

## CHAPTER II

### THE DIRECT ASSESSMENT OF LAND VALUES

#### CONFISCATION AND COMPENSATION

**A**NOTHER question demanding attention refers to the economic effects of devoting to social purposes values recognized as private property for generations; values, moreover, which form the basis for an incalculable number of other values, and consequently, enter into the industrial and financial fabric of society. Unimproved land values, again, are almost as varied in nature as any other form of property; and, in consequence, present proportionately varied subjects for fiscal attention. Great tracts in the entailed ownership of a noble family, or appropriated by capitalist or corporation, in the early days of a community's existence and representing a large unearned increment, do not present the same kind of value as the land owned and used by the agriculturist, or recently purchased at its full value with the savings of labour and industry. Other difficulties arise. The following table shows that in England the smaller holdings of land are divided among a much greater number of individuals than the larger holdings.

#### *Distribution of Land.*<sup>1</sup>

1,000 persons own about	30,000,000 acres averaging	30,000 each.
4,000 " " "	20,000,000 " "	5,000 "
10,000 " " "	10,000,000 " "	1,000 "
50,000 " " "	9,000,000 " "	130 "
130,000 " " "	1,750,000 " "	13 "

Increased assessments upon the larger holdings of one person require the proportionate assessment of the smaller holdings of a great number of persons. Thus, estimates showing the anomalies of the present system may be used to show that in order to reach socially created wealth, in the hands of a few freeholders, it is necessary to tax a disproportionate number of smaller holdings. These considerations invite others. When it is understood that the smaller holdings change hands much oftener than

<sup>1</sup>*English and Irish Land Question*, p. 2., Mr. Shaw Lefevre, M. P., quoted from *Herbert Spencer on the Land Question*, p. 25.

the larger, and therefore represent, actually and relatively, less increased value in the possession of the owners, and may, in many instances, represent no increased value, conditions are met which may make the most enthusiastic advocate of land taxation pause. As Mr. Spencer<sup>1</sup> once wrote, "had we to deal with the parties who originally robbed the human race of its heritage, we might make short work of the matter. But, unfortunately, most of our present land-owners are men who have either mediately or immediately — either by their own acts or by the acts of their ancestors — given for their estates equivalents of honestly earned wealth, believing that they were investing their savings in a legitimate manner. To justly estimate and liquidate the claims of such, is one of the most intricate problems Society will one day have to solve."

Does this problem admit of solution? Is there any method, capable of practical application, which will permit the absorption by society of socially created wealth without injustice to owners of land representing no such wealth? In other words, is it possible to distinguish between the earned and unearned value of the land? Can land, which has returned its original cost many times over to its possessors, and which may be worth as many times the original outlay to-day, be distinguished from land purchased but yesterday at its full value, representing the savings and labour of a life time?

Two urban land-owners may hold properties side by side; one an inheritance, entailed for generations, representing thousands or millions in increased values, due to social causes; the other, perhaps, funds recently invested, held by fiduciary organization or trustee; can these values be proportionately estimated and assessed? Can the land privileges of a great and long established corporation, be fairly valued and assessed in the same way and at the same rate as the recently acquired holding of the peasant proprietor?

Such questions demand definite answers; generalized considerations fail to meet them. They must be met with specific replies, if the subject of using social wealth for social needs is ever to have a hearing by the majority of the middle classes; moreover, its ultimate acceptance or rejection, like that of all other political institutions, depends upon these middle classes, not only on account of equity and right reason, but because of the important pecuniary interests involved. In no country is the land all held by dukes, capitalists, and great corporations; a glance at the list of English holdings, which represent perhaps the

<sup>1</sup>Ibid., p. 22, reprinted from *Social Statics*, 1851.

greatest concentration, shows that 190,000 taxpayers hold 1,000 acres or less, while only 5,000 possess larger holdings. An increased assessment upon 5,000 holdings, involves an analogous step with reference to 190,000, while the latter may represent a smaller amount of socially created wealth, both actually and relatively, or no such wealth at all.

These considerations present one of the greatest difficulties in the application of social wealth to social needs. If the "unearned increment," in the hands of the great corporation or city landlord, is to be assessed and absorbed by society, how can that value invested in land, representing full purchase price and no "unearned increment," be proportionately valued and assessed; or, rather, proportionately escape assessment? The absorption of the one involves the exemption of the other to a certain extent; the first representing value given to the land by the community, for which nothing has been paid; the other, on the contrary, the full market price of such value, very dearly paid, perhaps, by labour and industry.

