

CHAPTER X.

OF COMPENSATION.

Men having got themselves into the dilemma by disobedience to the law, must get out of it as well as they can; and with as little injury to the landed class as may be. Meanwhile we shall do well to recollect that there are others besides the landed class to be considered. In our tender regard for the vested interests of the few, let us not forget that the rights of the many are in abeyance; and must remain so as long as the earth is monopolized by individuals. Let us remember that the injustice thus inflicted on the mass of mankind is an injustice of the gravest nature.

*Herbert Spencer.**

By the statement that bisocialism involves a process of leveling up rather than down, it is not meant that by its adoption all may be brought to the highest point of efficiency or of enjoyment. It is not claimed that bisocialism will make any fundamental changes in human nature or do away with all of the disutilities of matter, time and space. Nor is it claimed that no substantial reductions will be made in the net values now enjoyed by those whose interests will be directly affected by the abolition of all monopolies and by the socialization of all ground values and all public utilities. The effect of the socialization of ground values and public utilities as well as the destruction of monopolies will necessarily result in the abolition of all differential privileges in industry, exchange and

* *Social Statics*; Chapter IX. (1850.)

land tenure, with the consequent elimination of the net values now individually acquired by means of these privileges. There is no question but that the people as a whole will profit by these changes of economic polity. The transparent equity of the proposals of bisocialism, when once fully understood, must appeal to every serious mind.

If the transition to bisocialism could be made without disturbing the fortunes of those who have prospered under the established order, there probably would be but slight opposition to the change. But this can not be done. With the abolition of privilege must come the cessation of incomes derived from these privileges. Socially there will be no loss, for what some must lose others must necessarily gain. Privilege has its victims as well as its beneficiaries. The laws of Economics are as immutable as the laws of the physical world, and if some enjoy without working, others must, to the same extent, work without enjoying. "In the sweat of thy face shalt thou eat bread" is a condition placed upon the race as a whole. If some escape this condition, it is only by putting upon others an additional burden. There is no other way. In spite of the absolute certainty of this fact, however, the demand is made that in case bisocialism shall be adopted, compensation shall be made to present beneficiaries for the loss of their special privileges. If this demand were recognized, there would be a change in the form, but not in the substance of the differential privileges now enjoyed. If all such privileges were bought in at their present capitalized values, and interest bearing bonds issued therefor, the people at large would pay as much tribute as before.

It is true that future increase of values would inure to the people as a whole and that the bonds might ultimately be paid off. But before adopting such a plan several circumstances are worthy of consideration.

The claim of present beneficiaries to compensation is based upon the argument that while existing conditions may be economically wrong, they are legally right, and that the law having induced people to invest in differential privileges, it should protect them in these investments regardless of the economic conditions which may prevail. This argument assumes that the laws of men have a higher sanction than the laws of nature, and that they are superior to the laws of progress. Let us suppose the case of three young men who begin life upon their own account at the same age, with equal abilities and under like conditions. One, relying upon the conditions then existing in a given trade, spends several years in acquiring a high degree of skill and proficiency in the manufacture of a given article so that he now receives a good income from his efforts. When he has reached middle life and has made all his plans and conformed all his ways to the existing conditions and in expectation of their continuance, a machine is invented which makes his skill practically worthless and puts him back into the class of common laborers with but little prospect of ever emerging therefrom. What has society ever done to compensate such a man? Nothing!

The second young man works at a trade, saves his earnings, purchases an interest in a manufacturing concern, becomes sole owner of the same, and when he has reached

middle life, has just equipped his factory with expensive machinery of the latest type, and has settled down to enjoy a steady income from an extensive business. Machines are invented and installed in competing plants which turn out the same product at half the former cost, and he is practically ruined, as it were, in a day. What has society ever done to compensate this man for being a victim of progress? Nothing!

