

Natural Resources and the Law of Rent

I.

ARE mines a proper subject of taxation? Can equality of rights to our natural resources, the raw materials of wealth, be asserted by taking into the public treasury by periodic levies the so-called "economic rent" of the lands within or upon which such natural resources lie?

The affirmative is maintained by many eminent authorities, of whose views the following are typical expressions.

"The deriving of all public revenues from land values means that the mines, the quarries, the water fronts, the oil regions, the water powers, etc., now monopolized and idle would be open to use—without money and without price—the only cost being the *annual payments in the form of a tax* of the rental value of the bare land."—L. F. C. GARVIN, in SINGLE TAX REVIEW.

"The truth of the matter is that the rent of all land, whether coal-bearing or not, belongs to the people as a whole, and its proper function is to provide public revenues. *The taking of economic rent by taxation* would remove the obstruction of land monopoly."—A. W. MADSEN, in *Land and Liberty*.

"The taking of ground rent for public purposes will reduce the price of land to a nominal sum. Mining lands, arable lands, city lots, in fact every valuable part of the earth, not already in good use, will be upon the market for a few dollars. Henry George more than forty years ago demonstrated the fact that involuntary poverty would cease if all public revenue were derived from the site value of natural opportunities."—SINGLE TAX REVIEW.

And (from the political platform of the Canadian Council of Agriculture)—

"The Canadian Council of Agriculture would recommend:

(a) That revenues for carrying on the government of the country be by a direct tax on unimproved land values including all natural resources." and (b) That no more natural resources be alienated from the Crown but brought into use under short term leases in which the interests of the public shall be properly protected, such leases to be granted only by public auction."

As used above, the terms "economic rent," "rental value of bare land," "ground rent," "unimproved land value," and "site value of natural opportunities" stand for one and the same idea, and the authorities above quoted are evidently of the opinion that such values attach to "every valuable part of the earth," including all natural resources. (The term "resources" is here used throughout in its ordinary meaning to include all minerals, timber and other raw materials of wealth as they lie in nature, and the term "land" is used to denote either [a] a defined section of the earth's surface, or [b] a *solid* portion of the earth lying between a defined section of the earth's surface and the earth's centre.)

There is also the view expressed or clearly implied throughout that such values may in all cases be taken by taxation, *i. e.*, by periodic levies, each of which is equal to the assumed "rental value" or "economic rent" for the corresponding period of time.

These views, it is respectfully submitted, are erroneous in that (a) Natural resources have no *rental* value, their value being determinable solely by sale in market overt (open market), and (b) The value of the lands within or upon which such natural resources happen to be, is the market value of the natural resources concerned and has no relation to the time during which the land is used, *i. e.*, the time required to extract and remove the desired material from the land, and that therefore (c) The values of such lands cannot be taken on a rental plan, but can only be secured by sale of the natural resource itself.

II.

THE LAW OF RENT

The widely held view that "economic rent," "ground rent," "rental value," etc., attach to every valuable part of the earth, and may be taken by periodic taxation, appears to arise from a most extraordinary misconception of the meaning and scope of the law of rent. This law, as stated by Ricardo and endorsed by John Stuart Mill and Henry George, is as follows:

"The rent of land is determined by the excess of its produce over that which the same application can secure from the least productive land in use."

Mill denominates this law of rent the "*pons asinorum*" of political economy, and remarks that "There are few persons who have refused their assent to it, except from not having thoroughly understood it." Henry George says (*Progress and Poverty*) Book III, Chap. II, "This law, which of course applies to land used for other purposes than agriculture and to *all natural agencies such as mines, fisheries, etc.*, has been exhaustively explained and illustrated by all the leading economists since Ricardo. Authority here agrees with common sense, and this accepted dictum of political economy has all the self evident character of a geometric axiom."

III.

RENT—PLAIN AND ECONOMIC

The term rent as commonly used, and defined in Webster, means "a periodical payment for the use of property." The payment for each period is estimated to cover the full rental value for the period, and the rent is always proportionate to the time of use. This time relation is always present in the ordinary notion of rent.

Referring now to the law of rent as stated above, we see that this necessary time-relation is entirely absent from the concept "rent of land," and that there is substituted therefor the entirely different idea, "excess produce," a purely quantitative notion.