Mill<sup>1</sup> meets the difficulty by suggesting the recognition of values existing at a given date, and the subsequent assessment of increased values. Such a suggestion is open to objections; chief among which are its complexity, the opportunity for fraud, and the fact that it takes no note of existing disparities in the control of socially created wealth. The following is another method:

The direct assessment of unimproved land values is open to the objection of unequal burden imposed, on account of the difference in the nature of these values. Many of those differences may be referred to differences in period of tenure; land held for a long period usually representing a more or less proportionate increase in value, as compared with land recently purchased. Two pieces of adjoining urban property may be considered. One, inherited by a great proprietor, has returned its original cost many times over in rent, and still represents many times the original outlay in its present market price, the other property, supposedly but recently purchased at its full value, with savings or funds of an institution of trust. The values of the two properties may be regarded as equal, but it is evident that the same contribution from each brings different burdens to their owners; the first owner being in possession of many times the original investment, both in rent already paid and still existing values; the second owner, possessing his original investment alone. Contribution assessed upon

<sup>1</sup>*Principles of Political Economy.* Bk. V., ch. II., § 5, p. 493.

the first property is, in the opinion of Mill, "liable to no valid objection"; these values, to cite the same authority<sup>1</sup> again, holding the principal place as "fit subjects for peculiar taxation!" In assessing and absorbing such values as these, the society does not withdraw property from the hands of individuals; it ceases to continue a process of contribution. No question arises, apparently, with reference to either confiscation or compensation, the society simply ceases to contribute the wealth which it creates to its individual members. On the other hand, absorption of the second value is in no way in harmony with either justice or right reason; for not only is the individual in possession of no socially created wealth, but the society, in checking ground-rents, seems to repudiate obligations it has tacitly assumed; and may create great financial confusion in so doing. How then, may this difficulty be bridged?

It is obvious that no alteration in existing fiscal systems could be wisely contemplated, except as a measure adopted with care, and representing a gradual, thoroughly regulated, process; extending over a period of time as long as necessary, occupying perhaps the life of a generation or longer, if desirable. There would thus occur a slow and progressive absorption of land values from a small percentage of their total until complete. This progressive process may be carried on in different ways: either all unimproved values could be brought at once under fiscal influence, or they could be divided into, say, ten classes, representing ten different periods of tenure; that is, classes based upon date of title; the first class including the oldest titles to the use of land at present in force, the tenth class the most recent. The intermediate classes would represent intermediate titles, classified with reference to date of possession. In this way, the older titles, representing in the majority of cases, the greater amount of unearned increment, could be first assessed; while the later titles could be exempt from contribution for any satisfactory period. Thus, if 10 per cent were the amount first assessed upon the oldest titles, after a given period, 10 per cent would be assessed upon the second division and 20 upon the first; after the lapse of the next period, 30 per cent of the oldest rents could be absorbed and 10 per cent of the values in the third class. When 100 per cent had been reached in the older titles, the process ceases and the later values would gradually fall under the same system.

A plan of this nature might eliminate certain difficulties. The ques-

<sup>1</sup> *Principles of Political Economy*. Bk. V., ch. iii., § 6, p. 502.

tion of compensation to the more recent land-owners would apparently right itself for the following reasons. The two adjoining urban properties may again be considered: the land values of the first property might be in the first class with reference to title; those of the second in the tenth class. Two and one half years may be adopted as the period of assessment and 10 per cent the amount assessed. The first property, upon the adoption of a direct fiscal system, would be assessed at once 10 per cent of its unimproved rental value, and its market value would be proportionately diminished. On the other hand, the land of the second property would be exempt and need not diminish in value; it might, on the contrary, relatively increase in value. Thus, the action of a slow and progressive system need inflict no loss on recent land-owners. After a period of two and one half years, the older property would contribute 20 per cent of its unimproved rental value, and not until twenty-five years have elapsed would the newer property be taxed at all, and then only to the extent of 10 per cent of its site value; not until fifty years had passed, would it be paying as much the adjoining property. During that time, the land might change hands many times; the first owner, owing to the exemption of his land from tax burdens, perhaps being able to sell at a profit. Subsequent owners, being conscious of what contribution they would be expected to pay, would govern their prices accordingly.

There are certain objections to this method not to be overlooked. The most important is, that precedence in title need not represent proportionate increase in value. Two pieces of land representing the same original investment at the same time may vary indefinitely in value, directly and relatively. Again, a recent title may suddenly become enormously valuable, and an older one present a loss.

