and energy can be preserved, even though there is only a possibility of rising slightly above the average. If it was not possible for any man to become a millionaire, men would struggle just as hard to get half a million as they do to-day to become billionaires. Progressive men should be well rewarded. Exceptional men should, for the good of society, receive exceptional benefits. But for exactly the same reason, it should not be possible permanently to capitalize and pass along these exceptional rewards to those who have taken no share in the work. Beyond a certain limit, such capitalization becomes detrimental to society.

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In recent years, there is an increasing opportunity of living without productive exertion, upon earnings derived from capitalized market opportunities. Men without ability, men who could not earn large salaries in competitive business, receive munificent incomes. These incomes are no longer the result of extraordinary business efforts or sagacity; they result simply from making permanent the incomes from market opportunities.

"Three characteristics," writes Professor Gide, "are necessary for inequalities [of wealth] to produce the salutary effects which are expected from them; they ought to be in a relation to the services rendered; they ought not to be excessive; they ought not to be permanent." The capitalization of market opportunities, the permanent or indefinite absorption by individuals of income from such capitalization, violates the first characteristic. It tends to become excessive as a nation progresses, as population increases and industry becomes well organized. For example, in Massachusetts in 1901, in thirty-three large cities, the land value was estimated at $932,479,395, while the value of the buildings standing on this land was only $871,349,922.* Such a condition, which is typical not only of land in itself but of other market opportunities, proves that the capitalization of such opportunities tends to make inequalities in wealth excessive; for the fortunate individuals controlling these rights or privileges reap the benefits of the increase in value and income. A large percentage of the fortunes of our millionaires originated in businesses involving monopoly, and hence deriving monopoly rents. Our multi-millionaires have gained their mammoth fortunes through oil, steel, railways and urban realty.

*Single Tax Banquet, Boston, 1902. (Pamphlet.)

Under present conditions, the inequalities of wealth tend to become permanent. The corporate form of management makes it possible to place an income-bearing certificate in the hands of persons not actively connected with a given business. As a result stocks and bonds issued by a given corporation may be retained within a family for generations, exactly as may real estate be thus retained. The proverb which is so conducive of tranquillity,—"three generations from shirtsleeves to shirtsleeves"—is not applicable to an industrial age in which the small firm and the partnership are replaced by the corporation. Thus, all three of Gide's characteristics are violated in the United States at the present time.

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This country has reached a period in its development when free land no longer plays the important role in modifying economic and industrial conditions that it once did. The amount of nominal wealth bound up in land and other market opportunities is rapidly increasing. Year by year the absolute and probably the relative amount of market opportunity rents, as compared with other forms of income, is increasing. High capitalization of market opportunities, when the major portion of the income from these opportunties is diverted from the public treasury into the pockets of private individuals, imposes a heavy burden upon industry.

A few statistics, in addition to those given above, will illustrate this point. The average value per foot front of the best business property in New York City may be assumed to be $20,000, or approximately $8,000,000 per acre. Assuming an income of 4 per cent from this valuation, the net economic rent, or market opportunity rent, would be, $320,000 per annum. This amount would be the gross income per acre from buildings and lot, minus all charges for services in the building, taxes, insurance, interest on the capital invested in the building, depreciation and repairs. This income is approximately equivalent to the average wage paid in the manufacturing industries of the United States in 1900, to seven hundred and thirty workmen. The market opportunity rent of one acre in the heart of New York City absorbs, therefore, the equivalent of the money wages of 730 workmen.

Assuming $1,500 per foot front to be the value of the best business property in a city of one hundred thousand inhabitants, the annual rent derived from one acre would be approximately equivalent to the annual wages of 57 workmen.

Turning from land owned distinguishably in this manner, to other forms of ownership of market opportunity, inclusive of land and franchises transferable in corporation stocks and mingled with other property, a similar phenomenon is found. The net earnings of the United States Steel Corporation, in 1900, were $108,000,000, or about 7 per cent on the total capitalization. According to a conservative estimate, one-half the securities of this large corporation is "water". Therefore, it is certainly justifiable, bearing in mind the percentage earned, to estimate that at least one-half of the net earnings is market opportunity rent; that is, a return for monopoly privileges, or for unique advantages in regard to a market. This sum is equivalent to the annual wages of 128,000 workmen in the manufacturing industries of the United States.

