

Shifting the Land-Value Tax

What the Economists Say

CLASSICAL ECONOMISTS

ADAM SMITH, *Wealth of Nations*.

A tax upon ground rents would not raise the rents of houses. It would fall altogether upon the owner of the ground rent . . . Whether the tax was to be advanced by the inhabitant or by the owner of the ground would be of little importance. The more the inhabitant was obliged to pay for the tax, the less he would incline to pay for the ground, so that the final payment of the tax would fall altogether on the owners of the ground rent.

DAVID RICARDO, *Principles of Political Economy and Taxation*.

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 new produce, but will fall wholly on the landlords.

JOHN STUART MILL, *Principles of Political Economy*.

A tax on rent falls wholly on the landlord. There are no means by which he can shift the burden upon anyone else. It does not affect the value or price of produce, for this is determined by the cost of production in the most unfavourable circumstances . . . A tax on rents, therefore, has no effect other than its obvious one. It merely takes so much from the landlord and transfers it to the state.

JOSEPH S. NICHOLSON, Late Professor of Political Economy, Edinburgh University, *Principles of Political Economy*.

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 ordinary profits . . . Accordingly, a tax that strikes the surplus only, remains where it first falls (namely on the land owner).

E. R. A. SELIGMAN, *Shifting and Incidence of Taxation*.

If land is taxed according to its pure rent, virtually all writers since Ricardo agree that the tax will fall wholly on the land owner, 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.

MODERN ECONOMISTS

PAUL A. SAMUELSON, Professor of Economics, Massachusetts Institute of Technology, *Economics*.

Land rent is in the nature of a surplus which can be taxed heavily *without distorting production incentives* . . .

Suppose that supply and demand create an equilibrium land rent. What would happen if we were to introduce a 50 per cent tax on all land rents? Mind you, we are not taxing buildings or improvements; for that certainly would affect the volume of construction activity. All we are taxing is the yield of the naturally fixed supply of agricultural and urban land sites, assuming that this can somehow be identified.

There has been no shift in the total demand for land; firms are still willing to pay the same amount as before for the same amount of land. Hence, with land fixed in supply, the market price that they pay must therefore still be at the old price. Why? Because the supply has not changed and neither has demand. Because at any higher price than before, some land would have to go without any demanders. Hence, competitive rents could not permanently be raised to land users.

Of course, what the farmer pays and what the landlord receives are now two quite different things . . . The whole of the tax has been shifted backward onto the owners of the factors in inelastic supply! The land owners will not like this. But under competition there is nothing they can do about it, since they cannot alter the total supply and the land must work for whatever it can get.

RICHARD G. LIPSEY, Professor of Economics, University of Essex, *Positive Economics*.

. . . Since the tax is levied on all rents, the relative profitability of different uses will be unaffected and thus there will be no allocative effects. Land will not be forced out of use because land which is very unprofitable will command little rent and so pay little tax. Thus there will be no change in the supply of goods which are produced with the aid of land and, since there is no change in supply, there can be no change in prices. *Thus the tax cannot be passed on to the consumers.* Farmers will be willing to pay just as much (and no more) as they would have offered previously for the use of land. Agricultural prices and rents will be unchanged and the whole of the tax will be borne by the landlord. The net rents earned by the landlords will fall and the sale value of land will fall correspondingly.

There is no way in which landlords can pass the tax on to tenants. The tax will be borne wholly by landlords . . .