Why A Land-Value Tax Cannot Be "Passed On"

Excerpt from the 1955 Labour Party viewpoint pamphlet "The Rating of Site Values" by the late R. R. Stokes, M.P.

THE question whether a tax or rate on land values can be passed on to the tenant is a question of economic principle, and this will apply whether the tax be large or small. Many people, as soon as they grasp the idea that taxes upon labour products shift to consumers, jump to the conclusion that similarly taxes upon land values would shift to users. But this is a mistake and the explanation is simple. Taxes on products are added to their price, for all competing products must pay the tax added to the price of the product; but taxes and rates on land values are not added to the price of land because competing unused land will keep the price of the land down.

Sometimes this point is raised as a question of shifting the tax in higher rent to the tenant, and at others as a question of shifting it to the consumers of goods in higher prices. The argument is the same. *Merchants on expensive sites cannot and do not charge higher prices for goods than their competitors do merely because they pay higher ground rents.* A country shopkeeper whose business site is worth but a few pounds, charges as much for sugar as does a city grocer whose site is worth thousands. Quality for quality and quantity for quantity goods tend to sell for about the same price everywhere. Though land value *has no effect upon the price of goods,* it is *easier* to sell goods in some locations than in others. Therefore, though the price and the profit of each sale be the same in good locations and in poorer ones, aggregate receipts and aggregate profits are much greater at the good location.

It is out of this *aggregate,* and not out of each profit, that rent is paid. For example: a shoe store on a main thoroughfare supplies certain quality shoes at 50s. On a side street the same quality of shoes can be bought no more cheaply. Yet ground rent on the main thoroughfare is very high compared with the ground rent on the side street. How, then, can the first dealer—he who pays the high ground rent—afford to sell shoes as good as those of his neighbour in the low-priced location for the same price? Simply because he is able to make many more sales in a given time so that his aggregate profit is greater. This is due to the advantage of his location. And for that advantage he pays what amounts to a premium in higher ground rent. But the premium is not charged to customers; *the dealer in the site streets protects them by his competition.* This higher ground rent represents the greater ease or, if you like, the lower cost of doing a given volume of business upon the site for which the premium is paid; and if the State should take any of it, even the whole of it, in taxation, the loss would be finally borne by the owner of the advantage which attaches to the site—in other words by the landlord. Any attempt to shift the site rate on the tenant or buyer would be promptly checked—people would go off and shop in the side streets instead of in the main thoroughfares and the shops in the main thoroughfares would have to close down.

Or to put it another way. A tax on tea and tobacco though it may be paid to the Customs and Excise in the first place by the importer, is eventually recovered by him in the price which he charges the retailer who in turn passes it on to the consumer. So the question is constantly asked: "Won't the landlord do the same if he has to pay a site value tax?"

In the first place a tax on land value is a tax on land rent alone. It is a tax on the value or price the land can command in the open market. It must be remembered that land which has no *market value* is not necessarily useless land. It is only useless to the man who tries to get something out of it without working it himself. Land which will give a return sufficient only to compensate labour and give a bare return to capital can have little or no *market value*—no one would buy or pay rent for this land.

There is quite a lot of land which falls into this category—it is known as marginal land.* As no rent or selling price can be got for this land — there would obviously be no land tax to pay. No rent, no tax.

Now let us look at the better land (urban as well as agricultural). Here we see that with a similar expenditure of effort the returns are greater and when measured against the marginal production the *difference* in productive capacity shows itself in rent. Mark that this *difference* in production exists even if no payment is made between one man and another. The advantage the owner of the better land (user or not) has over the marginal land owner is "economic rent"—and it is this difference that it is proposed to tax.

It will be seen therefore that the tax while levied at a uniform *rate* will vary in amount according to the variation in the values of the different plots. This is the key to understanding why a tax on rent cannot be passed on to the consumer or tenant.

So we know from experience that a tax on commodities can be, and is passed on to the consumer. Very well. Now suppose a tailor's shop had half its stock destroyed by fire in the night. Could the proprietors double the price of the remaining suits to recoup their loss? The answer obviously is "no." Likewise a jeweller who tries to pass on his gambling debts to his customers by charging higher prices for his jewellery would soon lose his customers to his competitors. It is competition which levels prices and prevents sellers from juggling with prices.

But when a commodity tax is levied *it falls on all shop-*

* Marginal land is that land which, after using the optimum application of labour and capital, yields a return only sufficient to cover labour earning and capital return at the prevailing rates—leaving nothing that can be secured as rent for the land.

