sect. i.—taxes ον rent.@@1

*Taxes on the Rent of Land.—*Dr Smith held that taxes on the rent of land, taking the term in its popular and broadest sense, fell wholly on the landlords. No doubt, however, this is an error. The sum paid to the landlords for rent properly so called, that is, for the use of the natural powers of the soil, might be entirely swept away by a tax, without their having it in their power to throw any portion of the burden on any one else ; but in so far as the rent of land consists of the interest of capital expended on improvements or buildings, it could not be taken from the landlord by a tax on rent.

1. Practically it is altogether impossible to separate the gross rent of land in an old-settled and highly improved country into its component parts, or to distinguish between the sum paid for the use of the soil, and that paid on ac­count of the capital expended upon it. But supposing that this separation is effected, then, as the former portion, or that paid for the use of the natural and inherent powers of the soil, forms a surplus over and above the cost of pro­duction, it might, it is clear, be entirely carried off by a tax, without affecting the interests of any class, other than landlords. The heaviest tax on it would not raise the price of raw produce ; for nothing can affect its price which does not affect the cost of its production. Now, the real rent of land is extrinsic to, and independent on, that cost, and can­not indeed have any existence until the cultivators have been fully indemnified for the expense incurred in bringing produce to market, and have obtained the common and ordinary rate of profit on the capital vested in buildings, fences, &c., and in seed, labour, and implements. The prices of all sorts of farm produce would consequently con­tinue unaffected, though a tax were imposed absorbing all the real rent of land, or the sum paid for the soil only.

2. It would not, however, be possible for government, even if it were disposed to make the attempt, to abstract, by means of direct taxes, the gross rent of the landlords, or the total sum paid them, not only for the use of the inhe­rent powers of the soil, but for buildings, &c. In whatever degree the rent paid for land may consist of interest of ca­pital laid out upon it, in that degree would a tax upon such rent operate to raise the price of raw produce, and would, in consequence, fall ultimately on the consumer. In so far as the gross rental of landlords consists of payments made them for the use of the natural and inherent powers of the soil, it results not from their being producers, but from their being owners of the land ; but it is otherwise with the portion of the gross rental paid them on account of improve­ments. This results from their being producers, or from their having capital vested in agricultural meliorations ; and it is plain that a tax affecting the profits of this capital must necessarily affect the cost of raw produce. Suppose, for example, that the gross rental of a farm is L.500 a year, a half, or L.250, thereof, being really paid as interest of capi­tal laid out on its improvement. If, in such a case, a tax of ten per cent. were laid on rent, only a half, or L.25, of this tax would be permanently paid by the landlord. In the first instance, no doubt, the whole L.50 would fall up­on him ; but L.25 of this payment would, it is plain, be a deduction from the profits of the capital laid out on im­provements, and not from rent properly so called. And the landlords being thus placed in a comparatively unfa­vourable situation, no more capital would be expended up­on the soil, until the price of corn, and other raw produce, had been raised by the gradual diminution of its quantity, or the increase of demand, so as to place them in the same situation as other producers ; that is, until they obtained the common and ordinary rate of profit from the capital laid out on improvements.

It appears, therefore, that although it may be supposed possible to draw into the coffers of the treasury, by an ex­clusive tax, all that portion of the rent of land which is paid for the use of the natural and inherent powers of the soil, the other portion, which is paid on account of the im­provements made on it, would not be permanently affected by an exclusive tax ; and could, speaking generally, only be taxed to the same extent that the profits of capital em­ployed in other departments are taxed.

In a practical point of view, taxes on the rent of land are among the most unjust and impolitic that can be imagin­ed. It is, as already stated, quite impossible to separate rent into its elements, or to say how much is paid for the soil and how much for improvements. No two agricultu­rists ever arrive, in any given case of this kind, unless by accident, at the same conclusion ; and the best judges af­firm that, generally speaking, the distinction is utterly im­practicable. When, therefore, a tax is laid on rent, it is necessarily proportioned to its gross amount, or to the total sum paid to the landlords, without regard to the sources whence it is derived. But any euch tax has always been, and will unavoidably continue to be, a formidable barrier to improvements ; for the return paid to a landlord for capital expended on the soil being included in the rent, a tax on it discourages or prevents all fresh outlays of capital, lest they should occasion a corresponding increase of the tax. The injustice of this impost is not less obvious. Two landlords are each in the receipt of an equal sum, say L.1000 a year ; the estate of one consisting of naturally fine soil, on which but little capital has been laid out ; and that of the other of very inferior land, on which a great deal of capital has been expended. A tax on the former merely abstracts a portion of what is principally the result of the bounty of Providence ; whereas a tax on the latter ab­stracts a portion of what has been mainly produced by the labour and industry of man. Hence the obvious injustice and oppressiveness of taxes on rent. We doubt, indeed, whether it be possible to suggest any tax more decidedly at variance with every sound principle, or more adverse to the progress of improvement.

The circumstance of rent unavoidably rising in the pro­gress of society, inclines many to think that it would be good policy for the governments of countries like the United States, which possess large tracts of fertile and unappro­priated land, to retain the property of such land, and to let it by public auction, in such portions, and for such a num­ber of years, as might be deemed advisable. This, how­ever, is a very questionable position. The probability seems to be, that it would hinder the undertaking of many of those expensive improvements in drainage, and in the construction of houses, roads, and bridges, the formation of plantations, &c., necessary to the full development of the productive energies of the soil, that are entered into by individuals who have the absolute property of the land, and can bequeath it to their successors. These consequences might no doubt be, in part at least, obviated by increas­ing the length of the leases, so as to encourage a liberal outlay of capital. On the whole, however, it would seem that a right of private property in land is the best stimulus to its improvement. And it must further be observed, that where such right is established, the landlords prescribe and enforce such conditions for the management of the land, as, speaking generally, are effectual to hinder it from be­ing worn out and impoverished previously to the expira­tion of leases. But it is easy to see that no such power of regulation and superintendence could be safely intrusted to government officers ; and we have little doubt that, through the deterioration of the land, originating in the want of the vigilant superintendence of the landlords, a country

@@@1 Before perusing this section, the reader will do well to glance at the chapter on rent, in the article Political Economy in this work.