

CHAPTER XV.

INCIDENCE OF TAXATION.

§ 1. Shifting the rent tax. It has been suggested that the power of landlords to shift a rent tax upon their tenants needs some further discussion, in addition to that of Chapter IX., sections 14-16 (pp. 129-132).

If we could only hope that a majority of land-owners would ever come to believe that a tax upon their ground rents would be repaid by their tenants, we should not add a word upon the subject; because, if they so believed, the only formidable opposition to such a tax would vanish, and it would be speedily adopted. Even if such a tax could be shifted upon tenants, it would still be the best possible tax; and its adoption, to the exclusion of all other taxes, would be of immense benefit to the world. Although it would be double taxation, it would still lay the burden in precise proportion to the benefits conferred upon each taxpayer, which cannot be done under any other conceivable system. It would put an end to all the frauds, perjuries, bribery, and corruption which are inseparable from all present American taxes, if not from taxation in Europe also. It would destroy all barriers to commerce and exchange. It would make war impossible between any two nations adopting such a system. It would take away all the motives which now induce men of wealth to resist reduction of taxes and to buy legisla-

tion increasing taxes. It would relieve business interests of every kind from the nervous apprehension with which every change in tariff or excise taxation is regarded. It would make every influential citizen, not directly interested in appropriations of public money, a powerful advocate of governmental economy.

But while land-owners, as a class, are far too shrewd to be deceived into the slightest belief that a tax upon ground rent can be added to rent, there are some intelligent persons who do believe this, and who therefore cannot see in such a tax any promise of those great social reforms in which they are interested. For their benefit, some authorities will be cited and further explanations given.

The direct authorities are all one way. There is no standard writer on political economy (so far as we are aware) who positively asserts that a tax on rent can be transferred; although there are some such writers who state the laws of rent in such manner as to imply that it can be. These are in a very small minority; and it is plain that they have not fully thought out the question.

Even before he had fully grasped the law of rent, Adam Smith wrote: "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 [tenant] or by the owner of the ground, would be of little importance. The more the [tenant] was obliged to pay for the tax, the less he would incline to pay for the ground."¹ Ricardo, who is the great authority on the law of rent, shows that a tax on ground rent "will fall wholly on the landlord."² John Stuart Mill repeats and amplifies this

¹ *Wealth of Nations*, bk. v., ch. ii., art. 1.

² Quoted by Walker, *Pol. Econ.*, bk. v., ch. iii., sec. 1.

statement.¹ Henry Fawcett, in opposing such a tax, says it "would be paid entirely from the rent of land-owners."² The same principle is asserted by Thorold Rogers, Francis A. Walker, Professor Bascom, Henry George and Professor Seligman.³

§ 2. **The law of rent.** The whole question of the shifting or incidence of taxation upon ground rent depends upon what is the law of rent itself. The Ricardian law, as it is commonly called, is accepted by practically all students of political economy, as self-evident when correctly stated.⁴ Ricardo himself did not take the trouble to state it in accurate language; and while all believers in the law agree in their real idea, they have not been able to find language upon which they could agree as expressing that idea. Instead of quoting others, we will add one more definition to the already long list, premising that we do not in the least differ from what we understand to have been the real meaning of Anderson, Malthus, Ricardo, Mill, or any of the innumerable writers who have followed in their wake. Our definition is:

The rent of any land is the market value of the privilege of using it; and this value is, in the long run, determined by the superiority of such land, over any other land which can be had free of charge, in the opportunities which it affords for gaining wealth.

This is only another form of the definition previously given (*ante*, p. 116). In this definition, it must be under-

¹ Mill's *Pol. Econ.*, bk. v., ch. iii., sec. 1.

² *Pol. Econ.*, bk. iv., ch. iv.

³ Rogers, *Pol. Econ.*, ch. xxi.; Walker, § 414; Bascom, p. 159; *Progress and Poverty*, orig. ed., pp. 372, 384; Seligman, *Essays*, 66.

