

CHAPTER II

B

THE SECOND GENERIC PECULIARITY OF LAND

A TAX UPON ECONOMIC RENT CANNOT BE SHIFTED

A TAX UPON GROUND RENT CANNOT BE SHIFTED UPON THE TENANT BY INCREASING THE RENT. IF IT COULD, THE SELLING VALUE OF LAND WOULD NOT BE REDUCED, AS IT NOW IS, BY THE CAPITALISED TAX THAT IS IMPOSED UPON IT

THE question is whether, if a new tax should be put upon land, the owner would not escape by adding it to his tenant's rent?

It is not a sufficient answer to quote the authorities: the query still remains, what are the arguments upon which the authorities rely? Following is an attempt at the clear statement which these arguments deserve.

Ground rent, "what land is worth for use," is determined, not by taxation, but by demand. Ground rent is the gross income, what the user pays for the use of land; a tax is in the nature of a charge upon this income, similar to the incumbrance of mortgage interest. It is a matter of every-day knowledge that even though land be mortgaged nearly to its full value, no one would think for a moment that the owner could

rid himself of the mortgage interest that he has to pay through raising his tenant's rent by a corresponding amount. Mortgage interest is a lien held by an individual; similarly a tax may be clearly conceived as a lien held by the State. Both affect the relation between the property owner and lien holder; neither has any bearing upon the relations between owner and tenant. "Tax" is simply the name of that part of the gross ground rent which is taken by the State in taxation, the other part going to the owner; the ratio these two parts bear to one another has no effect upon the gross rent figure, which is always the sum of these two parts, viz., net rent plus tax. The greater the tax, the smaller the net rent to the owner, and vice versa. Ground rent is, as a rule, "all the traffic will bear"; that is, the owner gets all he can for use of his land, whether the tax be light or heavy. Putting more tax upon land will not make it worth any more for use, will not increase the desire for it by competitors for its tenancy, will not increase its market value.

To illustrate, let us consider the case of a piece of land for which the landowner gets \$1,000 rent from the man who uses it.

First: The owner, let us say, pays over to the city in taxes \$100 of this \$1,000 rent. Is there any indication that this \$100 tax has any influence in fixing the present rent at \$1,000?

Second: Let us suppose that next year the city decides to take another \$100 of the \$1,000 rent in taxes. Could the owner then add the \$200 tax to the tenant's rent, making it \$1,200?

Third: Let us suppose that the following year the tax is increased by another \$100 and so on, by an annual

increase, until, for extreme illustration, the tax is \$1,000, an amount equal to the entire rent; would such a condition make it possible for the owner to raise his tenant's land rent to \$2,000?

These questions would seem to answer themselves in the negative, and thus bring us to a fair conclusion in the matter.

What the Authorities Say of This Second Generic Peculiarity of Land, That a Tax upon Its Rent Cannot Be Shifted

"The weight of authority upon such a question is worthy of attention, although by no means decisive. Now, while a few respectable and sincere students of economic science hold to the doctrine of transferability of the ground-rent tax to the tenants, no one will dispute that an overwhelming weight of authority both in numbers and in reputation, scout that doctrine as absurd. Not only the entire school of Ricardo and Mill, but also nine-tenths or more of other economic writers make it a fundamental doctrine of their science that such a tax never can be transferred to tenants."—*Thomas G. Shearman, "Natural Taxation," pp. 129-132.*

"Though the landlord is in all cases the real contributor, the tax is commonly advanced by the tenant, to whom the landlord is obliged to allow it in payment of the rent."—*Adam Smith, "Wealth of Nations," Book V., Chapter II., Part 2, Art 1.*

"A land tax, levied in proportion to the rent of land, and varying with every variation of rent, is in effect a tax on rent; and such a tax will not apply to that land which yields no rent, nor to the produce of that capital which is employed on the land with a view to profit merely, and which never pays rent; it will not in any way affect the price of raw produce, but will fall wholly on the landlords."—*Ricardo, "Principles of Political Economy and Taxation," McCulloch's edition, p. 107.*

"A tax on rent would affect rent only; it would fall wholly on landlords, and could not be shifted. The landlord could not raise his rent, because he would have unaltered the difference between the produce obtained from the least productive land in cultivation, and that obtained from land of every other quality."—Ricardo, "*Principles of Political Economy and Taxation*," Chapter X., Section 62.

"A tax on rents falls wholly on the landlord. There are no means by which he can shift the burden upon any one else. . . . A tax on rent, therefore, has no effect other than its obvious one. It merely takes so much from the landlord and transfers it to the State."—John Stuart Mill, "*Principles of Political Economy*," Book V., Chapter III., Section 2.

"The power of transferring a tax from the person who actually pays it to some other person varies with the object taxed. A tax on rents cannot be transferred. A tax on commodities is always transferred to the consumer."—Thorold Rogers, "*Political Economy*," 2nd edition, Chapter XXI., p. 285.

"A land tax levied in proportion to the rent of land, and varying with every variation of rents . . . will fall wholly on the landlords."—"Walker, "*Political Economy*," edition of 1887, p. 413, quoting Ricardo approvingly.

"A tax laid upon rent is borne solely by the owner of land."—Bascom, *Treatise*, p. 159.

"Some of the early German writers on public finance, such as Sartorius, Hoffman, and Murhard, went so far as to declare that, because of this capitalisation, a land tax is no tax at all. Since it acts as a rent charge capitalised in the decreased value of the land, they argue, a land tax involves a confiscation of the property of the original owner. On the other hand, since the future possessors would otherwise go scot free, it becomes necessary to levy some other kind of a tax on them."—E. R. A. Seligman, "*Incidence of Taxation*," p. 139.

"The incidence of the ground tax, in other words, is on the landlord. He has no means of shifting it; for, if the tax were to be suddenly abolished, he would nevertheless be able to extort the same rent, since the ground rent is fixed solely by the demand of the occupiers. The tax simply diminishes his profits."—*E. R. A. Seligman, "Incidence of Taxation," pp. 244, 245.*

"If land is taxed according to its pure rent, virtually all writers since Ricardo agree that the tax will fall wholly on the landowner, and that it cannot be shifted to any other class, whether tenant-farmer or consumer. . . . The point is so universally accepted as to require no further discussion. . . . A permanent tax on rent is thus not shifted to the consumer, nor does it rest on the landowner who has bought since the tax was imposed."—*E. R. A. Seligman, "Incidence of Taxation," pp. 222, 223.*

"With these assumptions, it is quite clear that the tax on economic rent cannot be transferred to the consumer of the produce, owing to the competition of the marginal land that pays no rent, and therefore no tax, nor to the farmer, since competition leaves him only ordinary profits.

The amount of each particular rental depends upon units of surplus produced (varying to any extent according to the superior natural conditions), and on the marginal price, which is independent of these superior conditions, and accordingly, a tax that strikes the surplus only, remains where it first falls."—*Nicholson, "Principles of Political Economy," Book V., Chapter XI., Sections 1 and 4.*