

# TAXATION OF LAND VALUES

## I

### SOME THEORIES OF TAXATION

“It is as demonstrable as any proposition in Euclid that, if we actually paid a land tax of 10s. in the pound, without paying any other excise or duties, our liberties would be much more secure, and every landed gentleman might live at least in as much plenty, and might make a better provision for his family than under the present mode of taxation.”

This statement was made by Sir William Wyndham, an English landowner, son-in-law of the Duke of Somerset, and Chancellor of the Exchequer in Queen Anne's last two Parliaments. He was speaking in the House of Commons on February 9, 1732, against Walpole's motion for the revival of the Salt Duty and a consequent reduction of the Land Tax. The fight between these two statesmen on this issue continued for two years. Walpole carried his Salt Duty; he encroached on the Sinking Fund, with the avowed object of reducing the Land Tax. He introduced

his Excise Bill for the same purpose, but was beaten by Wyndham, and compelled to withdraw it.

The struggle was largely one between landowners, and those of them who advocated the taxation of land values did so from the strictly practical point of view. Walpole and his school professed that they could save their rents by exempting them from direct taxation. Wyndham, Plumer, Carteret and others disproved this. They understood taxation as it has hardly been understood by politicians since. They told Walpole that he was deceived, and that he was deceiving the landowners, in thinking and acting as if he could raise the value of land by striking with his taxes at the labourers, farmers, merchants and manufacturers of the country. Rent is reduced by the full amount of the taxes paid by tenants in any form; it is still further reduced by the effect of these taxes in impoverishing many people, and in interfering with production and trade.

This was the view of the taxation of land values taken by Locke, and by the ablest and most impartial politicians and writers in the seventeenth and eighteenth centuries, when the Land Tax was being abandoned for Excise Duties. The idea has emerged again from modern experience, and obtruded itself on the attention of general observers. It is supported by the actual operation of the system in the British Colonies. Writing about the heavy Land Tax imposed by the

Commonwealth Government, the Australian correspondent of the *Times* says :

“ The Land Tax has come to stay. In operation for little more than a year, it has not had exactly the effect that its advocates hoped, or its opponents prophesied ; it has not cheapened land to any material extent, and it has not spread red ruin among the owners of estates. . . . Broadly speaking, it has left values very much as they were.”<sup>1</sup>

That is, the interpretation of the taxation of land values by its advocates and opponents has not been in harmony with the principle, as the effects of its application have shown. This misinterpretation has been a serious obstacle to the progress of the movement. Many opponents of the taxation of land values have sought to prove that the present system of taxation is almost the best possible for the producing classes, while many advocates of the Land Tax have agreed that the present system has been the best possible for landowners. By their united efforts they have succeeded in giving a large number of people good cause to cling to what appears to be a perfect vice in the economic system.

Walpole did much to make the taxation of industry the settled policy of this country, violating, as his opponents contended, the essential principle of taxation and of political economy. In his short speech introducing the motion for reviving the Salt Duty he said :

<sup>1</sup> *Times*, February 28, 1912.

“ If I have, sir, the good luck to succeed so far in my wishes, as to have this motion approved of, I shall then beg leave to move that the sum of 1s. in the pound, and no more, be raised for this year upon land. . . . I declare I had no other view but that of procuring some ease, some relief, to the landed interest. If this be agreed to, some means may be fallen upon to relieve them of the whole again next year ; and I shall always look upon it as a great honour that, after a continuance of a land tax of four, three, or two shillings at least in the pound for 40 years together, it was at last reduced to one, at a time when I had a share in the administration of the affairs of the nation.”

Walpole's second step in this direction was taken on February 23, 1733, when he moved that £500,000 should be taken from the Sinking Fund for the expenses of the year. “ This motion,” he said, “ ought the rather to be agreed to, more especially by those who have a regard for the landed interest, because we can thereby continue to the landed gentlemen that ease which we granted them last year.” His third step was the introduction of the Excise Bill on March 14 of the same year, recommended again by references to “ the grievous entail of a heavy land tax.”

Walpole's guiding principle here is an exclusive regard for the landed interest, and disregard of the men engaged in production. Wyndham, on the other hand, judged every proposal of this kind with reference to its effects on industry, on the assumption that if industry is in a sound condition, every interest depending on it will be

safe. This seems to be the only correct point of view, and its adoption or rejection makes all the difference in the conclusion reached.