The third young man likewise works at a trade, saves his earnings, and invests them in a vacant lot or in a farm. The progress of society doubles the value of his holding, and when he reaches middle life he is enabled to quit work and to live in retirement upon his ground rents. A new and better form of taxation is discovered and adopted by the people by means of which the present worth of his ground rent—his ground value as reduced by changed conditions—is turned into the public treasury, and his income no longer supports him as before. Shall society compensate him for his loss and not the other two? Are not all three equally the victims of progress, and if so, may not economic progress as well as material progress be adopted for the good of all without compensation to the individual? And of the three men in question—are not the two who have invested their skill and capital in productive enterprises and are still in the harness, more deserving of compensation than the one who has ceased to work and is living from the sweat of other men's faces?

There is another fact to be considered with reference to the question of compensating the beneficiaries of the established order. In speaking upon this topic it is cus-

tomary to speak of compensating present *owners*, but the proper term is present *beneficiaries*; when this distinction is properly recognized the question really answers itself; for the beneficiary of a wrong can have no claim to compensation for the loss of his differential privilege. In so far as the owner of a land-form is without a differential privilege under the law, he would lose nothing by the proposed change in land tenure. As simple land user he would be as well off as before. If his land-form should become only about one-twentieth as valuable as before in the land market, it would produce just as good crops or would serve him just as well for a home. And if he should sell this land-form at a price greatly reduced, he could buy another at a price correspondingly low. It is true that his taxes upon his land-form would be increased; but he would be free from all other forms of taxation direct and indirect, and better than all, he and all his fellows would become economically as well as politically free. As long as he remained the actual user of this or any other equivalent land-form, the loss of its present capitalized value would not be felt.

Let us now consider the case of a man who by his own efforts secured twenty years ago a farm of 160 acres at a cost of \$50 per acre. Since that time his farm has doubled in value, and he now receives a cash rental therefrom of \$5 per acre. Upon this annual income he can live as a retired farmer, or he can sell for \$16,000 the farm which cost him but \$8,000 and has yielded him a good return for twenty years. Instances of this kind have occurred frequently in the United States, and are com-

monly referred to as beneficent outcomes of our system of land tenure. But let us investigate the matter further. Let us assume that the man in question has four children who have grown to manhood and womanhood during the period when he was acquiring the original price and enjoying the benefits of this farm. Each of these children is now in as great need of a farm as was their father twenty years ago. But what prospect have they, in the farming business, each to acquire 160 acres at \$100 an acre with the price of land-forms still advancing? Do not the same forces which have made the father comparatively rich tend to keep all his children poor?

Suppose now that this father dies and leaves his farm to his four children as their only inheritance. In common speech we say that he has done well by them, and so he has. But under modern farming processes these children can not divide their farm into 40-acre tracts and severally live thereon; nor can any one of them buy the shares of all the others in ordinary circumstances. So they sell the farm at \$100 an acre and divide the proceeds. If, now, one of them desires to own a farm of 160 acres, he can pay for but 40 acres at current prices. The remaining 120 acres will cost him \$12,000, or 50 per cent more than his father paid for the original farm. The same cause which added \$8,000 to the value of the father's farm has added a like amount to the value of the farm which the son now desires to buy. To the values of the farms desired by the other children the same increase applies, so that as land users they have secured an additional inheritance of \$8,000 and an increased cost

on four farms now desired by them of \$32,000 in the twenty years in question. As a family they would have been much better off under a system of bisocialism in which all could have secured farms at their actual values for *use* without either the payment or the receipt by any person of that form of tribute involved in the private appropriation of ground rent. As a family of land *users* they would have been benefited if, at any time within the twenty years, bisocialism had been adopted without compensation to the father as a beneficiary of the established order.

