Why The Landowner Cannot Shift The Tax on Land Values

By Henry George

A very common objection to the proposition to concentrate all taxes on Land Values is that the landowner would add the increased tax on the value of his land to the rent that must be paid by his tenants. It is this notion that increased Taxation of Land Values would fall upon the users, not upon the owners of land, that more perhaps than anything else prevents men from seeing the far-reaching and beneficent effects of doing away with the taxes that now fall upon labor or the products of labor, and taking for public use those values that attach to land by reason of the growth and progress of society.

That taxes levied upon Land Values, or, to use the politico-economic term, taxes levied upon rent, do not fall upon the user of land, and cannot be transferred by the landlord to the tenant is conceded by all economists of reputation. However much they may dispute as to other things, there is no dispute upon this point. Whatever flimsy reasons any of them may have deemed it expedient to give why the tax on rent should not be more resorted to, they all admit that the taxation of rent merely diminishes the profits of the landowner, cannot be shifted on the user of land, cannot add to prices, nor check production.

Not to multiply authorities, it will be sufficient to quote John Stuart Mill. He says (Section 2, Chapter 3, Book 5, “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 agricultural produce, for this is determined by the cost of production in the most unfavorable circumstances, and in those circumstances, as we have so often demonstrated, no rent is paid. A tax on rent, therefore, has no effect other than its obvious one. It merely takes so much from the landlord and transfers it to the State.”

The reason of this will be clear to everyone who has

grasped the accepted theory of rent—that theory to which the name of Ricardo has been given, and which, as John Stuart Mill says, has but to be understood to be proved. And it will be clear to everyone who will consider a moment, even if he has never before thought of the cause and nature of rent. The rent of land represents a return to ownership over and above the return which is sufficient to induce use—it is a premium paid for permission to use. To take, in taxation, a part or the whole of this premium in no way affects the incentive to use or the return to use; in no way diminishes the amount of land there is to use, or makes it more difficult to obtain it for use. Thus there is no way in which a tax upon rent or Land Values can be transferred to the user. Whatever the State may demand of this premium simply diminishes the net amount which ownership can get for the use of land, or the price it can demand as purchase money, which is, of course, rent or the expectation of rent, capitalized.

Here, for instance, is a piece of land that has a value— let it be where it may. Its rent, or value, is the highest price that anyone will give for it—it is a bonus which the man who wants to use the land must pay to the man who owns the land for permission to use it. Nor, if a tax be levied on that rent or value, this in no wise adds to the willingness of anyone to pay more for the land than before; nor does it in any way add to the ability of the owner to demand more. To suppose, in fact, that such a tax could be thrown by landowners upon tenants is to suppose that the owners of land do not now get for their land all it will bring; is to suppose that, whenever they want to, they can put up prices as they please.

This is, of course, absurd. There could be no limit whatever to prices did the fixing of them rest entirely with the seller. To the price which will be given and received for anything, two wants or wills must concur—the want or the will of the buyer, and the want or will of the seller. The one wants to give as little as he can, the other to get as much as he can, and the point at which the exchange will take place is the point where these two desires come to a balance or effect a compromise. In other words, price is determined by the equation of supply and demand. And, evidently, taxation cannot affect price unless it affects the relative power of one or other of the elements of this equation. The mere wish of the seller to get more, the mere wish of the buyer to pay less, can neither raise nor lower prices. Nothing will raise prices unless it either decreases supply or increases demand. Nothing will lower prices unless it either increases supply or decreases demand. Now, the Taxation of Land Values, which is simply the taking by the State of a part of the premium which the landowner can get for the permission to use land, neither increases the demand for land nor decreases the supply of land, and therefore cannot increase the price that the landowner can get from the user. Thus it is impossible for landowners to throw such taxation on land users by raising rents. Other things being unaltered, rents would be no higher than before, while the selling price of land, which is determined by net rents, would be much diminished. Whoever purchased land outright would have to pay less to the seller, because he would thereafter be called on to pay more to the State.

But while the Taxation of Land Values cannot raise rents, it would, especially in a country like this, where there is so much valuable land unused, tend strongly to lower them. In all our cities, and through all the country, there is much land which is not used, or not put to its best use, because it is held at high prices by men who do not want to, or who cannot, use it themselves, but who are holding it in expectation of profiting by the increased value which the growth of population will give to it in the future. Now the effect of the Taxation of Land Values would be to compel these men to seek tenants or purchasers. Land upon which there is no taxation even a poor man can easily hold for higher prices, for land eats nothing. But put heavy taxation upon it, and even a rich man will be driven to seek purchasers or tenants, and to get them he will have to put down the price he asks, instead of putting it up; for it is by asking less, not by asking more, that those who have anything they are forced to dispose of must seek customers. Rather than continue to pay heavy taxes upon land yielding him nothing, and from the future increase in value of which he could have no expectation of profit, since increase in value would mean increased taxes, he would be glad to give it away or let it revert to the State. Thus the dogs in the manger, who all over the country are withholding land that they cannot use themselves from men who would be glad to use it, would be forced to let go their grasp. To tax Land Values up to anything like their full amount would be to utterly destroy speculative values, and to diminish all rents into which this speculative element enters. And how groundless it is to think that landlords who have tenants could shift a tax on Land Values upon their tenants can be readily seen from the effect upon landlords who have no tenants. It is when tenants seek for land, not when landlords seek for tenants, that rent goes up.

To put the matter in a form in which it can be easily understood, let us take two cases. The one, a country where the available land is all in use, and the competition of tenants has carried rents to a point at which the tenant pays the landlord all he can possibly earn save just enough to barely live. The other, a country where all the available land is not in use and the rent that the landlord can get from the tenant is limited by the terms on which the tenant can get access to unused land. How, in either case, if the tax were imposed upon Land Values (or rent), could the landlord compel the tenant to pay it?

