

Chapter 33

The Canons of Taxation

THE BEST MEANS of raising public revenues will be one that meets these conditions:

1. It should bear as lightly as possible on production—least impeding the growth of the general fund, from which taxes must be paid and the community maintained.

2. It should be easily and cheaply collected, and it should fall as directly as possible on the ultimate payers—taking as little as possible from the people beyond what it yields the government.

3. It should be certain—offering the least opportunity for abuse and corruption, and the least temptation for evasion.

4. It should bear equally—giving no one an advantage, nor putting another at a disadvantage.

Let us consider what form of taxation best fits these conditions.

1. The Effect of Taxes on Production

It is obvious that all taxes come from the product of land and labor. There is no source of wealth other than the union of human exertion with the materials and forces of nature. But equal taxes may have very different effects on production, depending on how they are imposed.

Taxes that reduce the rewards of producers lessen the incentive to produce. Taxes based on the use of any of the three factors of production—land, labor, or capital—invariably discourage production. Such taxes introduce artificial obstacles to the creation of wealth.

The method of taxation is, in fact, just as important as the amount. A small burden poorly placed may hinder a horse that could easily carry a much larger load properly adjusted. Similarly, taxes may impoverish people and destroy their power to produce wealth. Yet the same amount of taxes, if levied another way, could be borne with ease. A tax on date trees caused Egyptian farmers to cut down their trees; but twice the tax, imposed on land, had no such result.

Now, taxes on labor as it is exerted, on wealth as it is used as capital, or on land as it is developed will clearly discourage production—much more than taxes levied on laborers whether they work or play, on wealth whether used productively or fruitlessly, or on land whether cultivated or left idle.

To a greater or lesser degree, impediments to production are characteristic of most taxes modern governments use to raise revenue. Many kinds of production and exchange are seriously crippled by taxes that divert industry from more productive to less productive forms. These include all taxes on manufacturing, all taxes on commerce, all taxes on capital, and all taxes on improvements. All such taxes tend to reduce the production of wealth. Their tendency is the same as the Egyptian tax on date trees, though their effect may not be seen as clearly. They should never be used when it is possible to use means that do not check production.

The great class of taxes that do not interfere with production are taxes on monopolies. The profit of monopoly is in itself a tax on production. Taxing it would simply divert into public coffers what producers must pay anyway.

There are various sorts of monopolies. Some businesses are, in their nature, monopolies. These are generally the proper function of government. Delivering the mail, for example. For the same reason, railroads should belong to the public, as roads do.

Patent and copyright laws create temporary monopolies. Though the two are often confused, they are not alike.* Indeed, they are essentially different. Copyright does not prevent others from using facts, ideas, knowledge, laws, or combinations for similar productions. It only prohibits using the identical form. That is, it protects the actual labor expended in producing the work. It does not interfere with the similar right of anyone else to do likewise. It rests, therefore, upon our natural, moral right to enjoy the products of our own exertion—and it would be unjust and unwise to tax them.

The patent, on the other hand, prohibits anyone from doing a similar thing. Therefore, it is an interference with the equal liberty on which the right of ownership rests. Everyone has a moral right to think what I think, or to perceive what I perceive, or to do what I do. It does not matter whether someone gets the hint from me or independently of me.

Discovery can give no right of ownership. Whatever

* George said that he fell into this error himself in the first edition of this book. He subsequently acknowledged and corrected it.

is discovered must have already been there to be discovered. If someone makes a wheelbarrow, a book or a picture, the inventor has a moral right to that particular product, but no right to prevent others from making similar things. Though such a prohibition is intended to stimulate discovery and invention, in the long run it actually discourages them.

Finally, there are also onerous monopolies resulting from the aggregation of capital in certain businesses. (See Chapter 20.) It would be much better to abolish such monopolies than to try to tax the returns of their monopoly.

But all these other monopolies are trivial compared with the monopoly of land. The value of land expresses a monopoly, pure and simple. The value of a railroad or a telegraph line, or the price of gas or a patent medicine may partly express the cost of monopoly. But it also expresses the effort of labor and capital. On the other hand, the value of land does not include labor or capital at all. It expresses nothing but the advantage of appropriation. It is, in every respect, tailored for taxation.

A tax on land (unless it exceeds actual rent) cannot check production in the slightest degree—unlike taxes on commodities, or exchange, or capital, or any of the tools or processes of production. The value of land does not express the reward of production. It is not like the value of cattle, crops, buildings, or any of the things called personal property and improvements.

Land value expresses the exchange value of monopoly. It is not in any way the creation of the individual who owns the land. It is created by the growth of the community.

Hence, the community can take it all without reducing

the incentive to improvement, and without decreasing the production of wealth. Taking the entire rent in taxes will not reduce the wages of labor or the reward of capital one iota. Nor will it increase the price of a single commodity. It will not make production more difficult in any way.

But there is more than this. Taxes on land actually tend to increase production—by destroying speculative rent, which impedes production when valuable land is withheld from use. Industrial depressions originate in speculative land values. They then propagate themselves over the whole civilized world, paralyzing industry.

Taking rent for public use through taxation would prevent all this. If land were taxed near its rental value, no one could afford to hold unused land. This land would be made available to those who would use it. Consequently, labor and capital could produce much more with the same exertion.

With regard to production, a tax on land value is the best tax that can be imposed. Tax manufacturing, and you inhibit manufacturing. Tax improvements, and you lessen improvement. Tax commerce, and you prevent exchange. Tax capital, and you drive it away. But take the whole value of land in taxation, and the only effect will be to stimulate industry, open new opportunities, and increase the production of wealth.

2. Ease and Cost of Collection

Of all taxes, a tax on land is the easiest and cheapest to collect. Land cannot be hidden or carried off. Its value can be easily determined. Once the assessment is made, nothing but a receiver is required for collection.

