THE HIGH COST OF LIVING.

RENT IS NOT A PART OF PRICE.

(*For the Review*)

By A. G. Huie.

This subject was recently considered at a meeting of the Free Trade Debating Club, in Sydney, New South Wales. It fell to my lot to open the discussion. I did so by commencing with Mr. Hardinge's article in the May-June REVIEW 1914, and followed that up by references to and quotations from the various correspondents in subsequent issues of the REVIEW, together with my own views upon the subject. The wish was expressed that I should write to the REVIEW on the question. Members entirely disagreed with Mr. Hardinge's view, that rent was a part of price, and they did not consider that the other contributors had dealt adequately with a matter of so much importance.

After dealing forcibly with the bad taxation methods of the United States, and I may add that they are similar in Australia, except where local taxes are imposed on land values, Mr. Hardinge goes on to make this statement:

"As population increases so will the tribute exacted increase and it will be levied in a thousand ways, always finally to appear on the market in the price of things, because the higher the value of land the higher the price of everything brought forth from it. This is true because the rent of all land can be collected only when the goods are sold which are made or traded upon it."

Replying to the criticism in the September-October REVIEW 1914, Mr. Hardinge says:

"Labor, capital and land produce everything, wages, interest and rent get everything; 100 per cent. of all that is produced."

Proceeding, he says:

"If wages and interest do not get the high prices, rent does. Rent is the only other factor, it is the only other direction in which abnormally high prices can go, and if this does not prove that rent is part of price what does it prove?"

And again he says:

"If increasing and inflated rent does not increase the cost of living, by increasing the price of goods, where is its effect registered in society?"

Before dealing with the matter myself let me refer to the various correspondents.

Mr. George White, in the July-August REVIEW, 1914, questions Mr. Hardinge's view, and points out how land values would persist even under the Single Tax unlimited —they would be enormous. He shows that rent depends upon the margin of cultivation. "If the margin is depressed"—that is by withholding land from use—"rent appears where it would not normally appear." Of course that means a reduction in wages, but it does not explain the cause of the high cost of living. It does not touch the question of prices.

The editor of the REVIEW, in a footnote, says:

"We do not doubt—and we do not think Single Taxers anywhere doubt—that artificially inflated land values are reflected in the cost of commodities."

Land values are artificially inflated by withholding land from use, thus depressing the margin of cultivation. Its effect is to reduce wages rather than raise prices. In fact I question whether it can be properly said to have any effect on prices. In the Nov.-Dec. REVIEW 1914, Mr. C. F. Hunt writes:

"Prices are fixed by the cost on the poorest land. The abundance from the best land will sell at the same price. Nowhere are products so cheap as at department stores where site rent is the highest."

In the same number of the REVIEW Mr. Jas. D. McDade writes:

"Rent is a part of price in the sense that rent is the equation of land values; rent does not increase price or add to the cost of production."

Mr. George White has another inning in the following REVIEW, but it is chiefly reiteration, and can scarcely be said to add anything material to the solution of the problem.

There is a serious fundamental error in Mr. Hardinge's statement of the cause of high prices. It is not so clearly shown in the original article as in the subsequent letter. He says: "Labor, capital and land produce everything." That is quite true. But he adds, "wages, interest and rent get everything." That is entirely wrong, and that is where he goes astray. It is the more remarkable considering his reference to monopoly and taxation in his original effort to show the cause of the high cost of living. It seems strange that all of his critics should allow such a statement to pass unchallenged. The produce of land, labor and capital is divided between, (1) rent to land, (2) wages to labor, (3) interest to capital, and (4) taxation to the Government and privileged interests mainly based upon the tariff. It is taxation of labor products that causes the high cost of living, not the rent of land. It is taxation that is a part of price—not the rent of land. The utmost that can be said as to rent being a part of price is the quotation from Mr. McDade's letter. But that does not mean in the economic sense that rent is a part of price.