According to Moody, the total capitalization of the "trusts" in the United States, including railways, street railways, telegraph, telephone and industrial "combines," is $35,000,000,000 or about twenty-three times that of the Steel Corporation. If the net earnings and the market opportunity rents are assumed to be equal per share to those of the Steel Corporation, this semi-social income equals the annual wages of nearly 3,000,000 workers.

R. M. Hurd states that the total capitalization of the Consolidated Gas Company of New York is about $230,000,000, of which about $200,000,000 is "water". Mr. Hurd holds that this company is probably now able to pay 5 per cent on the "watered" stock. If only 4 per cent was earned on the watered stock, the total annual amount would be $8,000,000; or approximately the equivalent of the wages of 18,300 workmen.

The inert burden under which industry is staggering may be further illustrated by another extreme case. The editor of a conservative magazine cites an instance of a public service corporation which serves a half dozen villages situated in the suburban zone of Greater New York. The aggregate plant, including all machinery, is capitalized at $32,000,000, but is not actually worth over $2,000,000. The consumers are paying dividends on $30,000,000 of watered stocks and bonds.

Mr. John Moody in a recent article, after presenting numerous examples of the growth of corporate values, adds that one-half of the estimated wealth of the United States is not "created" wealth. In other words $60,000,000 out of a total of $120,000,000 is in the form of paper wealth.

These statistics give some idea of the inert burden which modern industry is obliged to carry.

Here is a problem which cannot be safely thrust aside. The economist, the financier and the politician must deal with it, or else bow to the inevitable storm which delay will certainly brew.

The utilization through taxation by the government of a portion of these enormous market opportunity rents would not only allow for the remission of many other forms of taxation; but would allow the government to enter upon new projects for social betterment. It would relieve capital (distinct from capitalization), which is subject to the force of competition, from a portion at least of the burden of taxation under which it is now struggling. Only by diverting to collective uses the enormous returns due to market opportunities of various kinds, can our industrial system as a whole continue steadily to increase its productivity and improve its efficiency.

An increased tax upon land values (not including soil or improvements), and franchise values, would serve to stimulate industry. It would be a burdenless tax from the point of view of the efficient producer. A change in tax rates on market opportunities is no more confiscation than any other increase in the tax rate, or of any change in the tariff. An increase in the rate might only be made when the land, or other market opportunity, passed from one owner to another through inheritance or sale.* Such a policy would be a step toward the removal of the evils connected with the private ownership of monopoly privileges; at the same time the benefits of private enterprise and initiative would be retained. The movement toward government ownership of public utilities, and toward socialism, can only be checked, if either be desirable, by reducing and finally elimating the power to reap benefits where one has not sown, or to permanently capitalize and receive income from monopoly strength or privilege. In the case of land, whether urban, agricultural, mineral or timber, the problem can only be met by a distinct separation of land proper from improvements, for purposes of taxation.† In the case of franchises, two methods are, of course, open: increased taxation of the franchise as real estate, or reduced rates for the services rendered.

Lack of financial resources is ever the great ob-

*Seager, Introduction to Economics, First Edition, p. 525.

†See article by the writer in Quarterly Journal of Economics, November, 1907.

stacle in the way of increasing educational facilities and of enlarging the civic functions of the State and of the municipality. Educational facilities, for example, lag behind the demand of the times because of a lack of money; but a fund can be utilized which may do for the schools of to-day what the land grant system did for those of the last century. City sanitation betterment, the reform of penal institutions and a multitude of other urgent improvements are also delayed because of lack of funds. Higher rates of taxation upon land values and franchise privileges of various sorts would, therefore, not only aid in improving the industrial efficiency of the nation, but would enable organized society to carry on those activities which a complex economic system and crowded population centers have forced upon it.

The old worn-out cry of "socialistic" is utterly inapplicable here. Individualism demands these improvements. Special privileges constitute the menace which threatens individual initiative, personal freedom of action, and equal opportunity for all.