⁴ Mill, *Pol. Econ.*, bk. ii., ch. vi.; Fawcett, bk. ii., ch. iii.; Laveleye, bk. iii., ch. iv.; F. A. Walker, § 234; A. Walker, 294; Laughlin, § 227; Marshall, bk. vii., ch. x.; Roscher, § 149, where an interesting review of opinions is given.

stood that by "land" is meant land, without regard to any improvements thereon of any kind. For although there may be land having some improvements, which nevertheless would bring no rent, yet, where that is the case, these improvements have been as completely thrown away as if they were cast to the bottom of the sea. In such case, neither land nor improvements have any market value; and it is only improvements having some value which can be taken into account in any way. The market value, of course, means the highest price which the owner of the land can obtain. If, out of good nature or ignorance, he lets his land for a smaller rent than he could obtain, he simply divides the rent with his tenant, and there are two landlords instead of one. So if the owner lives upon his own land, he none the less receives, in a scientific sense, its full rent, although he applies it directly to his personal comfort or business purposes.

§ 3. Criticisms on the law of rent. Ricardo's original statement of this law, which defined rent as the price paid for the "original and indestructible powers of the soil," was readily open to misconstruction; and it has been abundantly misconstrued. Because he confined himself to illustrations referring to the production of corn, it has been assumed that he had really nothing else in mind. Without stopping to defend him, it is sufficient to say that none of his living followers accept this limitation. On the contrary, they all recognize the obvious fact that rent paid only for the inherent power of land to produce food, is, in all civilized countries, the smallest proportion of rent. Not only does the rent of any single acre of ground used for manufacturing or commercial purposes vastly exceed the rent paid for any acre used solely for the production of food, and especially of grain,

but the aggregate of what may be called urban rents vastly exceeds the aggregate of rural rents. And if we deduct from what are usually called rural or farm rents the rent which is paid for residences upon farms, the amount of rent actually paid for land, solely because of its capacity to produce food, will be found relatively small.¹ Yet it is upon the assumption that the Ricardian law of rent applies exclusively to food-producing lands, that all criticisms upon it have been based. We do not know of any writer on political economy, whose works are still read, who denies the truth of the Ricardian law, except Henry C. Carey, Frederic Bastiat, J. M. Sturtevant and A. L. Perry. They maintain that rent is nothing more than the ordinary rate of interest upon capital actually spent upon land. Or, as Carey expresses it, "Rent is paid for the use of the improvements which labor has accomplished for or on land."² They reach this conclusion by computing all the cost of preparing farm land for cultivation, and considering this a permanent investment, for which the owner and im-

¹ Statistics on this point are rare. In Massachusetts, in 1885, the average value of each farm was, in land, \$2460, in barns, \$409, and in residences, \$1010. But the *productive* land averaged only \$1329 to each farm. The other land was held chiefly for speculative purposes. The value of land really held for productive purposes on an average farm is only 54 per cent. of all the land value, *without* buildings, and only 34½ per cent. of that value *with* buildings. If the farmers declined to pay taxes on unproductive land, and allowed it to be used in common, while their productive land was assessed at only its unimproved value, an average farm would be assessed at only one seventh of its present valuation; a reduction more than twice as great as would be made in Boston by the exemption of improvements.

² Carey, *Past, Present, and Future*, 62. See Sturtevant, § 159; Perry, ch. vii. Professor Laughlin (in his ed. of Mill, 243) mentions others.

Mr. Carey was full of delusions; but it is to be regretted that such excellent writers as Sturtevant and Perry should have been blind to facts which are known to every business man in a large town. But they always lived in rural districts, and they knew little of urban conditions. Wayland (bk. iii.,

prover receives nothing, except such increase as may take place in the market price of the land. They then assume, without going into the slightest details, that the same thing is true with respect to land in cities, and that the opening of streets, and other improvements necessary to prepare it for building, cost more than the market value of the land when prepared. These assumptions are manifestly absurd and contrary to all the facts. As Francis A. Walker justly said, they prove too much; they are like an argument that a hole the size of a cannon ball must necessarily have been made by a bullet, because it is plain that the bullet could easily go through it. Farmers in new settlements, as a rule, never carry with them means of support for more than one year. They must gain their living as they go along. It is impossible, therefore, that, as a class, they should make improvements which do not pay as they go. They cannot possibly live upon a rise in the price of land, which is only to come in fifteen or twenty years. Their improvements are therefore invariably of such a nature as to enable them to raise crops, within the very first year, sufficient to give them at least as good a living as they could get by hiring themselves out to a capitalist, who could afford to speculate on the rise in land values. This is emphatically true of the entire classes of land improvers, whose history is set forth by Carey and Sturtevant; and Carey's statement shows it. The whole history of Ireland furnishes a complete refuta-

ch. iii.) and Walker (§ 255) state the case of urban rents clearly; Roscher, less clearly (§ 151, note); Mill, in his great work, hardly at all. Carey's arguments were neatly disposed of by Mill (bk. ii., ch. xvi., § 5); also by F. A. Walker (§ 246).