This matter is of so much importance that it will repay all the effort necessary to give it full consideration. Rent of land is indestructible, so long as there is a population desiring to use land, and its varying qualities, position, accessibility, etc., make some portions more desirable for use than other portions. Legislation cannot destroy rent. Legislation can only decide who is to get it—private individuals or the community. On the other hand legislation can destroy taxation. Customs taxes, in fact, all taxes upon labor products, are established by legislation, and by tbe same means may be remitted or destroyed. Taxation is passed on and increases the cost of goods to the consumer. It increases the price. Taxes on the rent of land are not passed on—they do not increase the price of land. Their effect is to transfer a portion of the land rent or tribute from the landlord to the State. The one great cause of the high cost of living, therefore, is taxation of labor products and the only solution of the difficulty is the complete removal of such taxation. It is only when that great change has been accomplished that the produce of land, labor and capital will go to rent, wages and interest—the rent will then be the public revenue and we will have the Single Tax.

To say that the rent of land increases the cost of living appears to me to be aquivalent to saying that a tax on land values can be passed on. This has been demonstrated to be impossible by Henry George, C. B. Fillebrown, and in fact all economists of repute. The following extract from Thos. G. Shearman's "Natural Taxation" is quoted with approval by Mr. Fillebrown in his book, "The A. B. C. of Taxation."

"As defined by Mr. Shearman, ground rent is, in its nature, 'a 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 the land, including necessarily his just share of the cost of Government.' It is found operative in every civilized country, automatically collecting 'from every citizen an amount almost exactly proportionate to the fair and full market value of the benefits which he derives from the Government under which he lives and the society which surrounds him.' It is a tribute, 'a tax just, equal, full, fair, paid for full value received.' 'It is not merely a tax which justice allows; it is one which justice demands. It is not merely one which ought to be collected; it is one which infallibly will be and is collected. It is not merely one which the State ought to see collected; it is one which in the long run the State cannot prevent being collected.... Seldom has there been a more beautiful illustration of the wise yet relentless working of natural law than in the proved impossibility of justly collecting any other tax than that upon ground rent. It shows that nature makes it impossible to execute justly a statute which is in its nature unjust.' This definition of Mr. Shearman is offered as one difficult to be improved upon or condensed."

It is only when the natural revenue of a country goes to privileged persons called landowners, that taxation of labor products is resorted to in order to defray the cost of Government. Private ownership of land values produces a class of rich loafers, it depresses the margin of cultivation, it reduces the earnings of labor and capital; it constantly keeps a number of workers in enforced idleness; it drives capital out of the country or into less productive avenues of investment. There appears to be no limit to the extent and severity of the injury caused by it. But as the payment of rent would go to the State under just conditions, the fact that it now goes into wrong channels cannot make it a part of the prices of commodities.

But it is said that artificially inflated rent does enter into price, and the editor of the REVIEW even goes so far as to question whether any Single Taxer doubts it. I would like to see him make a serious attempt to prove it. I think that he would soon find that he had taken on a big contract. Artificially inflated rent merely results in driving men out on to the poorer or less accessible land. As Mr. White says, "it depresses the margin." Its effect is really on wages and capital. "Wages depend on the margin of cultivation, falling as it falls and rising as it rises." Land speculation lowers the margin, and restricts the opportunities open for investment. Say the man on the margin grows wheat or mines gold or raises stock. He gets the market price and clearly rent does not enter into it.

Others have pointed out how goods may be purchased on land of high value at a low price, while a higher price must be paid on land of low value or even no value at all. As I put it to the Club, a man may get a glass of beer for 3d. in Sydney on land worth £1,000 per foot, while in rural districts he will pay 6d. on land worth only a few pound per foot. Let us look at the matter in relation to wheat. The United States is a great wheat producing country, so is Australia. What is it that determines the price of wheat? Is it the rent of land? If so, how does the rent of land enter into price? Does a man growing wheat on land worth £5 per acre get a higher price than another man growing wheat on land worth £1 per acre or even on land of no value. In a normal year the price of wheat in Australia depends upon the price obtainable in London. Wheat is grown on land of varying values, but it is not those values that enter into the cost of production. They may even become so high as to make the use of land for wheat unprofitable, but that increase does not and indeed cannot show itself in the price of wheat.