To illustrate the difference between plain rent and "economic" rent by a somewhat crude analogy, let us compare

two granaries of exactly similar size and construction standing side by side in a wheat field, one being empty and the other containing, say, a thousand bushels of wheat. One could get the right to exclusive use of granary No. 1 from the owner thereof by paying a rent of say five dollars per month. In the case of granary No. 2, however, one could not get the exclusive use, including use of contents, by paying so much per month. The granary itself would have a rental value of five dollars per month, but the exclusive use of the wheat cannot be obtained by payment of a sum of money, per week, day, month, year, or any other period of time, but can only be obtained by paying to the owner the full market price of the grain, say \$1,050.00, less the cost of transporting to market, say \$50.00, leaving a net amount \$1,000.00 to be paid for the "use" of the wheat.

Now, paraphrasing the Ricardian "Law of Rent," let us suppose that "The rent of a granary including all the grain therein, is determined by the excess of its produce over that which the same application can secure from the least productive granary in use."

Granary No. 1 having nothing in it, we may assume to be "the least productive granary in use," the "economic rent" of granary No. 2, being determined by the "excess produce," in this case the one thousand bushels of grain, is the sum of \$1,000.00, which is, as noted above, the market price of the wheat as it lies in the granary. This conclusion would remain unaltered, if we were to assume that the use of the two granaries (without contents) could be obtained rent free. The "economic" rent in such case bears no ascertainable relation to the time which would be occupied in removing the wheat from the granary. This would depend altogether upon the amount of "application" of labor and capital thereto—a man with a teaspoon might take a month, ten men with shovels a day, and two men with a steam shovel might do the work in fifteen minutes—the value of the wheat, *i. e.*, the "economic" rent, remaining in all cases the same.

Supposing now that the "least productive granary in use," *i. e.*, granary No. 1, were obtainable rent free, the "economic" rent of granary No. 2 would be a composite sum composed of the market value of the wheat, plus a monthly payment of \$5.00, for as long a time as the granary is in use, there being this fundamental difference between the two elements, that the first has no relation to the time the granary is in use, while the second is directly proportionate to the time of use.

The law of rent, therefore, entirely ignores the time relation essential to the concept of rent, and insists only on the purely quantitative notion of "excess produce," or, as it is sometimes called, "differential value." This differential value, as may be readily seen from the analogy of the granary, may be either a sale value or a rental value. But, upon referring to the quotations in part above, we see that the writers quoted have in every case used the terms rent, land value, economic rent, site value, etc., as if the same could be levied upon all valuable lands by periodical imposts, each being the assumed rental value for the corre-

sponding period of time. That is to say, they have departed from the concept of economic rent as derived from the "Law of Rent," and have reverted to the ordinary notion of rent as a "periodical payment for use." The employment of the term rent in two senses has led to an easy but illegitimate substitution of one idea for the other. As every piece of land bearing valuable natural resources yields are "excess produce" which, according to the said law, determines its "economic rent," it has, by unconscious association of ideas, been assumed that such rent, like ordinary rent, may be taken by periodic levies, each being a payment for a corresponding period of use.

The error of such assumption will be readily seen when it is recognized that land has two distinct kinds of value, corresponding to two fundamentally different modes of use.

IV.

LAND—TWO MODES OF USE—TWO KINDS OF VALUE

Land is useful to man in two distinct ways; first, as the *material base upon which* he labors, lives, moves, and carries on all his activities from birth until death; and second, as the *mother substance* of all material things useful to or desired by man.

The use of land in the first of these modes involves the use of the land's *surface* only, the sole necessary physical quality being sufficient rigidity for purposes of *support*. Such use may be described as two-dimensional." The land itself, so used, is entirely passive, and is unaffected by such use, except for such changes as may be necessary to put the surface into more suitable form for the desired purpose, for example; excavation of basements for buildings, levelling of lawns, grading of roads, etc.

Public policy requires that certain parts of the earth's surface be set aside for common use, roads, streets, market squares, etc., and that other portions be given into the exclusive possession of individuals. Of those portions that have been given into private possession, some are more desirable than others for business or other purposes. This difference in desirability is reflected in the relative values of the lands. The owner of such lands may transfer to another the right to exclusive possession thereof in two ways: (1) temporarily, by lease and (2) permanently, by sale. When the surface rights to land are made the subject of sale, the sale price is the capital value of the net rent (plus, in many cases, the capital value of the anticipated increase in the net rent discounted in advance).

Whether the recipient of the right to possession is a lessee or a purchaser, the basis of value of the acquired rights, is rental value, and *is necessarily fixed with regard to possibilities of use for a period or periods of time*. Such values, therefore, may be taken into the public treasury by periodical payments, each being the rental for the corresponding period. Moreover, the rental value of a particular site may be determined by comparison with adjoining properties, as the values of adjoining sites shade into each other. The exercise of the surface rights, whether acquired by a

lessee or a purchaser, does not involve the destruction of the site, nor any change making the return thereof by a lessee to a lessor impossible. And, finally, the value of the surface rights is always determined by relative advantage or desirability of *location*.