This suggests the classification of land with reference to increased value, rather than with reference to date of title. Such a classification would doubtless be the more desirable, were it possible; but the necessity of establishing the value of the original investment would, in all likelihood, place it beyond the realm of the practicable; there is apparently no method by means of which the original cost of land could be exactly determined. This difficulty may be partly avoided by means of classification based upon existing values, rather than period of ownership. Such a classification would present advantages, for through it not only could the most valuable urban sites and franchise values

be brought within the fiscal horizon, but these, as the most valuable, would probably present, actually if not relatively, the greatest amount of unearned increment. This, however, need not always be the case; for the greatest values may in many instances represent the latest purchases. And here occurs the thought of combining the two methods of classification in a way that might preserve the advantages of both, while eliminating a portion at least of their difficulties.

This method of classification may be formulated. If one series of ten classes of land values is arranged with reference to periods of tenure, and another with reference to values, a third series may be formed by means of these two combined. Thus, if the first series is numbered 1—10 in respect of date, and the second series 1'—10' in respect of value, the basis is established for a third classification, founded upon the other two; ranging from 2''—to 20.'' The advantages of this third classification will be as follows: If it is supposed that a certain rental value falls into class 1 with reference to title, and 1' with reference to value, it would fall into class 2'' as far as suitability for absorption is concerned—that is, would represent simultaneously the oldest title and highest value. Land falling into classes 10 and 10' in relation to date and value, would be in class 20'' with reference to suitability for taxation; that is, would represent the latest title and lowest values and would be correspondingly free from fiscal burdens. A piece of land representing an old title but small value would fall into classes 1 and 10', thus be included in class 11,'' and occupy an intermediate position between the most and least suitable values. As the greatest unearned increment in land is almost invariably found where the longest period of tenure is combined with the greatest value; this method of classification seems to present the possibility of reaching socially created wealth in the form of land values approximately in proportion to the socially created wealth involved.

Example: The land of any area may be arbitrarily classified as A, B, C, D, and so forth, for the sake of identification, thus:

*Land*

A	B	C	D	E	F	G	H	I	K
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refers to specific properties belonging to certain owners.

If the same land is classified with reference to period of tenure, the following order might be obtained:

*Classification with reference to  
period of tenure.*

A	B	C	D	E	F	G	H	I	K
1	10	2	6	3	9	7	4	5	8

If the same land is again classified with reference to values, the following order might occur:

*Classification with reference to  
values.*

A	B	C	D	E	F	G	H	I	K
1'	8'	3'	9'	10'	2'	6'	4'	5'	7'

In combining these two series by simple addition a new series is obtained.

*Classification with reference to tenure  
and value combined.*

A	B	C	D	E	F	G	H	I	K
1	10	2	6	3	9	7	4	5	8
1'	8'	3'	9'	10'	2'	6'	4'	5'	7'
2''	18''	5''	15''	13''	11''	13''	8''	10''	15''
1st	8th	2nd	7th	6th	5th	6th	3rd	4th	7th

The series 2'', 18'', 5'', 15'', and so on would serve to approximate the relative availability of the values considered; in other words would serve to establish the relative amount of socially created wealth they

represent. Land A would be the first available, presenting the oldest title and greatest value combined; Land B would be the least suitable and consequently exempt as long as desirable; Land E would be third with reference to title, and tenth with reference to value, but together with land G, sixth with reference to these combined.

There are many methods of classifying titles with simultaneous reference to age and value; differentials, coefficients, and logarithmic calculations may be used. It may be useful, under certain conditions, to give greater or less relative prominence to value and period of tenure; value, for instance, being of greater importance in new neighbourhoods; period of tenure in long established areas. Again, in certain cases, it might be advantageous to begin with varying relative percentages. Fifty per cent or more might be the first assessment upon the very highest and oldest values, other percentages decreasing in proportion to values involved. Periods of assessment could be varied; they could be briefer with reference to the highest values and proportionately longer as values decreased. The subject is capable of endless modification in application. The method presented is but the simplest illustration of the possibility of such combined classification. A method of this nature suggests a means of reaching socially created wealth while inflicting no injury upon lately acquired property, or that which represents no unearned values. Local conditions would doubtless modify methods of simultaneous classification, yet, as a general principle, it seems that a progressive system of assessment, progressively applied, in order of value and period of possession combined, presents a means of absorbing social wealth which need inflict no actual loss. Where society but ceases to pour its wealth at the feet of individuals, no cause for compensation occurs. Again, where later and smaller titles are carefully respected, and exempt from assessment as long as necessary to inflict no loss, it is obvious, where no loss is occasioned, that no cause for compensation exists.