If compensation is to be made to the beneficiaries of the established order when its inequalities are abolished through the adoption of bisocialism, what shall we say of its victims? Are they not to be considered? It is true that when all ground values are paid into the public treasury and are expended for the good of all, the multitude now submerged and despoiled will be raised to the normal economic margin and thus benefited beyond measure. But to this they are now entitled; to this they have been entitled these thousand years. Instead of recompensing the beneficiaries of this institutional wrong, should not the State in administering substantial justice between man and man take from the former beneficiaries even that they have and give it to the former victims of this wrong? Restitution and not compensation would seem to be the logical demand of justice under the new dispensation. But in the enjoyment and good will engendered by better things the past will doubtless be forgiven, and the

disinherited will be satisfied when happily they come into their own.

A favorite problem propounded by those who argue in favor of compensation to present beneficiaries is this: Suppose that a poor widow owns a lot next door to the mansion of a multimillionaire. This lot with its humble improvements constitutes her homestead; is all that she has in the world. The lot of the millionaire is no larger nor better than hers, but upon it he has built a residence at a cost of \$1,000,000. Along comes the assessor under bisocialism and assesses the property of each at the same amount, exempting the buildings and other improvements in both cases, and listing a tax against each lot equal to its ground value. Is this right?

Let us analyze this problem. In the first place, a widow who, in present conditions, owns such a lot next door to a million-dollar residence is not poor, though she may live in a hovel. She could easily dispose of her lot at a price which would make her comparatively rich, and with the proceeds she could live comfortably in some other place. She deserves no sympathy on the ground of poverty.

It must be conceded that from an economic point of view she is not putting this lot to its best use. She does not need such a lot for the kind of house in which she chooses to live. Bisocialism would compel her to put this lot to a better use or surrender it to some one who would. As it is, she is simply standing in the way of the progress of the community, and the community rewards her for doing so. Under bisocialism she would seek the

location most suited to her means and mode of life. No one could demand of her a farthing more for a building site than it is actually worth for present use, nor could she demand an artificial price for the land-form which she now owns.

But this is not all. In dealing with institutions all the facts involved can not be applied to an exceptional case. For one widow who may own a home next door to the residence of a millionaire, there are a thousand, in the established order, who own no homes at all. Suppose that through the sudden advent of bisocialism, if that were possible, nineteen-twentieths of the value of this widow's home was lost to her. Then by the same process the difficulty of securing a home would be only one-twentieth as great to the thousand other widows. The condition of these, also, should be considered. They are below, not above, the normal margin. The first duty of society is to succor them and to put all persons, rich and poor, upon a plane of equality of opportunity. Then, and not till then, individual cases may be investigated with the certainty that things are what they seem. At present personal merits and demerits are so hopelessly intermingled with institutional rights and wrongs that justice is baffled at every turn.

The illustration which seeks to discredit the proposals of bisocialism by an appeal to the case of the poor widow is the logical successor of the illustration of the widow whose all was represented by the ownership of a single slave before the Civil War. In fact, there is not an argument against the restoration of the common rights of the

people in the ground values and public utilities of their common inheritance that was not worn threadbare in defense of human slavery. In the days of slavery it was proposed that if that institution was to be abolished at all, it should be done only by compensating the slave-owners for the loss of their investments in human flesh and blood. It is probable that if the slave-owners had favored the abolition of slavery on these terms, it might have been accomplished in that way. But they relied upon their supposed legal rights—and lost.

There is no economic reason why the beneficiaries of the established order should be compensated for the loss of their investments in differential privileges any more than that the slave-owners should have been compensated. The question which Economics asks is this: Are ground values and public utilities rightfully the subject of private property, or should they be socialized? If they should be individualized, that is the end of the controversy. If they should be socialized, this can be true only on the theory that all ground values and public utilities belong of right to the public, and should be expended and used solely for the common benefit. Therefore, in this latter view, to devote any revenues arising from these sources to private uses is economically indefensible. To take ground values from present beneficiaries in the form of taxes, and then to return it to them in the form of interest upon the capitalized value of their differential privileges, would be an economic travesty. It would make a mockery of the fundamental economic reform.