"The Salt Duty," he said, "was taken off by this House as a tax the most grievous to the labourer and to the poor of this nation, and the Sinking Fund was thereby diminished; for the relief of the poor we did consent to this encroachment on that sacred Fund, but that very tax was laid on because some gentlemen pretended to have found out that the landed gentlemen of England were poorer than the poor!"<sup>1</sup>

"I hope," he said, speaking against the Excise Bill, "I hope the landed gentlemen are not to be caught by such baits. Every landed gentleman will do well to consider what value their lands would be of, if, for the sake of a small and immediate ease to themselves, they should be induced to oppress and destroy the trade of their country. . . . This is one reason for the landed gentlemen not to accept of the pretended ease now offered to them."<sup>2</sup>

A study of the debates in Parliament during these years will show how deeply and carefully some men had considered these questions. They never made the fatal admission that legislators could oppress the producers of wealth by taxation, and that under such treatment these would do the best for themselves in business, and, through their own prosperity, the best for all others with whom they have business connections. Now that we are approaching again with firmer step the position which our ancestors occupied, we can

<sup>1</sup> House of Commons, February 23, 1733.

<sup>2</sup> House of Commons, March 14, 1733.

learn from their experience. One extract from these debates will indicate how similar, not only in substance, but in language, was the controversy of that day to the present controversy.

“This tax upon salt,” said Lord Bathurst, “is, my lords, so far from being a just and equal tax, that it is the most unjust and the most oppressive tax that ever was set on foot in this nation. To the public expense every man ought to contribute according to the benefit he receives.”<sup>1</sup>

This view of taxation, which alone is in harmony with business experience, was handed down through various writings for more than a century. The French Economists of the eighteenth century, keeping in this respect close to the actual facts of life, adopted it. Quesnay did not see what advantage landlords got from taxes on commodities which turned respectable wage-earners into “beggars and thieves, a species of indirect impositions that walked about in an arbitrary manner to burden the producers.”

Perhaps the last and most complete statement of this theory with reference to Imperial taxation is that of Dr. Chalmers. Summarizing his arguments, he said :

“That, with the exception of their first brief and temporary effect on wages and the profits of circulating capital, and of their more prolonged effect on the profits of fixed capital—all taxes fall upon land. That, to estimate the whole effect of taxes upon land, we should add to the effect of them, in aggravating

<sup>1</sup> House of Lords, March 22, 1732.

the expenditure of landlords, the effect of them in lessening their receipts. That, every tax which bears on the profit or maintenance of the agricultural capitalists, and which bears on the wages or maintenance of the agricultural, and their secondary, labourers, and, generally, which enhances the expenses of farm management, creates a deduction, *pro tanto*, from the rent. That, for the commutation of all taxes into a territorial and funded impost, there would be a full equivalent to the landlords first, in the lessened expenses of their living; and, secondly, in the enlarged rent of all the land now under cultivation. And that they, over and above, would obtain more than an equivalent in the new rent which would accrue from the more extended cultivation of their land, now unburdened of all those taxes by which the cultivation had formerly been limited.”<sup>1</sup>

It may be asked why, if the taxation of land values is so practicable and so universally advantageous, it was not adopted long ago by legislators. The answer is obvious. The problem of taxation is one of the most difficult which societies have to solve. Its nature is not yet understood. The answer to one question brought Locke, Wyndham, Quesnay, Turgot and Chalmers to the economic, the only relevant, principle of taxation. That question was: Which tax will give the producers of wealth the greatest measure of security, freedom and encouragement? Having settled this they were satisfied.

This theory of taxation, so clearly stated by these writers and statesmen, has been lost to

<sup>1</sup> *Political Economy*, pp. 561-2.

view for a long period, and for lack of its guidance we have become involved in practical difficulties. Unlike their successors, these economists had no misgivings about the sufficiency of land values to provide a basis for taxation. This seems to be the greatest obstacle in the way of modern legislators. It was stated by Lord Robson, at that time Attorney-General. He was speaking in the House of Commons on April 27, 1910.

“It has been argued,” he said, “whether all taxes should not be raised out of the land. If time allowed, I should be willing to deal with that question, but in the five minutes at my disposal I would advance one objection to that which has not been carefully considered by those who advance that suggestion. Are site values equal to the immense burden which would be laid upon them, if they were made the sole subject-matter of rating? Take, for instance, property in London worth £50 per year. The site value of that property is equal, on a fair average, to something like £10 a year, and the rates will be equal to something like £18 a year, so that you could not possibly levy the whole of your rates upon the site value, if you made it the only subject-matter for taxation. The rate would be 20s. or 30s. in the pound, a result which would mean that the building, which you desire wholly to exempt from taxation, would nevertheless be subject to taxation.”

From this point of view, the scheme seems to be very impracticable, and decidedly menacing to the landowners. It has been suggested that Lord Robson was disingenuous, if not actually stupid, in thus stating his objection. But those who

make the suggestion have not solved the problem as presented by him. If site value is taken as the full ground-rent which the landlord could obtain by letting the site and nothing more, there are properties where the rates would amount to 60s. in the pound on this site value.