Classifications of this nature may be made largely independently of the testimonies of land-owners, which gives them advantage over methods involving interested statements. Dates of titles are in most cases on record, and land values may be approximated by methods to be discussed. It is evident that these classifications would be of value only during a temporary period of transition; their object being but to exempt small and recently acquired holdings from relatively



unjust contribution. This transitory period passed, all land would fall under the same influence.

Students of Mr. Herbert Spencer's earlier works are familiar with the views presented in *Social Statics* (1851) in favour of the policy usually called "Land Nationalization" or the "resumption" of the land by the community. Mr. Spencer's subsequent studies led him to reject these earlier opinions and his matured conclusions are reviewed in *Justice* (1891). Mr. Spencer there presents three reasons for the modification of views expressed in *Social Statics*. These reasons may be summarized as follows: (1) The fact that in England a sum equal to £500,000,000 had been contributed from the land to the community during the past three centuries in the form of poor rates;<sup>1</sup> (2) the question of compensation seems to involve such difficulty and injustice that the resumption of the land by the community would cause more loss than gain;<sup>2</sup> (3) the "vices of officialism." "When we see," says Mr. Spencer,<sup>3</sup> "that alike in despotic Russia, in constitutional Italy, as well as in democratic France and America, public agents of all grades, from ministers down to police officers, cannot be trusted—very often will not do the right thing without a bribe, and will perpetually do the wrong thing when a bribe is given—we can scarcely expect public oversight of land-owners to be efficient."

None of these considerations apply to a direct fiscal system as here understood. They may be briefly reviewed.

I. The fact that a certain sum had been contributed in charity by the land to the community, during a period extending over three hundred years in the past, has slight relation to the advantages or disadvantages of a specific fiscal system to be put in operation in the present or the future. Again, as poor-rates, or what the land has contributed to the community, are but a portion of taxation; and, as ground-rents, or what the community contributes to the land, must apparently always have been greater than total taxation, it seems to follow that the value which the community has given to the land, in the form of ground-rents, must be in excess of what the land has given to the community in the form of poor-rates, leaving a balance due from the land to the community.

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<sup>1</sup> *Justice*, 1891, *Herbert Spencer on the Land Question*, p. 22.

<sup>2</sup> *Ibid.*, p. 27.

<sup>3</sup> *Ibid.*, p. 29.

II. The second consideration, with reference to compensation of expropriated land-owners does not seem final in the present instance. No land-owners need be expropriated; for the reversion to public ownership and control of land,\* as suggested in Mr. Spencer's earlier studies, is not involved with the policy under discussion. The genuine difficulties with reference to small and recent holdings might be largely eliminated by means of a progressive system of land value classification and assessment progressively applied to socially created wealth alone, with the proportionate exemption of small and recently acquired values. If this can be done, by means of simultaneous classification of value and period of tenure, no loss is inflicted upon individuals, and, consequently no cause for compensation created. The owners of the oldest and most valuable site and franchise values would find the return from these slowly diminishing, through a period of years as long as necessary to cause no financial confusion; while, at the same time, revenue from plants and improvements would be increased through the repeal of burdens upon these.

III. It may be said that Mr. Spencer's third consideration with reference to the "vices of officialism" does not apply for the following reasons: A single direct system is not involved with "land nationalization," "resumption by the community," "public management," "public control" or "public ownership" in any way not recognized at present. On the contrary, if anything has been demonstrated in fiscal history, it is the "vices of officialism," and the freeing of society from these may be regarded as among the most important advantages to be hoped from a direct policy. Indirect taxation is the fundamental cause of the "vices of officialism"; where the cause is eliminated, some diminution in the effect might be expected.

It is unfortunate that Mr. Spencer did not turn his attention to a direct system, based upon social wealth, as distinct from public control or management of land. His conclusions are, briefly stated,<sup>1</sup> as follows: "While, as shown in Chapter XI., I adhere to the inference originally drawn, that the aggregate of men forming the community are the supreme owners of the land — an inference harmonizing with legal doctrine and daily acted upon in legislation — a fuller consideration of the matter has led me to the conclusion that individual ownership,

<sup>1</sup> *Ibid.*, p. 23. Cf. *Justice, Appendix B.*

subject to State suzerainty, should be maintained." He refers to the subject in the closing chapter of his *Autobiography*,<sup>1</sup> in the same terms concluding that "individual ownership under State-suzerainty ought to continue." These finally formulated positions of Mr. Spencer seem in no way out of harmony with the fiscal system here considered.

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<sup>1</sup> Vol. II., p. 536.