

Rents and Sustainability

A century ago, political economists tragically abandoned the most important investigative component of their science, namely, whether the laws of production and distribution of wealth described a closed system with ethical values at their base. The rise of the militaristic state created a great need for data on resources available to fuel imperialistic endeavors, and the universities responded by establishing the value-free field called economics (defined consistently as "the study of the allocation of scarce resources"). Rather quickly, political economists of the old persuasion were replaced by European-trained economists, and neoclassical economic theory that treats nature as just another form of capital or a "factor input" to production relegated political economy to the status of a dead language. One direct result is a century and more of public policies advanced and adopted based on economic theory that cannot explain the dynamics occurring in the world.

At the heart of political economy's closed system of analysis is the distinction between nature (described by the term "land"), and what people ("labor") produce with or without tools ("capital goods"). From this perspective, nature is the source of private property but is (and under law ought to be) the property of communities and societies. With population growth and migration the opportunity to occupy and make use of nature of equal value disappears. From this point on, whoever controls nature (communities or individuals) is able to claim as "rent" a portion of the wealth produced by labor and capital. The political economist as moral philosopher could look back to John Locke and Adam Smith, among others, for arguments to demand that "rent" be publicly collected and used to provide for public goods and services. This moral argument has been ignored, with the result that government raises most of its revenue by penalizing people and producers for investing in goods production and the delivery of services, while rewarding them for speculation in nature

(i.e., in locations in our cities and towns, in natural resource-laden lands, in sources of water, in the broadcast spectrum, and many other opportunities).

Today, almost every location on the globe has some potential annual rental value, from a few dollars to millions of dollars. This value is created by aggregate public and private investment, and not by what any individual landowner does or does not do with the location held. Because of very low effective rates of taxation on locations, generally, the owners enjoy a net imputed or actual rent as an income stream associated with landownership. Market demand results in the capitalization of this income stream into selling values for locations. When the prices for labor or capital goods are rising, producers respond by adding labor and capital to expand output. When the prices for land are rising, landowners are rewarded for holding land off the market. Investors look for opportunities to acquire locations and flip them for gain after some period of time without investing in development. An annual tax on locations equal to the potential annual value would remove the financial reward for holding or investing in land for speculation. Land prices would stabilize and over time begin to fall, and land now left vacant or underutilized in our cities would be developed to its "highest and best use," lessening the development pressure on land better used for agriculture or open space.

The "law of rent" also tells us very clearly that what potential users will bid to gain access to locations is directly affected by whatever regulations are imposed (and enforced) regarding use. Thus, when the price of goods is determined by global markets, the rental value of locations will fall to a level allowing production profitably to occur. The costs of achieving "zero" carbon dioxide emissions and "zero" particle release, for example, are factored into what a business would pay to the community for use of the location. We need goods. We need services. We need these things produced sustainably. The law of rent leads us to the changes in public policy that will get us there, and get us there quickly.

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