

LAND PURCHASE AND VESTED RIGHTS

The Fallacies of Compensation

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(Reprinted from Professor Brown's "Three Essays on the Taxation of Unearned Incomes.")

It may be of interest to some readers to note that not even by outright purchase of land—if it were really paid for by taxes rather than by creating a perpetual debt—could we entirely avoid interference with "vested rights." Even by such purchase we should be "changing the rules of a game, while the game is in progress, to the disadvantage of one contestant." For the persons who would have to pay the taxes necessary for buying the land, would be the persons who have taxable income or property *now* or in the *near future*, *i.e.*, while the tax is being collected. Such persons would, to be sure, be free, thereafter, of taxes, so far as the future collecting of economic rent in lieu of other taxes could free them. But *so would other persons whose ability to pay taxes, prior to the period of land purchases, might be so small that only their usual tax contributions toward current expenses could be secured and nothing additional toward buying out the landlords.* The freedom of these other persons from future taxes is not enjoyed at the expense of landowners, as such, but is at the expense of all those who are in a position to pay extra taxes during the land-buying period and who have to contribute, not only to buy themselves free of future taxation but to *buy these others free of future taxation.*

Property owners and receivers of large incomes might, then, so buy free of future taxes persons who could not buy themselves free. The vested rights of these property-owners are disregarded. And landowners themselves, being taxed with others to provide means to pay for the land—in which thereafter they would be but part owners with the rest of the community—would be helping to buy free of future taxation persons who could not, at the time, buy themselves free. So the vested rights of landowners themselves might not be *fully* respected by such a scheme. These considerations may not be important but they are believed not to be mathematically fallacious.

Lest this point seem not quite clear, we may illustrate it by an extreme but somewhat analogous case. Let us suppose a community of which one-third of the members are slaves whose total value is a million dollars, one-third are the owners of these slaves and own a million dollars worth of other property besides, and the last one-third are non-slave-owners who are of equal wealth with the slave-owners, *i.e.*, are worth in the aggregate, two million dollars. It is decided to free the slaves and, with the idea of avoiding an infringement of the "vested rights" of slave-owners, this is done by purchase.

A capital tax of 25 per cent is levied on all owners of property, to provide the million dollars necessary to buy the slaves free. The slave-owners receive this million dollars, but have to pay out half a million as their share of the taxes. They are left, then, without the million dollars' worth of slaves and with an extra half million dollars' worth of other property, or a total of a million and a half in value in place of their former two million. The other propertied classes have to pay out half a million dollars in taxes as their contribution toward freeing the slaves and have a million and a half dollars worth of property remaining. The slaves are thereafter free, but the wealth of their former owners and also of the other propertied class is reduced

to three-fourths of its former amount. Together they own, not a million dollars' worth of slaves plus three million dollars' worth of other property, but only three million dollars' worth of other property. *The slave-owners have lost as much, notwithstanding they have been paid for the slaves out of property and so "compensated," as if they were deprived of their property more gradually without "compensation."*

The advantage of the "compensation" method is that it frees the slaves instantly without imposing any burden for payment upon *them* (presumably they have, at the time, nothing to pay with), but this gain of the slaves is at the expense of an infringement of the "vested rights" of the non-slave-owning propertied classes. To pay for the slaves by taxing all other persons and *not taxing the slaves* would be, surely, "like changing the rules of a game, while the game is in progress, to the disadvantage of one contestant." The only way to free the slaves without interference with the "vested rights" of any property-owners would be for the slave-owners to be paid by a bond issue, the interest and principal of which (or the interest forever) should be paid by the slaves themselves and their descendants! Similarly, the only way that the present system of private enjoyment of land rent and support of government largely by taxation of other incomes and property could be changed without any violation of "vested rights," would be for the rights of the landowners to be bought out with funds to the raising of which all victims of the system, however poor they might be, should contribute.

It may be advantageously be pointed out, before we leave this topic, that nationalization of land and government management are not the things to be sought for. Rather should we aim at individual ownership and management and ease of acquiring such ownership. And the way to attain our end is not to adopt the utterly impracticable and burdensome scheme of land purchase, with possible future interest payments on the national debt assumed, as great as present economic rents, but rather to remove gradually or, at least, greatly reduce, other taxes and to put more and more of the tax burden upon bare-land values.

Among various suggestions for land purchase by the community may be mentioned one for the purchase from landowners of the right to take, in taxation, all or most of the economic rent of land *beginning some fifty years hence.* But if the public become ever seriously aroused regarding the land problem, they will hardly want to wait fifty years before securing any results at all; and unless and until they are aroused they are unlikely to take interest in levying higher taxes on themselves to pay for the privilege of having a reform begin (even if their descendants were sure to do it) after the passing of two generations. *All such proposals serve merely to divert attention from the only method by which there is any reasonable possibility of reform, viz., a step-by-step substitution of land-value taxation for most other taxes.*

New Pamphlet

Comments on Some Current Criticisms of Land-Value Taxation

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