Australia has imitated the United States in going wrong—we have a villainous tariff. It includes a wheat tax which in normal times is inoperative. Our last harvest was a failure and the price of wheat rose. The war gave it an additional lift. Our protectionist legislators got alarmed and suspended the wheat tax. It was only imposed to fool the farmers, but as soon as a bad year came, when they might profit by it, the tax was removed. In N. S. W. they also arbitrarily fixed the price of wheat, and there was no end of a row over it, which is not yet settled. But apart from that, when a local shortage arises the price must go up to what it can be landed at from some wheat growing country which has wheat to sell. Had the tax remained, the price would have been higher still, showing clearly that it is the tax which enters into price and increases the cost of living.

While a protective duty on wheat in Australia is a farce, as it is inoperative in normal times, the numerous duties on what farmers use, agricultural machinery, supplies of all kinds, means of transport and so on, all enter into the cost of production —at whose expense? The landlord's? No, at the expense of labor and capital, hence wheat growing is less profitable than it should be and the progress of industry has been much slower since Federation and protection than it was prior to Federation under Free Trade in N. S. W. If it were possible for the farmers to form a "Combine" or "Trust" they could profit by the wheat tax just as the United States Steel Trust sold steel to Americans at higher prices than to foreigners. That would mean the tax entering into the price—not the rent.

Take an ordinary manufacture such as cement. This is "protected" in Australia by a heavy duty. We make a lot of cement, but not enough for local needs. The business is in the hands of several firms, which take full advantage of the tariff and charge up to the imported price duty paid. When your Inter-State Commission was in Sydney inquiring into tariff matters one of my applications was to reduce the cement duty by fifty per cent. Others were also up against it. One witness showed that the leading manufacturing firm in a single year made a profit of 66 per cent. on its capital. The cement companies did not dare to approach the Commission and ask for more protection. Shortly after our Federal "Labor" Government largely increased the cement duty. Apparently it thought the cement industry needed more "protection." The tax that the Government collects on imported cement is passed on to the consumer with interest added. The cement companies pass on their private tax also to the consumer. These increases in price are clearly not due to rent.

Mr. Hardinge says in his original article:

"We sneer at Turkey for farming out the taxes, yet in every Custom House in this country you can every day in the year —including Sundays—see the same system in operation on a gigantic scale, and you may know that for every dollar so collected, private interests get four."

Mr. Lee Francis Lybarger in his book, "The Tariff," recently published, says:

"The Tariff increased the cost of many home manufactured articles hundreds of thousands of dollars, yet none of it goes to the Government. It all goes into private pockets. Taking the entire Payne-Aldrich Tariff it would be a safe estimate to say that for every dollar it gives the Government it puts seven dollars into private pockets."

Mr. Lybarger, while admitting that the above is an estimate, adds: "It cannot well be less than that amount. It may be much more." Continuing, he says, "the Government does this infamous thing; in order to raise 300,000,000 dollars for itself, it takes out of our pockets every year something like eight times that amount, or $2,400,000,000 dollars." (page 66).

In addition you have your system of internal taxation, which apparently corresponds to our Excise, and also the Income Tax passed lately. I don't care to work on United States figures because I feel I do not know enough about them. Let me explain how the cost of living goes up in Australia by reason of taxation, and how, even if the rent of land went to the Government, while existing taxes were retained, the consumer could not get relief.

Our people are taxed to an almost increditable extent. Leaving local taxation out of consideration altogether here is a summary of the Australian position.

