

THE LINCOLN LETTER

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Dear Sir:

The proposal for the public collection of rent, with the eventual elimination of those taxes which, falling mainly on labor products, hamper production and restrict the earnings of both labor and capital, cannot be considered intelligently without a clear understanding of the origin and nature of rent. Unless otherwise specified, the term "rent," as used in these letters, means ground rent, or land^orent, or the site value of land. "Economic rent" has a more restricted meaning in that the term applies only to that share of the wealth produced on a given piece of land which accrues to the owner of the land in return for his permission for its use. Thus there would be economic rent only on land being used in the production of wealth; but all land, save that which is to be had free, has rental value as well as selling price, whether used or not. It is with such land value and not merely economic rent that these letters are concerned.

The selling price of land is merely rent, less deductions, capitalized. If the entire rental value of land were collected by the community, its selling price would disappear. The rental value itself, of course, would remain unchanged. The sole change would be in who gets the rent--the private landowner who isn't entitled to it because he doesn't produce it, or the community which is because it does.

Man is a land animal and as such must live not only on but from the land. Denied access to the land, his sole source of sustenance, man must die. Since no man made the land, no man can call it his own in the final and ultimate sense of the word. But, obviously, man must have the right of exclusive possession of the land from which, by the application of his labor, he produces those material things which keep him alive and add to his comfort and well-being. He secures this exclusive possession of the land he uses by the payment of rent.

Now rent may be called a differential. It is payment for a special privilege, the privilege enjoyed by one man of exclusive possession of land to which other men have equal claim. It is only by payment of the rent to the community, and the return of rent to all members of the community in the shape of public services and benefits, that the user of a preferred piece of land can compensate the other members of the community for the surrender of their equal rights to the land he uses. And it is only by such collection of rent that the expenses of the community can be legitimately met. Rent is the one and only source of revenue of which a community may avail itself without the levy of taxes which deny the right of the producer to ownership of his product.

Rent measures the excess of productivity, or the desirability for any purpose whatever, of a given piece of land over that of the most desirable or most productive land to be had free--or, which is the same thing, the least productive or desirable land in use. Such best free land, or the poorest land in use, is called the margin of cultivations. The most productive piece of land on earth, the most desirable as a farm, a business site, a homesite or for any other purpose, would command neither rent nor selling price so long as land of equal quality could be had free. Men won't

pay for what they may have for nothing. Rent arises only when all the best land in a community is taken up and only land of inferior quality may be had free. Rent, then, is a socially created value--a socially created value to the extent that nothing else is. If you doubt that statement, ask yourself what the fabulously valuable land in New York City would be worth if all the inhabitants left town overnight, never to return, and nobody moved in to take their places.

The first arrivals in a new settlement naturally locate on the best land. For the purpose of a simple illustration, we will assume that best land to have a production potential of four. So long as land of four quality is to be had for the taking, there will be no rent; wages will be four, or 100 per cent of the production. (To keep the illustration simple and because, too, pioneer settlers made but little use of capital, I am disregarding capital and interest.) But when all the four land has been taken up and the best land now to be had free has a production potential of but three, what happens? Several things. Rent arises, the margin of cultivation comes to settle on three land, and wages drop to three on both three and four land. For wages are determined by the margin of cultivation, or by what a man can earn on the best land to be had free, or by availing himself of the most favorable opportunity open to him without payment.

Similarly, when land of three quality is all taken and the margin of cultivation drops to land of two quality, wages will fall to two, while the rent of four land will be two, and of three land, one. From this it would appear that as rent rises with the fall of the margin of cultivation, wages must decline. This is true, but wages decline only as a proportion of the total product and seldom in actual amount. Thus, with the passage of the years, the growth in population and the introduction of more modern methods may have increased productive capacity to such an extent that a wage of two will be greater in amount--though less, of course, as a proportion--than was a wage of four in the earlier days when land of four quality was still to be had free. In other words, a wage equal to 50 per cent of the total production might well be, at the later date, greater in amount than was the wage of four, or 100 per cent of the product, in the earlier period. *illustration*

Because of space limitations the foregoing illustration is overly simplified and more condensed than I could wish. However, I think it will serve to show the close relation between rent and wages as well as the oft-forgotten fact that basically neither rent nor wages are fixed by any one man or a small group of men but by inexorable natural laws which manifest themselves in the life and development of the community.

Sincerely,

LINCOLN FOUNDATION, Inc.,

President