A general answer is given to this to the effect that the high site values in the cities will make good any deficiency in the assessable basis of the suburbs and rural districts. But this general answer will not serve the statesman's purpose when he is introducing a bill to deal with the rating or taxation of the whole country. There are too many interests involved, too many mortgagors who would suffer if the returns to mortgagees were reduced by a tax, too many of the present recipients of rent who would lose in order that new recipients of rent might be created. Even if site values, in the sense in which this expression is used by Lord Robson, were sufficient to bear the full burden of the rates, no Government would take the unwise and unjust step of appropriating those site values to pay the present rates, making a gift of other site values to other persons.

But the whole of Lord Robson's difficulty arises from his definition of site value, which he assumes to be the same as the ground-rent. It is doubtful, however, if this definition has any sanction in political economy. There is a wider and more practical definition which treats the site value

of any property as the ground-rent received by the landlord together with all rates and taxes paid by the occupier. This economic site value is determined by what occupiers are prepared to pay in all these forms for the right to use the land. No matter how often the total charge is divided, they will pay the same amount; except that, where division of the taxes is used as a means of oppressing them, and of reducing their wages, they will pay less.

According to this definition, in the example which Lord Robson gives, the site value for rating purposes is not £10, but £28—the ground-rent plus the amount of the rates. With a rate on the value of all land, whether used or unused, contributions would be received in respect of subjects in the same rating area that are now unrated or under-rated, and instead of the occupier in this case being called upon to pay £18, his proportion of the amount to be raised might be only £16. Thus a rate of 57 per cent. on the site value would be sufficient to obtain the necessary revenue, and, other things remaining the same, the sum receivable by the landowners would be £12 instead of £10. To obtain a complete assessable basis for the purpose of local taxation, it is only necessary for the assessors to add the present rates to the annual land value which can be realized by the landowners. Thus, if the annual land value is £150,000,000, and if the amount raised in rates is £78,000,000, the sum of these two amounts

is the basis on which the latter would be raised.

It is important to appreciate the effect of this commonly accepted theory stated by Lord Robson on landlords and statesmen. They have believed that a tax of 60 or 70 per cent. on what is now called the value of land would involve an immediate and equal reduction of all incomes from this source. It seems unreasonable to ask landlords to accept this view, and at the same time to ask that they should support the proposal that such a tax should be imposed at once. No less difficult is the position of the statesman who is called upon to introduce such legislation. However strong his conviction may be that this is the ideal system of taxation, and that associated with it is the most perfect system of land tenure, he will hesitate before he upsets the financial position of any class in the community. There is little doubt that the fear of this result has deterred our Home and Colonial Governments from adopting the taxation of land values in a straightforward and consistent manner.

But this practical objection to the proposal is entirely removed by two considerations:—(1) by the definition of the value of land in its economic sense, the only sense which is of practical use for purposes of taxation; (2) by the correct interpretation of the effects of a tax on the value of land.

There is no difference of opinion among practical

men on the first point, and it is remarkable that within recent years it has been most clearly stated by thorough-going opponents of the taxation of land values. Mr. H. Trustram Eve has been untiring in his criticism of the proposal, yet the ground slipped from beneath his feet in his own impartial inquiry into the subject. Mr. Eve proves that site value for rating purposes is the ground-rent plus the rates.

“The fact is,” he says, “that unconsciously people work out rents assuming they will pay rates, and, if there were no rates, they would think in higher terms. From an economic point of view, the correct way of thinking is to take the theoretical, rate-free, economic rent, and, having fixed that, make a calculation as to the amount of rates, and the balance is the sum payable for what is called rent, but which really is rent less rates.”<sup>1</sup>

Mr. Eve seems to oppose the taxation of land values on every possible ground, because it is unjust, unworkable and detrimental to the State. But his argument here proves that it is the opposite of all these, that it is the most practicable scheme conceivable.

If anyone has distinguished himself by his opposition to this movement, it is Mr. Harold Cox. While others oppose it as Conservatives, frankly in favour of existing privileges, he opposes it as a Liberal, and yet, in the course of a calm investigation, he argues himself into the most substantial

<sup>1</sup> *The Land Agents' Record*, June 17, 1911.

support of the principle. He claims to have proved that "local taxation falls in reality upon the owners of the soil." . . . "Common sense," he adds, "suggests that the nominal burden should be laid where the real burden must finally fall," and he refers to this as "a simple solution of the problem of local taxation."<sup>1</sup> In the light of these arguments, it is obvious that, if the whole of our local taxation, amounting to £78,000,000, were levied directly on land values, the landlords would not lose this amount, and the ratepayers would not receive it. The advantages to the community from this reform will come in other ways than by such rude transitions.

