CHAPTER IV

THE THEORY OF ECONOMIC RENT

IT is a fact of common observation that lands of different situation will command very different rents. Land used for agriculture, for instance, will vary in its economic rent according to the fertility of the soil, the aspect of the fields to the sun, the amount of the rainfall, the supply of water or the drainage of water by streams, proximity to highways and to markets. Coal mines will vary in value according to the nature of the coal, the thickness of the seams, their depth and other factors affecting ease of working, convenience of transport, and distance from markets. Sites for houses, shops, or factories, are affected in value not only by factors of this kind but even more predominantly by their situation in relation to population, railways, docks and canals, and to industries in which the dwellers in the houses are engaged, or from which the factory draws it materials, or to which it sells them. The kind of government, the efficiency of the public services—roads, sanitation, fire protection, education, recreation—in fact all community advantages or environment also have a profound influence upon the value of land.

The land which enjoys to the greatest degree some or all of these advantages will command the highest rent. Less desirable land will command a lower rent, until we come by gradual descent to land which has so low a utility that it will command no rent or a merely nominal one.*

* The poorest land in use is called marginal land.

We are concerned with a world in which there is a considerable though by no means perfect mobility of labour and capital. It follows therefore that competition will compel those who desire to use land (that is to say the whole population) to pay in rent for the more advantageous land practically the whole value of the advantage to be gained by using it rather than marginal land.

If this were not so, and if land above the margin could be had at less than the difference between its utility and the utility of land on the margin, users of land would abandon marginal land and compete for the better land, thus raising its rent; or if the owners of land above the margin attempted to charge more than the difference between its utility and that of marginal land, users of land would abandon it and take up land on the margin.

In other words, the rent of land "is the tribute which natural laws levy upon every occupant of land, as the market price of all the social as well as natural advantages appertaining to that land". (Thomas G. Shearman, *Natural Taxation*, Chap. IX, §2.) And it is measured by the difference between the advantages attaching to any piece of land and those attaching to land which is only just worth using because it will yield no more than normal wages and interest on capital to the user.

These almost self-evident considerations are embodied in the Law of Rent, the application of which is thus stated by Henry George:—

"The Law of Rent is, in fact, but a deduction from the law of competition, and amounts simply to the assertion that as wages and interest tend to a common level, all that part of the general production of wealth which exceeds what the labour and capital employed could have secured for themselves, if applied to the poorest natural agent in use, will go to landowners in the shape of rent. It rests in the last analysis upon the fundamental principle, which is to Political Economy what the attraction of gravitation is to physics—that men will seek to gratify their desires with the least exertion." (*Progress and Poverty*, Book III, Chap. II.)

It may be convenient here to point out that the selling or capital value of land is the consequence of economic rent and not its cause. Capital land value is the present worth, or discounted value, of the rent which is anticipated from it in the future. Land is provided by nature, not by man. It has no cost of production. Its selling value depends upon the economic rent which can be drawn from it. The value of buildings and other improvements depends upon cost of production subject to depreciation and obsolescence.

In the world of today the level of economic rent is raised by reason of the fact that considerable areas of highly valuable and productive land are either held out of use or used for purposes much inferior to the best possible. This depresses the margin and increases the difference between the marginal land and other land, and as this difference determines the economic rent, the rent of all land above the actual margin is increased.

Speculation in land value and the holding of land out of use are palpable evils, whose importance is not fully realized because some of such land is put to a nominal or inferior use, and also because it is not clearly recognized that the inevitable result must be not merely to raise rent but also to diminish the earnings of labour of all kinds.

The cause of speculation in land value is the expectation, borne out by long experience, that the progress of society tends to a steadily rising level of economic rent, coupled with the fact that unused land, no matter how valuable, escapes local taxation and, except for death duties, practically all national taxation as well.