FRANK T. CARLTON.

EDITORIAL CORRESPONDENCE

THE POLITICAL SITUATION IN GREAT BRITAIN.

London, June 15.—The political situation in Great Britain has greatly changed since last I wrote (p. 57), and I fear, not for the better. The death of Sir Henry Campbell-Bannerman has left a gap in the ranks of truly progressive and democratic politicians it will be difficult to fill. In truth, the late Prime Minister stood for everything most sane and most elevating in British politics. A sturdy, simple, honest man, with a broad understanding and keen insight into the social ills accompanying our advance in material civilization, and inspired to action by a firm belief in the fundamental principles of democracy and a passion for human progress. To my mind, for truly moral grandeur he towered above any statesman that has ever occupied the foremost position in the political field in Great Britain. Certain it is that the cause of radical Land Reform owes more to him than to any other Liberal politician. During the past few years he made use of his undoubted hold of the affection and confidence of the people to bring home to them the dire need and paramount importance of radical Land Reform, and above all of the Taxation of Land Values. And there is good reason to believe that he has done much "to democratise", if I may use the word, the younger Liberal politicians who had gathered round him. It is earnestly to be hoped that they will remain sturdily true to his inspiration and teachings.

Sir Henry's retirement, of course, necessitated a reconstruction of the Liberal Ministry. His high office, if not his mantle, passed to Mr. Asquith, who in his cabinet had filled the high position of Chancellor of the Exchequer. To me Mr. Asquith is one of the most interesting personalities in the field of British politics. His intellectual ability and brilliant debating power are manifest, and are admitted alike by his friends and his opponents. Sir Henry was wont to refer to him as "the sledge hammer," which certainly well indicates his power as a debater. Whether Asquith really possesses the moral fervor and broad sympathy without which no Liberal statesman can ever attain to true greatness, I should prefer to leave an open question for the present, for he is not a man easy to read. Self-reliant and self-contained, he promises to rule his party as Campbell-Bannerman never ruled it. He will plan, and his colleagues will carry out his instructions; but he is not the man to reveal his plans till it is time to act. His speeches since his accession to the office of Prime Minister undoubtedly indicate the influence and inspiration of his late leader; for they certainly reveal a warmth and breadth which were conspicuous only by their absence in his speeches of a few years ago. The immediate destinies of the Liberal Party are in his hands; and there are many indications that he abundantly realizes the great opportunity for real radical social reform to-day within their reach, and only awaiting bold and effective leadership. A quotation from his latest address to his party, delivered on Friday last, June 12th, seems to me worth reproducing, as indicating his appreciation of the duty and work of the progressive party in Great Britain. "The Liberal Party," he said, "has no reason for continued existence, nor certainly for the continued possession of power, unless it be prepared to stake its fortunes on great social reforms." Whether by "great social reforms" Mr. Asquith means what we mean, I would not like to say. But I am inclined to believe that the Prime Minister means what he says; that with favorable opportunities his deeds will better his promises; and that he will yet carry even the laggards of his party with him in the direction of truly great and radical social reforms. But Mr. Asquith carries neither his heart nor his plans upon his sleeve, for his opponents to peck at.

Of Mr. Asquith's colleagues I need say little, as they are certainly lesser men. The most prominent, and, I think the most popular, amongst them is Mr. Lloyd George, who relinquished his Presidency of the Board of Trade, where he had been doing excellent administrative work, to succeed his chief as Chancellor of the Exchequer. And the next Budget will certainly tell us how far both Mr. Asquith and his Chancellor of the Exchequer are in earnest to promote real social reform. There are undoubtedly many objections to carrying such reforms by means of the Budget, but recent events, more especially the treatment by the House of Lords of the Land Valuation (Scotland) Bill, should have served abundantly to convince the country that no other course is to-day open to Liberals. Over the Budget the House of Lords has no power—it cannot amend and it dare not reject the Budget, and the practical importance of this fact is becoming daily more appreciated. Hence it is that next to the Prime Minister the Chancellor of the Exchequer is by far the most important man in the Ministry. Whether Lloyd George will rise to the occasion, it would be dangerous to prophesy.