It is one of the cardinal doctrines of the law that pri-

vate property shall not be taken for public purposes without due compensation. Hitherto it has not been customary to distinguish between property and privilege, and the beneficiaries of privilege are wont to refer to their privileges as their property. In this they have been sustained by standard Political Economy and by many interpreters of the law. There is all the difference in the world, from a legal point of view, between taking private property itself for public purposes by condemnation or proceedings in eminent domain, and the taking of property values for public revenues through the processes of taxation. The doctrine of due compensation always applies to the former, never to the latter. Even now, in theory, the revenues of the State are taken because they belong of right to the State and not to the individual, and for values taken in taxation there can be no compensation except the usual benefits of government. A valid claim for any private compensation in this regard is economically absurd and legally impossible.

Even if the plan of compensating existing beneficiaries were tenable in the theory, it could never be realized as a fact unless the beneficiaries themselves in apt time should voluntarily offer to surrender to the State their differential privileges at appraised valuations. Some far-seeing railway officials now recognize the handwriting on the wall, and would willingly make such a proposition concerning the public utilities which they control. But as a class the beneficiaries of privilege will doubtless continue to stand upon their supposed power to acquire a vested right in an economic wrong, and their opportunity

to secure recognition for their claim for compensation will thus be lost through their own hostile acts and attitude.

The effect upon land owners of the decline in ground values brought about by bisocialism may be illustrated by reference to the decline in the price of gold between the close of the Civil War and the resumption of specie payments in 1879. At a time somewhat before the beginning of the war gold was at par in the stock exchange at New York. The agitation and unrest which preceded the breaking out of hostilities caused gold to go to a small premium prior to April, 1861. From that date until July, 1864, the premium on gold increased, with fluctuations more or less violent, until a maximum quotation of 285 was attained. The prospect for the ultimate success of the Union arms permanently checked the rise in gold, and the price gradually receded until at the close of the war the market quotation was 146. During all the period from the beginning of the war to the resumption of specie payments, the leading newspapers gave daily quotations of the price of gold as regularly as the prices of wheat and corn. The quotation for gold gradually declined after 1864, the decline being accelerated by the act of congress for the resumption of specie payments, passed in 1875, until on or about January 1, 1879, gold was once more at par.

In the years covered by this period, no one man, perhaps, saw his particular gold coins increase in value from 100 to 285; and no one man, perhaps, stood all the loss on any particular gold coins when the price receded from

285 to 100. Taken as a whole, the gains of the ascending series and the losses of the descending series were distributed day by day through the exchanges of the market, among many persons.

Since the first settlement of the United States the values of its land-forms have gradually, though rapidly, increased from zero to their present status. With the advent of a widespread and effective demand for the socialization of all ground values, the selling prices of land-forms will cease to rise and then begin to decline. In the years necessary, under the most favorable conditions, for the complete socialization of ground values, the decline from the present price to the present worth of one year's ground rent in each case will be distributed among many persons. No man who is not willfully blind to the signs of the times need suffer any great loss, if he exercises ordinary business prudence. As has been shown, only those will suffer a real loss who wish to hold land-forms simply as investors and not as real land users, and those who may wish to change from land ownership to some other form of investment. If these persons act with sufficient promptness and discretion, they can avoid serious loss by letting their land-forms pass early into the hands of actual users.

In the study of the questions involved in the advent of bisocialism many—perhaps most—persons regard the question of compensation to present beneficiaries as most important of all. To most persons who cling to the established order and seek to justify it against the assaults of bisocialism, the question of compensation to present own-

ers, as they put it, furnishes the argument of last resort. This will be the last ditch of the vanquished army of privilege. And yet, as a matter of fact, this question is among the least important; least important upon its merits, least important because the beneficiaries themselves will not accept compensation while yet they may, and least important, also, because in the evolution of economic forces and of the distributing processes of the market this question will practically solve itself.