It may be well to call attention to the fact that a tax on Land Values is not a tax on land. They are very different things, and the difference should be noted, because a confusion of thought as to them may lead to the assumption that a tax on Land Values would fall on the user. Barring such effect as it might have on speculation, a tax on land—that is to say, a tax of so much per acre or so much per foot on all land—would fall on the user. For such a tax, falling equally on all land-—on the poorest and least advantageously situated as fully as on the richest and best situated land—would become a condition imposed on the use of any land, from which there could be no escape, and thus the owners of rentable land could add it to their rent. Its operation would be analogous to that of a tax on a producible commodity, and it would in effect reduce the supply of land sufficient to pay the tax. But a tax on economic rent or Land Values would not fall on all land. It would fall only on valuable land, and on that in proportion to its value. It would not have to be paid upon the poorest land in use (which always determines rent), and so would not become a condition of use, or restrict the amount of land that could be profitably used. Thus the landowners on whom it fell could not shift it on the users of land. This distinction, as to nature and effects, between a tax on land and a tax on Land Values, it is necessary to bear in mind.

It is also necessary to bear in mind that the value of land is something totally distinct from the value of improvements. It is a value which arises not from the exertion of any particular individual, but from the growth and progress of the community. A tax on Land Values, therefore, never lessens the reward of exertion or accumulation. It simply takes for the whole community that value which the whole community creates.

While it is not true that a tax on Land Values or rent falls on the user, and thus distributes itself through increased prices, it is true that the greater number of taxes by which our public revenues are raised do. Thus, speaking generally, taxes upon capital fall, not upon the owners of capital, but upon the users of capital, and are by them transferred to the consumers of whatever the capital is used to produce; taxes upon buildings or building materials must ultimately be paid in increased building rents or prices by the occupiers of buildings; imposts upon production or duties upon imports must finally fall upon the consumer of the commodities. This fact is far from being popularly appreciated, for, if it were, the masses would never consent to the system by which the greater part of our revenues is raised. But, nevertheless, it is the vague apprehension of this that leads by confusion of ideas to the notion that a tax on Land Values must add to rents. This notion will disappear if it be considered how it is that any tax gives to the person first called on to pay it the power of shifting it upon others by an increase of price.

A tax on matches, for instance, will, as we know by experience, enable the manufacturer or dealer in matches to get a higher price. How? Evidently by adding to the cost of producing matches for sale, thus checking the supply of matches that can be offered for sale until the price rises sufficiently to

compensate for the tax. It is this knowledge that the tax will add to the cost of production, and thus, below a certain price, check competition in supply, that enables the dealer to mark up the price of his stock of matches as soon as the tax is imposed, or compels him to mark it down as soon as the tax is remitted.

But a tax on Land Values does not add to the cost of producing land. Land is not a thing of human production. Man does not produce land! He finds it already in existence when he comes into the world. Its price, therefore, is not fixed by the cost of production, but is always the highest price that anyone can give for the privilege of using a particular piece. Land, unlike things that must be constantly produced by labor, has no normal value based on the cost of production, but ranges in value from nothing at all to the enormous values that attach to choice sites in great cities, or to mineral deposits of superior richness, when the growth of population causes a demand for their use.

Hence a tax on Land Values, instead of enabling the holder of land to charge that much more for his land, gives him no power to charge an additional penny. On the contrary, by making it more costly to hold land idle, it tends to increase the amount of land which owners must strive to secure tenants or purchasers for. Thus the effect of a tax on Land Values is to increase the amount of land which owners must strive to secure tenants or purchasers for. Thus the effect of a tax on Land Values is not to increase the rent that the tenant must pay the owner for the use of the land, but rather to reduce it. And since the tax must be paid out of what the land will yield the owner, its effect would be to reduce the price for which the land could be sold outright.

Here, let us say, is a lot on the principal select street of a city having an annual or rental value of $10,000. Such a lot would now command a selling price of some $250,000. An increased tax upon Land Values would not reduce its rental value, except as it might have an effect in forcing into use unoccupied land at a greater distance from the center of the city. But as less of this rental value could be retained by the owner, the selling price would be diminished. And if a tax on Land Values could

be imposed with such theoretical perfection that the whole rental value would be taken by the community, the owner would lose both his income from its present value and any expectation of profit from its future increase in value. While it would be still worth as much as before to the user, it would be worth nothing at all to the mere owner. Instead of having a selling value of $250,000, it would not sell for anything, since what the user paid for the privilege of using it would go in full to the community. Under a tax of this kind, even though it could not be imposed with theoretical nicety, the mere owner of land would disappear. No one would care to own land unless he wanted to improve or use it.

The general principle which determines the incidence of taxation is this: A tax upon anything or upon the methods or means of production of anything, the price of which is kept down by the ability to produce increased supplies, will, by increasing the cost of production, check supply, and thus add to the price of that thing, and ultimately fall on the consumer. But a tax upon anything of which the supply is fixed or monopolized, and of which the cost of production is not therefore a determining element, since it has no effect in checking supply, does not increase prices, and falls entirely on the owner.

In view of the efforts that are made to befog the popular mind on this point, I have deemed it worth while to show why taxes on Land Values cannot be shifted by landlords upon their tenants. But the fact that such a tax cannot be so shifted is realized well enough by landowners. Else why the opposition to the Single Tax, and why the cry of “confiscation?” Our national experience, like the experience of every other country, proves that those who are called on to pay a tax that can be shifted on others, seldom or ever oppose it, but frequently favor it, and that when once imposed, they generally resist its abolition. But did anyone ever hear of landlords welcoming a tax on Land Values, or opposing the abolition of such a tax?