

Economic Rent in Relation to Taxes

To the Editor of THE AMERICAN CITY:

The articles in your May issue by John A. Zangerle and Lawson Purdy on the adequacy of economic rent* in relation to taxes have been brought to my attention. Your readers may be interested in the following estimates based on recent data.

From detailed records of assessed land values and property taxes in the State of California, a town in Massachusetts, and New York City, we were able to calculate a per-capita economic rent that ranged from \$100 to \$132 in these widely different localities. We then estimated that the average economic rent of the nation probably was in the range of \$100 to \$150 per capita; consequently, the total economic rent for the country presumably was from \$15,000,000,000 to \$22,000,000,000 in 1948. The basic formula for these estimates was that net rent (from the owner's viewpoint), which is approximately 1/20 to 1/15 of land value, plus taxes on land, which are one to two per cent of assessed land values, equal economic rent.

In order to check these estimates, we obtained the most recent estimate of the total land value of the United States, which was that of 1938, and brought that figure up to date by assuming that the change in over-all land values was proportional to the change in the value of farm land and buildings (for which recent data are available). The figure obtained after calculating the net rent and taxes was \$14,200,000,000 as the total economic rent. In view of the fact that over-all land values may have increased more than farm-land values, our original estimate may be reasonably good.

* Economic Rent may be briefly defined as "what land is worth for use." More specifically, the writer of this letter would define economic rent as that portion of the wealth produced (including value added to wealth produced) on a particular site that need not be paid to either the laborers or the capitalists involved in order to induce them to produce wealth on that site. In a sense, economic rent is attributable to the advantages of the location (for example, a shopping area centered in a large population) or to the differential natural fertility of the soil or to the differential richness and accessibility of mineral deposits, etc., as compared with the poorest such land in use. Economic rent ordinarily is collected by an individual or agency that has the exclusive right to that privilege with reference to any particular site.

However, the economic rent as estimated here does not include that derived from forest areas, oil royalties, mineral rights, etc. Our exceedingly rough estimate of the economic rent from these sources for 1948 is \$2,000,000,000.

To summarize, we believe that the total economic rent in 1948 may have been between \$17,000,000,000 and \$24,000,000,000. Presumably, it would be somewhat more in 1952.

How Economic Rent Might Increase

In any consideration of this subject, however, it is desirable to keep in mind that economic rent presumably would increase substantially as its use for public purposes made possible the reduction of other taxes. The system of economic privilege at present in effect forces producers generally to bear a heavy burden that lessens incentives and inevitably lessens the production of wealth.

Also to be kept in mind is the fact that the Federal Government's expenditures could be greatly reduced if widespread special privilege and the even more widespread restriction of opportunity (partial economic slavery in fact) were abolished. If the United States leads the world in establishing a better order of society, that is, if we continue on toward the goals of the great revolution within Western civilization (the goals so clearly outlined in the Constitution of the United States) expenditures for national defense may again decline to minor proportions as they did after our own Civil War and after World War I. When and if that occurs, the budget of the Federal Government no longer will be of such astronomical dimensions.

Whether under the conditions visualized, economic rent would be adequate for all governmental purposes, no one knows. There is no proof, in spite of Mr. Zangerle's figures, that economic rent would be inadequate. In any event, Mr. Purdy's closing comment to the effect that local governments should collect economic rent for services rendered seems indisputable.

E. C. HARWOOD
Director
American Institute
for Economic Research

125