Sub-Marginal land is land which will not yield sufficient to pay the current rate of wages and the current rate of interest.

keepers equally. All competitors are in the same boat. None has an advantage in respect of the tax, therefore it can be passed on to the customer without fear of being threatened by competition. The jeweller knows that he can pass on his jewellery tax because, unlike his gambling debts, all his fellow traders are affected by the tax in the same way. Now look again at the land value tax. Is it a tax which falls on all traders equally ? Certainly not. While the grocer or tobacconist in Bond Street pays the same excise tax per lb. of tea or tobacco as his competitor in the village store, he would pay a *very different* land value tax. The Bond Street retailer (assuming he were the landowner) would have to pay the full land value tax but would not dare to attempt to raise his prices. If all those liable to pay the tax were to attempt to pass it on to the customers, we would have the fantastic picture of goods of the same value *selling at different prices* ! according to the varying amounts of land value taxes levied.

If the landowner in Bond Street were a separate person from the retailer he would not dare to raise his rent or else his tenant would leave—because the tenant could not raise his prices and would not stand the loss himself.

The land value rate or tax is like a handicap in a race. It levels up the different advantages, and as one runner cannot shift his handicap on to another so the landowner cannot shift his land tax to the tenant or consumer.

It is this difference between valuable sites and marginal sites that it is proposed to tax, and this tax can no more be evaded or passed on than can a man's own income tax.

Italy in Three Weeks

THE Italian Touring Club publishes a good guide meant to tell the motoring tourist " how to see Italy in three weeks." With stamina and money that might be possible. The tourist will look ; he may even see ; he will not often understand. His little *Guide to Italy in Three Weeks* is packed with information . . . and current misconceptions:

" Italy is one of the most thickly-populated countries of Europe, with a total of 46,821,970 inhabitants. The birth rate greatly exceeds the death rate, so that the average yearly increase of population amounts to about 500,000 units. This super-abundant population creates a social problem of great urgency, with the only practical remedy being mass emigration."

" The country's economy is based on agriculture, in which about 50 per cent of the working population are engaged. In spite of the prevailing hilly nature of the country, the unproductive land totals only about 9,000 square miles. Agricultural conditions vary in every region, but there is a well-marked difference between industrialised agriculture characterising the northern provinces and the primitive methods which result from the *latifundia* system still prevailing in the south."

Our guide book reflects Italian political thinking accurately. Latifundia cause poverty. There is a large number of very poor people in Italy already, and more are coming into the world every minute. The solution is land reform, agrarian reform rather, and mass emigration. The Italian people take the hint anyway. The Canadian Embassy alone receives over 200 applications a day from would-be emigrants. Australia House is likewise besieged. The Italian Government for its part began after the war a programme of land reclamation and redistribution which has been bogged down by legal difficulties and lack of funds for compensation payments.

North of Naples, stretching almost to the outskirts of Rome itself, lie the Pontine Marshes. For centuries liable to outbreaks of malaria, the *Agro Pontino* is now a vast plain of some 200,000 acres extending between Cisterna, Mt. Circeo, and the sea. The guide book explains:

" The work of reclamation was undertaken a number of of times in past centuries, but it was only in 1928-39 that the tremendous task was organised and brought to completion with successful and permanent results. The former marshes are now thickly dotted with farm houses. Five new towns have been built, Latina, Pontinia, Aprilia, Sabaudia, and Pomezia. Some 4,000 families are on the land."

Well-kept fields, well-ordered farms stretch away on both sides of the Naples—Rome highway. All is green and beautiful in sharp contrast to the barren overgrazed desolate land in Sicily and the south.

Who were the lucky few ? Here Mussolini settled his veterans—with new houses, virgin land, irrigation works, ready-made towns. " And now," said our driver, " they all vote Communist."

It is the same old story in Italy as elewhere. There are restrictions on trade, there are jerry-built houses, and, of course, there is land speculation. Bearing in mind Pliny's oft-quoted phrase, " Latifundia ruined Rome," our most poignant recollection is of a wooden sign beside the ancient Appian Way bordered with the tombs of noble Romans—" VENDESI TERRENO "—Land for Sale.

M. R.

TOWARDS FREER WORLD TRADE
WELCOME MOVE BY COMMON MARKET

The Ministerial Council of the Common Market announced in Brussels, December 3, that the tariff cuts due to take effect on January 1 would be extended to all countries of the world trading with " most favoured nation " clauses, and it would welcome a similar gesture on the part of those countries. The first 20 per cent quota increases on imports between the six countries, which also are due to come into force in January, would be extended on to all O.E.E.C countries on condition that they reciprocated.

This is excellent news—a sudden ray of light in a troubled world. It is to be hoped that other countries will reciprocate with alacrity.