THREE PRINCIPLES OF LAND-VALUE TAXATION

THE TAXATION of land values is founded upon certain elementary principles which are almost universally accepted by economists of all schools. These principles are accepted even by economists who are opposed to land-value taxation, because in most cases their opposition is based not on purely economic grounds but upon opinions regarding the advisability of altering institutions which are already in existence. These principles may be stated as follows :—

(1) *Economic rent (land value) is a social product.*

Economic rent is the value of the exclusive use and control of a given area of land. It is the amount which a user is willing to pay for the advantages attaching to that site. It does not represent the earnings of the labour and the interest on the capital employed on the site, for the user expects to get the normal return for his labour and capital after paying the economic rent. The position is the same if the user is the owner of the site. He does not sell his products more cheaply because he has a valuable site ; the same article has the same price in the same market, no matter whether it is produced on a more or less valuable site. The advantage to the owner of the more valuable site is economic rent whether he lets it to another or uses it himself.

Mere natural endowment is not sufficient in itself to occasion economic rent. A seam of coal so deep that it will yield no more than normal remuneration to the labour and capital employed in exploiting it will yield no rent. A plot of land at the top of Ben Nevis is worth nothing as a housing site, but one situated in London with its facilities for doing business, for education, for recreation, and for social activities is worth a large sum.

In fact economic rent is a measure of the social advantages attaching to a particular site by reason of the action of the whole community engaged in its economic activities including the public services which are necessary to social life—the provision of roads and streets, sanitary services, fire protection, education, parks, gas and electricity, means of conveyance, and so on—as well as the opportunities for manufacturing, transporting, warehousing and exchanging the products of industry which arise from the whole social organism.

As Thomas G. Shearman put it in his *Natural Taxation*, economic rent is " a tribute which natural laws levy upon every occupant of land as the market price of all the social as well as natural advantages appertaining to that land." It automatically collects " from every citizen an amount almost exactly proportionate to the fair and full market value of the benefits which he derives from the government under which he lives and the society which surrounds him."

This recalls Adam Smith's statement : " Ground rents, so far as they exceed the ordinary rent of land, are altogether owing to the good government of the sovereign, which, by protecting the industry either of the whole people or of the inhabitants of some particular place, enables them to pay so much more than its real value for the ground which they build their houses upon ; or to make its owner so much more than compensation for the loss which he might sustain by this use of it."

The point is put in this way by C. B. Fillebrown in *The Principles of Natural Taxation* : Economic rent, or ground rent as he prefers to call it, " extracts from the user of land the exact measure of his advantage over other men in his exclusive enjoyment of rights and privileges pertaining to his own location, and the whole tendency of the taxation of ground rent is to equalize participation in these common rights and privileges, by commuting into dollars and cents, which can be divided, those indivisible advantages of location, which can only be enjoyed individually."

(2) *A tax on land values (economic rent) cannot be shifted upon the tenant of land by increasing the rent.*

This proposition is intimately connected with the preceding one. Land has no cost of production. Its value flows from the demand of users for it, and the magnitude of the demand for each plot depends upon the magnitude of the advantages of location that attach to it. The desirability of any plot of land for use is not increased because the owner has to surrender part, or the whole, of the economic rent to the community. The landlord charges his tenant for all the advantages of situation attaching to the plot. If he attempts to charge more, it will pay the tenant to go elsewhere and hire a plot of less value. But the owner still has the plot on his hands and still has to pay the tax, for the essence of land value taxation is that the tax is payable whether the land is used or not. Hence the owner must, if anything, abate the rent in order to tempt the tenant or another one back again. The economic mechanism by which a tax on commodities is shifted to consumers is to restrict the supply and so raise the price of the commodity. This mechanism does not exist in the case of a tax on land values ; the supply is fixed ; owners of land cannot destroy it in order to avoid the tax.

This proposition is accepted by all economic writers of standing. Adam Smith says : " 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." Similarly Ricardo : " 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."

One other quotation is sufficient. " 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." (E. R. A. Seligman, *Shifting and Incidence of Taxation.*)

(3) *The selling value of land is an untaxed value. The present holder of land owns a tax-free investment.*

This is a direct deduction from the preceding proposition. As the tax on land values cannot be shifted, a purchaser of land will not be prepared to pay as much for a plot of land which is subject to tax as for one which is not. When a tax on land values is in operation, the purchaser pays a price which will give him the normal rate of interest on his investment after allowing for that portion of the economic rent which he has to pay to the State.

Thus the burden of a tax on land values cannot be made to survive a change of ownership. This is true whether the change of ownership be by sale or inheritance. The successor to a piece of land inherits it subject to the burdens which it bore in the time of his predecessor.

The point is illustrated in the purchase of land subject to a burden such as tithe or a perpetual rentcharge. The purchaser of such land pays less than he would if the land were free from such burdens.

Any proposal to remit any tax which now falls on land values is a proposal to make a present to the owners of land of the capitalized value of the tax. Conversely, if it be true that present taxes such as death duties fall partly on land values, this is no argument against additional taxes on land values, for the existing tax has already been amortized in the price of the land.