The machinery for that purpose already exists. Part of

public revenue currently comes from taxes on land. We could just as easily collect all the rent as a part of it. Substituting this single tax for all other taxes would save the entire cost of collecting them. What an enormous saving this might be can be inferred by observing the horde of officials now engaged in this endeavor. This saving would greatly reduce the difference between what taxation now costs the people and the revenue it yields to the government.

But a land tax would reduce this difference in an even more important way. A tax on land is paid directly by those on whom it falls. It does not add to prices. In contrast, taxes on things of variable quantity are shifted from seller to buyer in the course of exchange, and they increase as they go.

A tax on money loaned has often been attempted. In this case, the lender will simply charge the tax to the borrower. The borrower must pay the increase or not get the loan. If the borrower uses it in business, the tax must be regained from customers. Otherwise the business becomes unprofitable.

If we tax buildings, the tenants must finally pay it. Construction will stop until rents rise enough to pay the regular profit and the tax besides.

If we tax goods, manufacturers or importers will charge higher prices to wholesalers, wholesalers to retailers, and retailers to consumers. The tax ultimately falls on consumers, who pay not only the tax itself—but a profit on it at each step of the process.

Each dealer requires profit on capital advanced to pay taxes, as much as profit on capital advanced to pay for goods.

For instance, an importer in San Francisco sells Manila cigars to wholesalers for \$70 a thousand. The cigars cost \$14, while the customs duty adds \$56. Dealers must

make a profit not just on \$14 (the real cost of the cigars), but on the \$70 they must shell out (cost plus duty). In this way all taxes that add to prices are shifted from hand to hand. They increase as they go, until they ultimately rest on the consumer—who ends up paying much more than what is received by the government.

Taxes raise prices by increasing the cost of production. This, in turn, reduces supply. But land is not something made by human production. Taxes on rent, therefore, cannot check supply.

Though taxing land makes landowners pay more, it gives them no power to obtain more. For there is no way this can reduce the supply of land. On the contrary, it forces those who hold land on speculation to sell or rent for what they can get. A land tax increases competition among owners. This lowers the price of land.

Thus, in all respects, a tax on land values is the cheapest way by which a large revenue can be raised. It gives government the largest net revenue in proportion to the amount taken from the people.

3. Certainty of Collection

Certainty is an important element in taxation. Collection provides opportunities for corruption on one side, and evasion or fraud on the other. The bulk of our revenues are collected by methods to be condemned on this ground, if on no other.

In earlier days, coasts were lined with one army of people trying to prevent smuggling, and another engaged in evading them. Clearly, the maintenance of both groups had to come from the production of labor and capital. The expenses and profits of smugglers, as well as the pay and

bribes of custom officers, constituted a tax upon the industry of the nation. And this was in addition to what was received by the government!

We can also include all inducements to assessors, and moneys expended electing pliable officials to procure favorable acts or decisions. And do not forget all the expenses of legal proceedings and punishments, not only to the government but to those prosecuted. These evasions take so much from the general fund of wealth, without adding to revenue.

Yet this is the least part of the cost. Taxes that lack the element of certainty have the most terrible effect upon public morals. Our revenue laws might as well be entitled, "Acts to promote the corruption of public officials, to suppress honesty and encourage fraud, to promote perjury, and to divorce law from justice." This is their true character, and they succeed admirably.

But we need not resort to arbitrary assessments. A tax on land values is the least arbitrary of taxes, and possesses the highest degree of certainty. It may be assessed and collected with precision because of the immovable and unconcealable nature of land itself.

Taxes on land may be collected to the last cent. Though assessment of land is now often unequal, assessment of personal property is far more uneven. Inequalities arise mostly from taxing improvements along with land. If all taxes were placed on land values, regardless of improvements, the design of taxation would be simple and clear. It would be open to public observation. Assessment could be made with the certainty of a real estate agent determining the price a seller can get for a lot.

4. *Equality*

The common idea that our system of taxing everything vainly attempts to carry out is this: Citizens should pay taxes in proportion to their means, or in proportion to their incomes. But even ignoring all the insurmountable practical difficulties of taxation according to means, it is clear that justice cannot be attained through this.

Let us turn to Nature and read the mandates of justice in its laws. Nature gives to labor, and to labor alone. Even in a Garden of Eden, people would starve without exertion. Now, take two people of equal incomes. One gets income from labor; the other, from the rent of land. Is it just that they should contribute equally to the expenses of the state? Certainly not.

The worker's income represents wealth created and added to the general wealth of the state. The landowner's income represents only wealth taken from the general stock, with nothing given in return. The worker's right to income comes from the justification of Nature, which returns wealth to labor. The landowner's claim is a mere fictitious right, created by municipal regulation. It is unknown and unrecognized by Nature. It is a monopoly of natural opportunities—gifts that Nature offers impartially to all, and in which all have an equal birthright.

Value created and maintained by the community can justly be called upon to meet community expenses. What kinds of value are these? Only the value of land. This value does not arise until a community is formed; it grows as the community grows. It exists only as the community exists. Scatter the largest community, and land, once so valuable, would have no value at all. With every increase of population, the value of land rises; with every decrease, it falls.

A tax upon land values is, therefore, the most just and equal of all taxes. It falls only on those who receive a unique and valuable benefit from society. And it falls on them in proportion to the benefit they receive. It is taking by the community, for the use of the community, from the value that is the creation of the community. It is the application of the common property to common uses.

When all rent is taken by taxation for the needs of the community, equality will be attained. No citizen will have an advantage over any other, except through personal industry, skill, and intelligence. People will gain what they fairly earn. Only then, and not until then, will labor get its full reward, and capital its natural return.