

CHAPTER 13

"PASSING ON"

96. It is sometimes objected to the proposed great change from taxes to rent for public revenue that the loss of the rent collected from the land-holders will be passed on by them to their tenants or customers. Examination will reveal that this objection is baseless. If it were valid they would have increased their rents and prices long ago. In fact, of course, the land-holder is already charging all that the traffic will bear, not because he has any say in fixing rents and prices (which are fixed by economic law in the market) but simply by force of Ricardo's Law, speculative rent and ordinary business dealings. Between the landlord and the tenant and customer the great change will make no difference at all to the level of the rent (except that speculative rent and taxes will disappear) and every-body will be better off by the abolition of taxation; everything will be cheaper.

All governmental levies on the rent must be borne by the land-holder himself. This is economic, not man-made, law. If the whole of the rent is collected from him by the government he will retain none of it, if less he will retain only the balance. Ordinary business procedures will ensure that the landlord's necessary expenses of management will be retained by him out of the rent. Management of property is labour and a service for which ordinary remuneration must be paid in a free market.

In Australia and some other countries part of the site-rent is collected by government and local government, and none of it is ever passed on. Rent-'fixing' by governments sometimes creates an impression that some rent can be passed-on to a tenant (see below). Though the market is distorted by taxation and speculative rent, rent is still determined by the market and the landlord is subject to competition. That there is a limit to what can be charged for rent is more than obvious. Otherwise rents would rise to infinity, complete chaos would reign, and civilisation would be impossible. There would be no economic science, coherency or law. In accordance with Ricardo's Law, rent is the natural surplus production on any site over what is produced at the margin and so keeps wages down everywhere to the margin-level. It is impossible that they be forced down to below the margin-level, i.e. subsistence-level. Landlords are not noted for overlooking any possible increase in their incomes or relief from their outgoings.

It is only because landlords know that they cannot pass-on the rent that they are opposed to the proposal that they should pay over the rent to the treasury.

Fixed Rent

The great confusions on this subject, as with other subjects, are caused mainly by ambiguities in the meanings of the terms used. If the term 'rent', correctly defined in par. 40 (9) and elsewhere in this book, is used to mean different things in different contexts everything will be confused. To 'fix' rent is no more within the power of governments than it was within the power of Canute to control the waves, or than it is within the power of men to cure fevers by a 'law' purporting to fix all clinical thermometers permanently at normal.

Legally, but not in reality or common sense, an Act of Parliament is supreme. What a law 'fixing' rent really accomplishes is to compel a landlord to share the rent with his tenant who is thus made a virtual co-owner of the property, not to reduce the rent. Frequently a 'protected' tenant sublets the property and pockets the difference.

A 'rent-fixing' law or a lease generally requires a tenant or a sub-tenant to pay rates and land-tax in addition to the rent, and this seems superficially to be a passing-on to the tenant of some of the rent, but close analysis shows that the tenant is only losing some of the rent-reduction which had been artificially decreed to belong to him. No tenant will in normal circumstances pay more than the total rent fixed by economic law in the market, plus the speculative rent.

"Rent-fixing" is therefore deceiving the economically ignorant public for vote-catching purposes. The true level of rent is unalterably fixed by Ricardo's Law.

Parliament can no more alter economic law than a man can be "deemed" to be a woman. A certain colonial legislature in the 19th century, wishing to prevent the employment of Chinese in factories, decreed that every Chinese should be deemed to be a female under the age of 16 years!

All economists of note agree that economic rent cannot be passed on:-

(a) Adam Smith says of taxation on land: "The landlord is in all cases the real contributor"... "It never can discourage improvements nor keep the produce of land below what it would otherwise rise to. As it has no

tendency to diminish the quantity, it can have none to raise the price of that produce. It does not obstruct the industry of the people". 1.

(b) Samuelson says: "A tax on fixed land leaves rentals paid by users unchanged but reduces rent retained by land-owners. What can the land-owners do but accept less return?" 2.

(c) Henry George says: "The tax on land values (i.e. rent) is the only tax of any importance that falls on the owners of land, and there is no way in which they can shift the burden upon anyone else. Hence a large and powerful class are directly interested in keeping it down and substituting taxes on other things. 3.

This, of course, must not be taken as implying that parting with the rent imposes a burden on the land-holder. The rent is to him an unearned income, and not his income at all. He is merely passing it over to its rightful owner.

In view of the importance of this subject the reader is referred to Appendix 5 (Par. 252).

Notes to Chapter 13:

1. Adam Smith "Wealth of Nations", E. Cannan's Edn. 780.
2. Samuelson, Hancock and Wallace "Economics, Australian Edition" at 595.
3. P & P 427-428.

CHAPTER 14

SITES AND RENT

97. The main factor in the superiority of sites and locations is population, i.e. more people. Rent does not arise until there is a margin, i.e. until the growing population has extended beyond the first quality of land and settled on land further from the centre of population. The more the population increases the further out the margin will go, and the greater and greater will the superiority of the more central sites become.

Every extension depends on the density and productive skills of the growing population.

98. For agricultural production, fertility and access to water are essential; for mining, coal or minerals essential; for overseas trade, a site near the ocean is essential. The site determines the kind of production and also