Professor Seligman puts the matter in this way: "It is apparent that the [selling] value of the land will fall in exact proportion to the increase of the tax, until when the tax equals the entire rent the [selling] value of the land will be zero. During these successive stages, however, the new purchasers lose nothing. The diminished rent will still yield them the same rate of interest as before, because of the diminished capital value on which the tax is computed." It will be understood that in saying that the value of the land will fall in exact proportion Professor Seligman is ignoring other factors which might affect land value. Moreover, in considering the effect of the tax on owners of land as owners, account must be had of advantages which may come to them as land users or in other capacities from relief of other taxation made unnecessary by the taxation of land values.

The importance of these three inter-linked propositions was first brought out by the late Mr C. B. Fillebrown of Boston in his *Principles of Natural Taxation* and other writings. Professor F. Spencer Baldwin said of them: "The broad basis of this tripos of the single tax will doubtless withstand assaults. Since the ground rent of land is a social product, it is just to take at least enough of it in taxation to meet the expenses of government. Such a tax, furthermore, cannot be shifted from the landowners to other classes in the community, but must be paid wholly and finally by them. It is, moreover, just that they should be taxed especially in this fashion; because in most cases they have bought their land tax-free under the operation of the principle that the selling value of land is an untaxed value and a land tax cannot survive a change of ownership. This threefold support of the single tax is the stoutest that has been erected by any champion of the policy. Anyone who will take the pains to study the economic principles involved, and their application, must concede the substantial validity of the arguments." (*Boston Transcript*, 16th March, 1909.)

VICTORIA. *Progress*, Melbourne, of March, reports that the *Sunshine Advocate* devotes three-columns to an address by Dr Paul Dane on Rating Reform. He stated that Brunswick, Camberwell, Caulfield, Chelsea, Coburg, Essendon, Sandringham and Oakleigh were under the reform system of exempting improvements from rating. Comparing them with Box Hill, Brighton, Footscray, Hawthorn, Heidelberg (exclusive of Greensborough ward), Kew, Malvern, Northcote, Preston and St. Kilda, which were under the present system, the rates in the first eight municipalities, were lower in comparison with the latter ten, and the progress was greater. Not one municipality which had adopted the plan had expressed any desire to go back.

A STAGGERING TAX BURDEN

The Financial Statement, White Paper 104 of 1939, estimates that the National Revenue in 1939-40 will be £942,600,000. Of this sum an amount of £18,680,000 comes from Crown Lands (£1,330,000) and miscellaneous sources such as loans due to the British Government. There remains the sum of £923,920,000 to be got from taxation.

We make the following classification into "direct" and "indirect" taxation, in conformity with a popular usage, although there is nothing very scientific about that morale. The distinction should be made, if it could be made, between obtaining revenue from values that are the property of the community because they are due to the presence and activities of the people as a whole and the values that are the result of the work of the individual as an individual, and would not arise if that individual was idle—that is, the values that are essentially and morally the property of the individual, the State infringing property rights by taxing them. Much of the "direct" taxation to-day as well as all the "indirect" taxes comes under that condemnation and is economically both penalising and repressive of industry and employment. However, here is a classification obeying the present vogue, which only tries to show, and very roughly, what the "rich" pay and what the "poor" pay; or, by another view, what the taxpayer pays direct, and what he pays and passes on in higher prices to others. Even the latter view does not escape the fact that much of the "direct" taxation is added to prices and is therefore "passed on." Probably the motor vehicle duties on *pleasure* cars, included below with indirect taxation, could be regarded as direct taxes; but they cannot be shown separately from the duties on commercial vehicles, and all the motor vehicle duties are grouped with the taxation on oils to show how much taxation transport has to pay.

		£000	£000
DIRECT TAXATION			
Income Tax and Sur-tax		397,000	
Estate Duties		80,000	
National Defence Contribution		25,000	502,000
INDIRECT TAXATION			
Spirits, beer and wine		111,680	
Tobacco		93,000	
Tea, cocoa, coffee, dried fruits, sugar, mineral waters, beef and veal		31,300	
Entertainments		8,110	
Transport (including tax on stationary oil burning engines):			
Oils and power alcohol ..	60,740		
Motor vehicle duties	43,450	104,190	
General Tariff, Ottawa duties, Key Industry duty, Matches, Silk and Miscellaneous..		44,190	
Stamp Duties (£21,000,000) and other Inland Revenue duties		22,250	
Revenue from the Post Office Monopoly (also an indirect tax)		7,200	421,920
			£923,920

This shows 45.7 per cent of the revenue derived from "indirect" and 54.3 per cent derived from "direct" taxation.

Of the total indirect taxation, £232,560,000 comes from Customs and £116,460,000 from Excise. The Customs duties include protective tariffs amounting to £53,997,000.

The table will help the future Chancellor of the Exchequer determined to tax Land Values, in lieu of hurtful and price-raising imposts, to decide with what abolition he will begin and so earn the gratitude of his fellow citizens and lasting fame as well.