State Taxation for all States 1913–14	£6,304,836	
Interest on cost of Railways and Tramways, all States, approx.	6,966,779	£13,271,615
Federal Taxation Customs	12,652,736	
Federal Taxation Excise	2,325,333	
Federal Taxation Land Tax	1,609,945	16,588,014
		£29,859,629

That was the actual sum paid to the Federal and various State Governments. As we all know business men add a profit to the duty paid, and income and other taxes always tend to grow by the time they reach the consumer. I will add 20 per cent. all around to Customs and Excise paid, get approximately at the added cost, because the business of the country has been loaded with such taxes. We will leave profits on the income tax, etc., out of consideration.

Now we come to the most serious of all burdens carried by the taxpayer. The object of the Tariff is to enable local manufacturers and other privileged persons to increase their prices. To what extent is this done? We know that protected manufacturers are the most greedy, grasping persons in the country. Many, in fact, are more unprincipled than landlords.

The only way I can get at the matter is by figures supplied in the report of the Australian Inter-State Commission. The report says that dutiable imports in 1913 amounted to £44,624,000, upon which £12,905,000 was paid in duties. That would raise the cost to our wholesale houses to £57,529,000. The output of Australian manufactures was £161,560,000. If we allow that local manufacturers take full advantage of the tariff only to the extent of the actual duties paid, omitting the 20 per cent. profit on the duties, that £161,560,000 includes £36,241,000 privately imposed taxation.

It may be said, but a number of your factories are not really protected, such as brickworks, ice works, gas works, electrical power works, and so on. While that is so their cost of production is enhanced by taxes on their machinery and materials. Not only so, but the multitude of taxes are partly responsible for the higher nominal wages paid. For these reasons the increased cost of products of even unprotected industries is considerable.

In order to allow for various contingencies, I will take the increased cost of local productions to the consumer at only two thirds of the proportion of duty on imported dutiable goods, or £24,160,000. Now let us see the position.

State and Federal Taxation 1913–14		£29,859,629
20 per cent. profit on Customs and Excise	£2,995,615	
Increased cost of local production to the consumer because of the tariff	24,160,000	27,155,615
Amount the consumer pays now		£57,015,244

But the consumer has also to support the landlords. His burdens are three-fold, first to the Government, second to protected interests, and third to the landlord.

There is no proper system of land valuation throughout the Commonwealth, so I will again have to make an estimate. The value of land in New Zealand, where some attempt has been made to secure a scientific valuation, is nearly £200 per head of the population. Our muddled system in New South Wales shows about half that amount. It would probably be fair to say that the fair average value of Australian land was £150 per head of the population. The population on the 31st of Dec., 1913, was 4,872,059, which, at £150 per head, gives an unimproved capital value of £730,808,850. Now what does the tribute to landlordism amount to? We all know it is very large. Say it averages 4¼ per cent. on the value of all land. That would be £31,059,376. When the landlord gets land rent he uses it for his own purposes, and it is forever lost, so far as the payer is concerned. Adopting the Single Tax would mean that £31,059,376 would be paid into the Public Treasury instead of to the landlord, including about £2,500,000 paid in 1913–14 in Federal and State land taxes.

Here then would be the position. The people would save:

Present State and Federal Taxation	£29,859,629
Increased prices for local commodities to protected interests	27,155,615
Total reduction in the cost of living	£57,015,244

But that would not be all. The tribute now paid to landlords would be paid to the community, in other words, paid to themselves. Instead of being lost, as it is now, it would come back to them in the shape of public works and services. The gain to the community would be enormous. There would be a further gain not yet mentioned. All idle land, or partly used land, now held for speculative purposes, would be open to labor and capital, thus enormously widening the fields of investment and employment.

We cannot get rid of the land rent—£31,059,376. We can only decide that the people shall have it, instead of the landowner. We can get rid of taxation. The reduction in the cost of living can only come from the abolition of the taxes publicly and privately imposed, which is a much larger sum than the whole yearly value of all land in the Australian Commonwealth.