The second mode of use of land, as the mother substance of all things useful to man, differs from the use of the earth's *surface*, in all those characters by virtue of which it becomes in the latter case, possible to create a true relationship of lessor and lessee. This kind of use is "three dimensional," involving the extraction and removal of a portion of the solid contents of the segment of land concerned. The land, so used, is "active," in that it is changed by removal of contents, such removal being not merely incidental to a desired change of form of surface, but being the primary object of the use. After such removal of contents, of course, the return of the land in unchanged form by a lessee to a lessor becomes manifestly impossible.

When the valuable contents have been entirely removed, the remaining land becomes worthless, except for the value, if any, of any surface use to which said land may be put. The value of such land, moreover, cannot be determined from known values of neighboring pieces of land, as in the case of adjoining sites, but obviously depends upon the quantity of the valuable raw material in question lying within or upon the particular site. The time occupied in extracting and removing the "natural resource" from the land, depends upon the variable human factor, labor, capital, and management employed, and bears no more necessary relation to the land in question or to adjoining lands, than the time occupied in removing a straw-stack bears to the barn-yard in which it stands, or to the neighboring sheep-run or pig-pen. The problem of deriving the rental value of, say, a timber limit, with reference to a conjectural period of use of the site, is exactly the same as the problem of ascertaining the value of a load of lumber from the time occupied in throwing off the load. As well try to assign a rental value to a hundred weight of salt by a consideration of time required to empty the barrel, or by considering the qualities of the barrel, its size, shape, kind of lumber in staves, number of hoops, etc., or by its position in the warehouse, or by a comparison with a number of other barrels of salt on the premises. And, lastly, desirability of location of lands bearing a natural resource, has only a secondary effect upon their value, occasioned by the greater or less cost of transportation to market of the material extracted therefrom. For example, a gold mine in Timbuctoo containing, say, only a single nugget of solid gold, has the same value as a gold mine with similar contents at the door of the government mint at Washington, D. C., less the freight on said nugget from Timbuctoo to Washington. The "economic rent" of the mine, in each case "determined by its excess produce," is the *market price* of the gold at the best available market point, less, in each case, the expense incidental to the extraction and removal to market of the nugget aforesaid, and this value has no

relation whatever to the period of time occupied in such extraction and removal.

The same conclusions are true and for exactly the same reasons in the case of all natural resources, of whatsoever kind and wheresoever situate.

Land, therefore, has two fundamentally different modes of use, one being the use of land *surface*, and the other being the use of land *substance*, and, corresponding thereto, two distinct kinds of value, namely "rental" value, attaching to surface rights, and "market" value, attaching to whatever desirable material may lie therein or thereon. The first of these kinds of value is necessarily proportioned to period of use of the land; but the second kind has no relation whatever to time of use of the land, and can only be determined and realized by the sale of the material itself.

V.

REPEAL THE "LAW OF RENT"

This distinction evidently goes to the very foundations of economic science. All wealth production at every stage involves the use of land in one or other of these modes, and any law which professes to account for that share of wealth which goes to the owners of land, should, to be complete, clearly recognize the difference between the two, and between the two kinds of value respectively associated therewith.

The "Law of Rent," however, entirely ignores this vital distinction. It uses the term "rent," as if the same arose from every valuable part of the earth, and as the exact equivalent of the term "value." And, notwithstanding this express abandonment of the time-relation element in the ordinary concept of rent, we find Mill, George, and numerous other proponents of said law, reverting again and again to the notion that "economic rent" is, like ordinary rent, a "periodical payment for use," and, as such, collectable by taxation. Furthermore, said law applies, on the face of it, only to lands which yield a "produce," which, one would suppose, means an actual material product wholly or in part extracted from the land. Even if we extend the meaning of produce to include all returns from the land in wealth production, or in making money, there would still remain that considerable quantity of true ground rent, which arises from advantage of location for residential purposes, and which cannot by any reasonable wrenching of the English language, be forced into a definition of the term "produce."

The confusion is increased by the fact that the term land both in its popular and scientific usage, at one time denotes a defined area of the earth's surface, and at another time refers to a solid segment of the earth lying beneath a defined area.

The phrase, "is determined by" may on the face of it mean "is equivalent to," or "has some causal relation with." What the causal relation may be, one can only guess. Neither is there anything in the law itself whereby the way-faring man can say definitely what the words "the same

application" mean, either as to what thing or things may be applied, or as to the extent of the application contemplated.