Mill afterwards devoted his chief energies to the special taxation of ground rents in towns (Laughlin's *Mill*, 547, 548). Sturtevant, in a later part of his book, awoke to the situation. There is no lack of literature on the subject.

tion of this argument. There, not one acre in a hundred has ever been improved in the slightest degree by the landowner; and yet he has collected for centuries an enormous and constantly increasing rent, alike from the bare land and its improvements. It is plain as day that Irish tenants, down to 1881, paid as rent, for the use of the bare land, not only their nominal money rents, but, in addition thereto, the amount which they expended in improvements. With regard to cities and towns, universal experience contradicts the Carey theory. There is not a lot within the inhabited portions of any prosperous city which does not sell for much more than all that has been spent in preparing it for building purposes or in paying assessments for local improvements. Massachusetts some years ago filled in the Boston Back Bay at enormous cost, but immediately sold all the land thus made for more than treble its cost; and it made a bad bargain in selling, even at this price, because it might have leased the entire land at a fair rate of interest, while the same land is now worth twelve times as much as it cost.¹ Yet in that case all the streets were laid out and all the improvements necessary to fit the land for building purposes were provided by the State, before it sold the land. The whole city of London contradicts the theory, because landlords there have successfully resisted the introduction of the American system of local assessments; and all the enormous improvements which have been made in the last fifty years have been made at the expense of tenants, ground rents being carefully excluded from either local assessments or general taxation. Of course, multitudes of land speculators in the United States have been disappointed, and even ruined, by the failure of rent to rise as much as they expected it to do. But the gross rent of

¹ The details are stated, *ante*, ch. xiv., § 12.

all the land of the United States, as well as of Great Britain, has steadily advanced for a century; and improvements upon land, taken as a whole, have been paid for out of the current earnings of the people, in addition to ground rent.

§ 4. **Application of the law of rent to incidence of taxation.** The impossibility of transferring or shifting the burden of taxation upon ground rents from the landlord to the tenant inevitably follows from the law of rent. Rent being the market value of the privileges conferred by the possession of any particular tract of land, it is certain that the land-owner can obtain that market value if the rent is *not* taxed, and that he cannot obtain any more than that if the rent *is* taxed. On the other hand, if the Ricardian law did not exist, and if Mr. Carey's romantic conception of rent, as a mere compensation for the use of capital spent upon the land, were true, then a tax upon rent would be like a tax upon interest. It would, in the long run, be added to the rent; because, until tenants generally were willing to pay the tax, in addition to the rent, no further improvements would be made upon land, until land fit for use became so scarce that tenants consented to pay the tax. But such a proposition is an insult to the understanding, as indeed is the whole argument in opposition to the Ricardian law. There are many lots in the city of New York, containing 2500 square feet, which would sell readily, without buildings, for \$250,000 up to \$1,000,000 each. So far from these lands being benefited by any improvements which have been made upon them in the past, every improvement is a burden, the expense of removing which must be borne by the purchaser. Even the soil itself must be dug out, to the depth of thirty feet or more, and carted away. The local assessments for laying out adjoining

streets, and the like, have in no case cost nearly so much as \$1000. Rent has been collected from these lands for a century, vastly in excess every year of the annual taxes. The improvements are not merely worthless, but are an absolute injury to the land. Similar examples can be found by any observer, in every city in the civilized world.¹ And as similar lots, although of smaller value, constitute three fourths of all land values in the United States, this illustration alone suffices to destroy the Carey-Bastiat theory; and with that falls the last possible support to the theory that a tax upon rent can be shifted upon tenants.

¹ See English and French illustrations in Roscher, § 146.