PART II—THE ECONOMIC PRINCIPLES

CHAPTER III

DEFINITIONS

THE rating of land values rests upon certain principles which are almost universally accepted by political economists. The most important of these principles is Ricardo's Law of Rent. As, however, this law was first formulated and is still commonly illustrated by reference to agricultural land, it is necessary to observe that it applies to all land, and that the term land has both a broader and a narrower meaning in economic discussion than in ordinary speech.

By land then we mean not only the surface of the earth, but the whole environment which has been provided by nature and not by man. It is a maxim of law that he who owns the surface owns everything from the centre of the earth to the zenith. So land includes the soil with its varying adaptability for growing trees, crops, and plants of all kinds; it includes minerals such as coal, iron, copper, and so on, as well as stone, slate, sand, gravel, clay; it includes the watercourses which run through the land, the lakes and ponds which lie upon it, the supply of air and sunshine with which it is endowed, and access to seas and waterways.

None of these things can be obtained or made use of without land; the ownership of the land carries with it the ownership of the rest.

But the possession of land carries with it not only the benefit of its natural endowments but also the enjoyment of a share in the whole social organization. It includes participation in the public services carried on by the State and by the local authorities, as well as participation in that unconscious co-operation of society which is commonly called the division of labour. None of these things can be enjoyed without a site somewhere within the ambit of the community, and the degree to which they can be enjoyed varies greatly with the location of that particular site. Thus it is that, although natural advantages may have determined the situation of a great city like London, the many million pounds an acre which land in the neighbourhood of the Bank of England will command is the price of the commercial, industrial, and social advantages which come to such land because of the community.

In speaking of land we very often include the things which have been attached to land by the labour of man. Thus, particularly in regard to agricultural land, we do not usually distinguish unexhausted manures, the hedges, the crops, and the other improvements which man has made to the land from the land itself. This is a consequence of the legal principle that what is attached to the land belongs to the land, and of the fact that in practice the improvements are not usually conveniently separable from the land on which they are placed.

Nevertheless, for the purpose of precise economic discussion, the improvements are capital and not land.

Conversely, the term capital, as ordinarily used, covers a multitude of diverse objects. Indeed, it may be applied to anything that can appear in a balance sheet as an asset, anything that can have a capital value. When so used it will include not only buildings, improvements, and machinery, but also the land itself, the value of intangible rights such as patents and trade marks, goodwill, and shares in companies—the latter once more including some or all of these many dissimilar things. A term so vague cannot be made the basis of accurate reasoning, and therefore it will as far as possible be avoided. As we shall be concerned mainly with capital which is attached to land, we shall use the term improvements to designate those objects which have been made by man and attached to the land.

The payment which is made for the use of land is designated rent, but this word also in ordinary speech covers two dissimilar things. It commonly denotes the payment made for the use of the land including the improvements. But the amount paid for the use of improvements is really interest upon the value of the improvements. It is only the part of the payment which represents the value of the use of the land itself that is strictly rent and to emphasize the distinction it is convenient to denote this as economic rent or annual land value.

In the case where land is occupied by the owner and not let to another, part of his income must be attributed to economic rent, namely that part which he could draw without working if he let the land (without any improvements) to another. This is precisely analogous to the case of a man who owns the machinery and stock required for his business. If he keeps his accounts properly he must attribute part of the net returns from his business to interest upon his capital and not to wages or remuneration for the labour he exerts.

It thus appears that the rent which is paid for improved land usually includes both economic rent and interest upon the value of the improvements. Conversely, the rent which is paid under a lease may be less than the economic rent. This is very frequently the case where land has been let upon building lease at a ground rent, and where the value of the land has increased during the currency of the lease. In this case the lessee is in enjoyment of part of the economic rent.