According to this theory, the last ground for practical objection is removed by consideration of the effect of a tax on land values on the value of land itself. There has been a common impression that the value of land generally would be reduced under the imposition of a direct tax on all land. This view also carried with it a presentiment of financial collapse in certain quarters. But it seems to be quite as unfounded and impracticable as the previous view. The French have a proverb which expresses the truth finally on this matter—*Tant vaut l'homme, tant vaut la terre*—the value of land depends on the value of man. From its first introduction, the taxation of land values increases the value of men, and, therefore, it increases the value of land. When

<sup>1</sup> *Land Nationalization*, p. 96.

men are set free economically, when production is increased, and wages raised, a corresponding increase in the value of land must inevitably follow.

From this point of view there never was a policy so fitted to commend itself to statesmen. The generous hopes of those who have adopted it have always been more than fulfilled, because every application of it appeals immediately and sensibly to men's economic aspirations. Problems that now seem difficult of solution would be easily solved under its influence. It is poverty that adds a baffling element to every one of our social problems, and this policy steadily diminishes poverty. The problem of local and national taxation acquires its hard and insoluble aspect from the poverty which presses heavily upon communities, as it presses upon individuals, and relief will come, not so much from readjustment of the different burdens between the local areas and the nation, as from the change in the basis of taxation.

The end of this reform will be reached by a series of steps. Wrong principles have been followed in the past, and strong interests have grown around them. These interests have been threatened with extinction at the earliest possible moment, and this threat has given rise to the fear of poverty in the minds of the people affected, a poverty which appears more or less imminent according to the representation of the proposal.

But it is impossible for us to conceive, and therefore impossible for us to describe, what the effects of the last step in this reform will be, because each step will change not only the position but the outlook of every class. The inadequate representation of the effects of the last, it may be the twentieth, step is certain to cause misunderstanding in minds whose outlook is entirely determined by present conditions of poverty. Opponents have taken advantage of this fact, and, by attaching to the first step the imaginary effects of the last have been able to give it an impracticable appearance.

But legislators need have no fear that the course of this reform will lead them over the rough and uneven roads which appear in these pictures of the mind. The testimony of the *Times* correspondent with regard to the effect of the tax in Australia should do something to allay anxiety. This report and others, coming from countries where the Land Tax is in force, justify and will ultimately compel, a reconsideration of the whole theory of taxation. From this inquiry we shall learn to distinguish between economic laws and legal enactments, we shall come back to Locke's position, and look a little deeper than the first superficial appearance.

"A tax," says Locke, "laid upon land seems hard to the landholder, because it is so much money going visibly out of his pocket; and, therefore, as an ease to himself, the landholder is always forward to lay it

upon commodities. But if he will thoroughly consider it, and examine the effects, he will find he buys this seeming ease at a very dear rate ; and, though he pays not this tax immediately out of his own purse, yet his purse will find it by a greater want of money there at the end of the year than that comes to, with the lessening of his rents to boot, which is a settled and lasting evil, that will stick upon him beyond the present payment." <sup>1</sup>

This argument means that the proposal to substitute a tax on land values for all the present taxes is simply a proposal to substitute a direct tax on land values for indirect taxes on land values, and in doing so to avoid the indefinite loss incurred by every class through the indirect method. Nothing could be more practicable, or more agreeable to every reasonable person. The opposite view with regard to the nature of this reform has been derived from the misapplication of the argument which is used to prove that a tax on land values cannot be shifted. When the proposal to tax land values has been made, practical men have remarked that rents would rise owing to the relief granted to occupiers. Treating this as an objection, land taxers committed the double fallacy of begging the question and of arguing to the wrong point. They replied that a tax on economic rent cannot be shifted, a statement which is true. But this statement implies that existing taxes are not taxes on economic rent, which is an un-

<sup>1</sup> *Considerations of the Lowering of Interest*, Locke's Works, p. 55, vol. v., 1801 edition.

settled question. It also ignores the effect of the repeal of these taxes on the rent payable, if the landlord were to assume the burden now borne by the tenant, which is the only point of the remark. In so far as the advocacy of the taxation of land values rests on this fallacy, it assumes an impracticable form. Stripped of those features that do not belong to the principle itself, it will appear the soundest business policy.

With reference to the incidence of existing taxes, the opinion of Professor Seligman, who also opposes the taxation of land values, is worth quoting. After reviewing all the known theories of taxation, he concludes thus: "If we look at taxable objects from the standpoint of revenue, we have found that there are only two kinds of revenue on which a tax, when once imposed, necessarily remains. These are economic rent and pure profits."<sup>1</sup> We are not sure about the "pure profits." Professor Seligman defines them as inheritances, gifts, gains from speculation." But the part of these that is not economic rent is, probably, not very large. If, therefore, economic rent is the only form of revenue on which taxes necessarily remain, it is evident that they must always be shifted from wages and interest to economic rent, and all the efforts to prevent this by indirect taxation are futile.

<sup>1</sup> *Shifting and Incidence of Taxation*, p. 184 of American Economic Association Edition.