

LAND NATIONALIZATION

Arguments For and Against

LAND is the original source of all consumable goods. Every article which we consume is composed of materials which are derived from land and which have been worked up into the desired form by the interaction of labour and capital, while capital itself (in the strict sense of "the produced means of further production") is ultimately derived from land.

The use of land is, therefore, the prerequisite of all production and of all consumption. Those who believe in any form of democracy, that is to say of equality of opportunity, must believe in equality of access to land. Some still think that this can be achieved by a redistribution of ownership of land, by a generalized peasant proprietorship. Such a view is incompatible with modern conditions of production. To give each citizen an approximately equal quantity of land, if such a thing were possible at all, would mean splitting up the land into uneconomic units entirely unsuited to the present-day scale of production in many industries. If it could be established it could not be maintained: the play of economic forces would constantly tend to break it down, for it would mean an immediate restriction of production and general impoverishment.

Neither could any proposal for redistribution of land as such take adequate account of the enormous variations in value of equal areas of land which is characteristic of, and inherent in, a highly organized system of division and specialization of labour.

How Land Value Arises

The question of value brings us to the second circumstance which differentiates land from other things. It is not only something which is unproduced by human exertion, but it yields a revenue which is unearned and unproduced by the individual who appropriates it. The value of land is the measure of the community advantages obtainable by having a certain piece of land in a certain situation.

Those who believe in equality of opportunity cannot believe that it is equitable that some members of society should be allowed to appropriate enormous unearned incomes from the possession of sites made highly valuable by the organized effort of the community. Indeed, this proposition is so self-evident that the main obstacle to its realization in practice is the fact that we live under a dispensation in which other arrangements have grown up. There is scarcely anyone who, if we were starting afresh, free from all legally established rights, would not admit that the value of land should be reserved as a community income for the benefit of all members of the community.

Two Views

The problem is what are we to do now? Advocates of land-value taxation say: Let us begin to establish the principle at once by taking some part of the land value for public revenue. Every step taken in that direction will be a positive achievement which will make each subsequent step the easier. In this manner the ultimate goal can be attained as rapidly as public opinion may decide.

The advocates of land nationalization say: Let the State purchase the land now from those who own it and pay them fair compensation for it. But observe the difficulties of principle and practice into which this proposition immediately plunges them.

Necessary Distinctions

It is not practicable to purchase land without at the same time acquiring the buildings and other immovable things which are attached to the land. This difficulty does not exist for advocates of land-value taxation, because the value of land can be distinguished from the value of the buildings and improvements even where they cannot be physically separated from one another. But when it comes to acquiring the physical property in the land this separation cannot be made. Land nationalizers are, therefore, in practice nationalizers of all capital which is fixed to the land. The distinction between land and things which have been produced—the very distinction which affords a special argument for land nationalization—has to be abandoned. So also must be abandoned the distinction between the value of land and the value of other things, which affords an impregnable argument for recovering land value for the community. The proposition must, therefore, rest upon the much more tenuous and disputable arguments which might be adduced in favour of nationalization of all the means of production. Land nationalizers thus throw away in their practical proposals the special arguments which are so overwhelmingly in favour of dealing in some way with the land question.

Purchase at What Price?

Moreover, land nationalization implies that the State must acquire not merely the interests of freeholders but also those of lessees, for in many cases the lessees have substantial interests both in the land and in its value, and to acquire merely the freehold interests would leave the others outstanding for long periods (and in some cases for ever).

Thus, land nationalization in practice is a much larger, and more expensive, operation than the phrase implies at first sight.

This brings us to the question of the price to be paid. Land nationalizers say that "fair compensation" must be given

to the owners of land, but there has been much conflict of opinion as to what this phrase implies. To the ordinary man it would convey the market price, the amount which the owner could expect to obtain if he sold the land in the ordinary way. But the selling value of land depends not upon the use to which it is put at the moment but upon the anticipated net revenue expected from it in the future; it is the capitalization of future rents. Moreover, under existing conditions when considerable areas of land are held out of use the market price of land is at an abnormally high level. It follows, therefore, that if the State buys it at market value a long period must elapse before the State receives sufficient revenue to enable it to pay the whole interest upon the debt, not to speak of amortizing the debt itself.

Disputed Compensation

This difficulty has not escaped the attention of land nationalizers. The proposition ceases to be attractive if the market price has to be paid, and modified interpretations have been given to the phrase "fair compensation." One is that the purchase price should be assessed on the basis of the annual value at which the land is assessed for the purposes of the Income Tax, Schedule A. But this, too, has its difficulties. The Schedule A assessment is not in any way related to market value, but to the use made of the land. Where land is entirely unused there is no assessment for Schedule A. Are we to assume that in that case the State will pay nothing? Can any conceivable interpretation of "fair compensation" lead to such a result?

