

Understanding the Tax On Land Rent

by PERCY R. WILLIAMS

THE single tax is a tax on land value or rent. And if we are to correctly understand the single tax it is essential that we understand both the nature of rent and the nature of taxation.

We find that there are different concepts of rent and taxation, and as a result the term, single tax, may be misinterpreted even by those who profess a strong belief in its merits.

Land rent has certain unique characteristics, but there is nothing mysterious about rent. Rent is simply one of the categories into which the wealth produced from time to time is distributed.

Rent is not a free gift; it is a tribute. Rent is wealth, and like any other wealth, it is usually measured in dollars or other currencies. In the language of David Ricardo, "Rent is that portion of the produce of the earth which is paid to the landlord. Rent is the sum paid to the landlord for the use of the land, and for the use of the land only."

Private property in land tends to produce land monopoly and land speculation, and this fact led the originator of the single tax, Henry George, to the conclusion that "we must make land common property."

George declared that private property in land is the robber who deprives labor of its fair share of the product. And because landowners have a degree of monopoly power, they demand and receive not merely all that the land is worth to the user because of superior productivity, but in addition much excess rent. This excess rent is called "monopoly rent" or "speculative rent." The single tax is intended to eliminate speculative rent by increasing the competition between landowners.

Henry George was a realist who knew that it was not necessary to confiscate land to combat the evils of private property in land; it is only necessary to confiscate rent. He was confident that this could be done effectively by using the power of taxation. Furthermore this method of taxation was admirably adapted to gradual or partial application. And it took into account the possibility that partial application of the land value tax might prove sufficient to achieve as much land reform as is actually needed.

But the power of taxation could be useful for this reform only if it was understood that a tax on the value of land could not be shifted in any manner. Because if this tax were shifted it would permit the landowner to escape payment and would become actually a tax to be paid by labor and capital as land users.

There is no question as to the meaning of shiftability. If the landowner could increase land prices, the tax could be shifted and thus would be ineffective. But if the landowner could not increase the price of land, the tax would be non-shiftable and hence exert pressure to reduce land prices.

The single tax leaves the right of private title to present landowners but it is designed to limit their economic power to a greater or lesser extent, depending on the degree of application.

The single tax is designed to reduce land rent, not to increase it. Nonetheless, some land taxers deny that the land value tax will reduce rent, and even insist that its effect will be to increase rent, thus enabling landowners to shift the tax to land users. Some actually profess to see benefits if land rent is increased.

At this point the issue is often confused by failure to distinguish between rent increases due to population growth and increased total production (which is always natural and acceptable), and those at the expense of labor and capital which would occur if it were possible to simply shift the land value tax to land users in the form of higher rents and prices. The essential consideration is that the proportion of total production absorbed by the landowners must not be increased, and labor and capital must not be deprived of their fair share of the wealth produced.

The other basic feature of the single tax is elimination or reduction of those forms of taxation that do not fall on land values and therefore are borne by labor and capital. It would have been possible to devise a scheme to directly distribute to all the people their rightful share of the rent collected from the common property in land. But as a reasonable alternative it was proposed instead that the share of land rent to which labor and capital were justly entitled should be paid in the form of tax exemptions.

In pursuance of this objective it has become the strategy of the single tax to direct attention primarily to reform of the real estate tax by means of which a very substantial amount of land rent is already being collected. So it is proposed that taxes on buildings be transferred to land values, in whole or in part.

This is where the question of tax shiftability assumes a vital importance. If and when land taxes are substantially increased, can the landowner simply shift the additional tax to land users by increasing the price or rent of

his land? The answer is in the negative, but it is still a subject of much controversy.

There is no evidence that higher land taxes have anywhere caused an increase in the price of land. Yet there may be instances where land prices have risen for causes other than higher land taxes, especially if the land tax is not very high. So we must depend on logical deduction for the answer.

The most plausible argument for higher land prices is that an increased demand for land will enable landowners to enforce higher prices, it being the contention that any transfer of taxes from improvements to land would increase the demand, thus permitting the landowner to shift the tax to land users. This theory, however, ignores the fact that higher land taxes would greatly increase the supply of land on the market by increasing competition between landowners caused by the pressure of high land taxes which tend to make it unprofitable to hold land out of use, or out of its highest and best use. Thus the increased supply would counteract any increase in effective demand.

There are three possibilities: gross land rent might be reduced, it might be increased, or it might be stabilized. The selling price of land is determined by the net rent after taxes. Therefore even if there were no reduction at all in the gross rent, land taxes would greatly reduce the net rent, and therefore the price.

This result is essential if the single tax is to succeed in its objective. In the words of Harry Gunnison Brown, "High land prices are an economic and social calamity. Why think of high values as desirable?"

Many friends, students and teachers of the Henry George School in New York responded to an "open house" invitation in the newly decorated lounge on May 24th. Due to the success of this initial social event the demand was unanimous that they be repeated at frequent intervals.