

CHAPTER 8

OTHER ECONOMIC RENT COLLECTION PRACTICES

For how long does an evil have to be practiced for it to become a good?

Andrew MacLaren (1883–1975): Independent Labour MP for Burslem (1922–45)

8.1 Economic Rent Collected in Advance

As mentioned in the basic principles of Chapter 1, the economic rent of land arises inexorably and is collected by whoever is in control of the land, whether an individual or a government. This economic rent varies according to the productivity on each site and is known by economists as a ‘differential rent’. The differential economic rent was identified at the beginning of the 19th century by the political economist David Ricardo (see Chapter 13, Definitions). In Ricardo’s time, theories were based on an agrarian economy, where fertility was the principal factor in determining both productivity and the corresponding land value. In later years, with the growth of cities, productivity became more related to location within an agglomeration, but the principle

of the economic rent still applied, and differentials became even more pronounced.

Whether in an agrarian or an urban situation, for a given amount of input, there is always a difference in productivity for any site in relation to the marginal or least productive site. This difference, or surplus, determines the amount any landlord can extract from the tenant for the use of the site. This extractable rent may be seen as the surplus that remains when all other costs of production have been met. What is seldom appreciated is that this surplus may be anticipated and collected in advance by speculators, who understand the causes that increase land values.

In the early days in Britain, entitlement to the surplus was decided either by force of arms or the general acceptance that the monarch held total control and was therefore entitled through ownership to any surplus wealth. In later years the monarch was obliged to share this entitlement with a growing nobility who exercised control over their own domains, and collected the economic surplus from the peasants, farmers, artisans and traders, who were the real wealth creators. This was a manifestation of the 'rentier' system in England that still operates to this day (see Chapter 13, Definitions).

Traditionally, with this system, the surplus was collected in arrears after the wealth had been created. The landowners would simply take a proportion of whatever was produced for their own use and pass on an agreed amount to the monarch. This represented the collection of the economic surplus—the economic rent—within an agrarian economy.

The collection of the economic rent in advance began with land speculation during the enclosures, but especially during the industrial revolution, in the transformation from a rural to an urban economy. As villages and towns grew into cities, urban land became ever more valuable, and the corresponding rents obtainable through ownership of such land became more profitable. The acquisition of tracts of land in anticipation of this growth gave rise to widespread speculation. The new owner may have developed the land in his own interest, but in many cases the land was simply held out of use until surrounding values rose, then sold off in small parcels at a profit.

This is how the economic rent was collected in advance. No investment was made, no work was done on the land in question, the speculator simply waited whilst his asset wealth increased from the activity of the surrounding community. He then collected his gain, when the time suited him even before any economic activity towards wealth creation on the land had begun. The collection of the economic rent in advance is a very lucrative and risk-free means of gaining wealth. Two contemporary examples of this are worth noting:

In London, in the 1990s, the Jubilee Line extension had the effect of raising site values surrounding the new stations. The beneficiaries of this increase were the landlords and property owners occupying these sites, who were able to raise their rents or sell their properties for a considerable profit, even before the work on the project was complete. It is recorded that the revenue derived from the overall increased land values could have easily paid for the construction of the project,

which was financed by taxpayers, not only in London, but throughout the country.¹

Also in London, the Crossrail project has, since its inception in 2008, given rise to a significant increase in house prices and commercial property rents near the proposed stations. Reports by several organisations show increases in residential values of up to 83% in certain locations.² A *Guardian* article of August 2018, noted that the total uplift in property values could be as much as £20 billion by 2026—‘all being siphoned into the pockets of private landowners.’³ The project is expected to open sometime in 2022, but long before that event large windfall profits will have already accrued to existing property owners or to those who have bought into the right locations in anticipation of future increases. These profits can be realised at any time even before a single train has started to run.

Thus, the return on the investment, in the form of economic rent, may be collected in advance by others who have contributed nothing to the financing or construction of the project. To those who have made a good profit and moved on, it doesn’t matter if the scheme never opens.

A further means of advanced collection has already been mentioned in the previous chapter under Land Banking, where I describe the selling on of projects ‘with planning permission’. At each transaction a profit is made, which is due to the value of the consent attached to the site. The gain to the seller is collected in advance of any actual development that might (or might not) take place.

8.2 Collection Through Rent Absorption

Any increase of productivity within an enterprise, for whatever reason, will naturally accrue to the ultimate controller or beneficial owner. Landowners are amongst those who will absorb any surplus of profitability by increasing the rents chargeable. Thus, no advantage will be gained for those lower down the hierarchy of production, even though they may have been instrumental in bringing about the increase in the first place. This phenomenon is mentioned by Josh Ryan-Collins et al:

As the economy grows, landowners can increase the rent they charge non-owners, to absorb all the additional value that their tenants (such as workers, shopkeepers and industrialists) generate.⁴

This is a case of the creaming-off by owners of any surplus arising within the ranks of the non-owners, which may be seen as rent absorption. This is a time-honoured activity. Another type of rent absorption is due not to any increase in production but simply to government benevolence in the form of tax relief or welfare payments. A good example of this was described by Churchill in his book *The People's Rights*, where he records the lifting of the penny-a-day toll on Waterloo bridge in 1878. Although the intention was the relief of this burden on the workers obliged to cross the bridge each day, the actual effect was the increase of rents by sixpence a week on the south side of the river where the workers lived.⁵ Another example is given in Duncan Pickard's book *The Lie of the Land* in which he describes the consequences of farmland being de-rated in the 1930s:

Many tenant farmers had their rents increased to offset the removal of the liability to pay rates.⁶

These are both examples of the unintended consequences of legislation designed for the relief of certain groups that resulted only in maintaining the income source for the landlords. A more up to date example of such misdirected welfare is with the government's current system of housing benefit for low earners. Instead of actually helping the low earners, all the system does is maintain the high rental charges for the landlord. Instead of subsidising landlords in this way, an LVT would actually reduce the rents and therefore help the low earners directly. The landlords, or any other rent-seekers, will always see an opportunity for taking up the slack. They are not concerned with the cause of any increased rental possibility, but only with the best means for exploiting it when it arises.