Moreover, as land nationalization involves the purchase of the whole property, site as well as the buildings and improvements, it seems that it must involve the landowner compensation for improvements made by his tenant. If any attempt is made to avoid this conclusion then the most intricate and difficult inquiries will arise as to the facts and the history of each case, and the whole process will involve millions of protracted arbitrations or litigations. The more the practical problems arising from land nationalization are examined the more apparent is it that it bristles with all kinds of equitable and technical difficulties.

Unused Land

The existence of valuable unused or badly used land is frequently cited as an argument for land nationalization. But what are the primary reasons for this? Surely they are our failure to require the owners of land to contribute to the expenses of the State according to its real value, and the heavy burden of rates and taxes imposed upon the development and improvement of land.

A Risky Speculation

In fact land nationalization does not solve the land question. It perpetuates for an indefinite period the existing system under which the workers and producers are subjected to heavy taxation because of the failure to take land value for public revenue. Land nationalizers in the past expressed the hope that the period during which this would continue might be short because increase of land values would amortize the debt created to purchase the land. They failed to realize, however, that if market value is paid, then the payment has already included all the increases in value that the market could foresee. But the situation now is still more adverse for the land nationalization theory. The tendency at present is for population to fall. This tendency will to some extent at least counteract the effect of technical improvements and specialization of labour and industry in raising land values. We need not hold the extreme view that if the present trend of the birth rate continues the population of this country will decline in the course of a century to five millions, but there is at any rate reason for the greatest caution in accepting any policy based upon anticipation of a continual and rapid rise in land values over a long period.

Administrative Problems

Still other problems arise out of this proposal. If the State is to be the landowner then it must either administer the land itself or it must let it to tenants.

If the land is administered by the State, then the State must take the responsibility of providing the equipment and determining the use which is made of it.

If the land is let on short tenancies, then the same result follows, for the tenant will not be prepared to adventure his own capital.

On the other hand, if the land is let on a perpetual tenure, fresh problems arise as to the adjustment of the rent when the land value rises or falls, and this problem is complicated by the question of the variation in the value of the original improvements on the land, which the State acquires in the process of land nationalization.

The Simple Alternative

All these problems are avoided by land value taxation, for the amount which the landholder will pay under that system by way of tax will automatically be adjusted by reference to the value of the land alone, as periodically revised by general valuations of land value, and the occupier will make his own arrangements and be solely responsible for the improvements.

At the same time the occupier will have a continual pressure brought to bear upon him to use the land well because he will have to pay the same amount of tax whether he uses it well or ill. In fact, when the taxation of land values has been carried to the extent of taking for

public revenue the whole annual value or economic rent of land, the State will in an economic sense be the owner of the land, receiving its full value, and the land holder will be the owner of the improvements, although in a legal sense the land holder will still have all the rights of ownership as regards the use and disposition of land subject only to the overriding right of the State to collect the land value year by year.

If land were nationalized it is evident that a very large proportion of it could not be used in any direct fashion by the State. Where it was reasonably well developed and productively used, all that the State could do would be to let it to the present occupiers. In order to obtain the control of the small fraction for which immediate use or change of use was necessary, the State would be obliged to purchase all the rest including the buildings and improvements upon it.

Piecemeal Schemes of Land Purchase

The complications and difficulties and financial disadvantages of land nationalization have indeed become so apparent that its advocates do not propose to nationalize the whole of the land at one step, but propose merely that the State and the local authorities should be free to purchase as much land as they please, when they please, without requiring that the acquisition should be for some definite and specific purpose as it usually has to be under the existing law.

Even so the problem of acquiring this land at a reasonable price remains unsolved. No equitable standard of valuation can be found unless and until a general valuation has been made showing the value of all sites, and unless this is made the basis of national taxation or of local rates. It is only by this two-way pressure of valuation as a basis, both for taxation and purchase, that a fair valuation can be achieved.

The Rent of Land and to Whom it Belongs

Land nationalization lays undue stress upon the legal fact of ownership, and too little upon the economic fact of private appropriation of land value. Some advocates of land value taxation also refer to the evils of private property in land when they intend to refer to the private appropriation of economic rent. The latter is the central point. The flow of land value into the pockets of those who hold land deprives the community of the natural revenue which it has created and earned, causes a grievous weight of taxation to be imposed upon the individual earnings of the people and especially of those who are least well off, and causes enormous inequality in the distribution of wealth. It leads also to speculation in future values and the holding of land out of use with its accompaniment of unemployment, reduced wages, and a still further distortion of the distribution of wealth.

These evils can be directly and natur-

ally dealt with by land value taxation. Land nationalization as we have seen postpones to an indefinite future any recoupment of the land value to the community. In effect it leaves in private hands the enormous values which have already attached to land and only recovers for the community future increases in value, the amount of which no one can with certainty foretell. Every step in land value taxation, on the other hand, is a positive achievement in recovering for the community land values which now exist, and the rapidity of this process remains in the hands of the State.

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