How can such a proposition, obviously incomplete, extremely indefinite, using terms in senses violently conflicting with their ordinary meanings, and entirely ignoring, as it does, the distinction between the two entirely different modes of origin of land values, corresponding to the two different modes of use of land, how can such a proposition lay proper claim to the dignity of a "law?" And, especially, a law acclaimed as the very keystone of economic science, and as the "pons" upon the hither side of which all "asinorums" must forever remain? It is evident that the adoption of such a medley of ambiguous and indefinite terms as a first principle, and the attempt to erect thereon a science of economics, must result in just that state of confusion worse confounded in which that science now languishes.

A necessary first step in the restoration of order would appear to be the complete repeal of the Ricardian Law of Rent. In addition, it appears strongly advisable to discontinue the use of the term "economic rent;" and to use the word "rent" only in its original ordinary meaning, to wit, "a periodical payment for the use of property." Only by so doing, will the way be cleared for a re-statement of the theory of land values clearly recognizing the fact that true rental values attach only to surface rights and the further fact that the values of natural resources are determinable only by sale and have no definitive relation whatever to the period or periods during which the land concerned is used.

The Law of Rent might then be fittingly replaced by the following series of propositions, namely:

(a) Land has two modes of use; first, the use of its surface, for the purpose of support, and second, the use of its contents, as the substance from which all material things useful to man are produced.

(b) Land has two kinds of value, corresponding to the two modes of use, namely, rental value attaching to surface rights only, and market value attaching either (1) to surface rights, in which case it is a derivative of rental value, or (2) to the material contents or "natural resources" lying beneath or upon its surface, in which case it is determinable only by sale of such contents, and has no definite relation whatever to period of use.

(c) The rental or site value of land, *i. e.*, the value of its surface rights, is determined by its relative desirability of location, is proportionate to the period or periods of use, and is therefore capable of being taken by society in the form of taxation.

(d) The value of lands bearing natural resources, is the *market* value of the natural resources as they lie in or upon the land.

A proper land policy must recognize the dual nature of land values above pointed out. To give all men in a given society equal rights to the use of the earth's *surface*, it should provide either (1) for the right of use in common,

as in the case of highways, etc., or (2) for the taking of the entire rental or "site" value into the public treasury. And, to assert equality of rights to *natural resources*, it should provide for either (1) direct use for public purposes, *e. g.*, gold for currency, sand, cement, etc., for sidewalks, and so on, or (2) the realization of the value of the same by *sale in market overt (open market)*.

CECIL L. ST. JOHN.

Editor's Note

WE print the foregoing remarkable attack upon the so-called Ricardian Law of Rent. If the writer's conclusions are sound it involves a radical reconstruction of the administrative part of the Single Tax philosophy as applied to forest, oil and mineral land.

Most Single Taxers have felt conscious of the difficulties presented in this phase of our question. Most of us have been content to let it rest as a problem to be met by assessors when the principle for which we contend is accepted. Whether this is any longer to be our attitude of mind is doubtful in view of the renewed interest in the problem and the bold challenge of Mr. St. John's.

We now throw the whole question open to discussion. We may, however, note the following considerations. The gist of our philosophy is that the earth and its unworked content are the heritage of all mankind. This is the real thesis of "Progress and Poverty;" it was with this thought in mind that that great work was written.

We have said before in the columns of the REVIEW that when George sought out a method by which this could be made practicable he turned to the taxing machinery. But he turned to it only as a method. The name Single Tax is doubly unfortunate in that it is misleading, and is only a name for the method. If it should be demonstrated, as has long been suspected by most Single Taxers, that the method as applied to forest, oil and mineral lands must be discarded for a more sure and effective way of securing the rights of all men to the earth, then it may be well to consider the adoption of a name for our movement more adequately descriptive of our aim and purpose.

The so-called fiscal Single Taxers, the step-by-stepers, those who advocate the removal of one tax after another in the hope and with the expectation of the burden falling upon land values, or economic rent, will extract small comfort from a consideration of the problem here presented. Its futility as applied to forest, oil and mineral lands makes their programme a perfectly hopeless one.

Is it not the consciousness of this inadequacy that has hitherto led Socialists and radicals to reject the programme offered by Single Taxers? May we not have to revise our impatience with their oft repeated dictum that our programme as presented "does not go far enough?" The declaration of our purposes, and the graduated fiscal method of approach, must after all seem to a good many of these earnest if mistaken persons as sadly mismated.

—EDITOR SINGLE TAX REVIEW.