

## **Does Rent Pay for Landlord Services?**

By Fred E. Foldvary

Some critics of the community collection of rent claim that site rentals compensate landlords for their services in providing land to tenants. The French economist Frédéric Bastiat in his book *Economic Harmonies* (1851) expressed this viewpoint. In Chapter 5, "On Value," under the heading "Utility," Bastiat asks whether a payment to the landowner is in exchange for a service for which he is rightfully compensated.

Bastiat's viewpoint is important for two reasons. First, Bastiat is often cited by those opposed to community rent, the use of site rent to pay for civic services. Second, as suggested by the title of his book, Bastiat believed that under the proper policies, the interests of all players in the economy are in harmony. Bastiat said there is no essential or necessary conflict among workers, owners of capital, and owners of land. The American economist Henry George would later agree with this harmonist idea. But their reasoning was quite different.

Bastiat argued that the landowner or his ancestor "cleared the land and fenced it off." The landowner drains excess water, fertilizes soil, and builds improvements. Should he not be reimbursed for such land services?

Clearly, the owner is entitled to compensation for such value added. But that value is not land. Land, in the classical economic meaning, means natural resources. What is natural is what exists apart from and prior to human action. Strictly speaking, or economically speaking, land cannot be improved. Any improvement is an alteration of the natural materials. Improvements are the product of human action, and therefore are not land, but capital goods. We popularly speak of improving land, but the value added is not land value, but the value of capital goods.

Classical economists recognized three factors of production: land, labor, and capital goods. A "landowner" is also an owner of the capital goods attached to his land, and he also provides labor services related to the site. The rental of the land, and the site value, therefore includes payments for the services of labor and capital goods, and in addition, payments for the value of the land itself, value that would be there if there were no improvements or labor.

The services of the site manager are fully compensated for by the portion of the rental that pays for normal wages and returns to capital goods. The remainder is a surplus that is due purely to the advantages of that site relative to the least productive sites. This land rent is therefore not due to any services, but simply due to the legal rights to land revenue imposed by government.

Bastiat well recognized the implications of land having its own value apart from labor and capital goods. The French philosopher Proudhon had written that while workers had a right to be compensated for their labor, that does not extend to property not created by labor, namely land. Proudhon thus exclaimed that in such a case, "property is theft!"

Thus Bastiat recognizes that if nature itself has value, "Proudhon summons the owner, who calls himself the land's authorized agent, to produce his credentials." In his chapter 9 on "Landed Property," Bastiat again invokes Proudhon, who asks, "To whom is due the rent on the land? To the producer of the land, of course. Who made it? God. In that case, landlord, you may withdraw... Let the landowner, who claims to have full title, produce his power of attorney from the Maker."

You don't need to believe in God to appreciate the thrust of Proudhon's challenge. Substitute nature, and the conclusion is the same. What authority gives the landlord title to the rent? Possession is indeed needed for land to be used efficiently, but the rent is a surplus that is not needed, since the compensation for exertion is wages and returns to capital goods, not rent.

Henry George would later draw the logical conclusion: the natural rent belongs in equal shares to all humanity. We can implement this by having communities collect the rent on behalf of the people in payment for community services or to distribute to the proper owners, the residents. When this is done, then there is indeed a harmony of interests. Landowners are not hurt, because the value of land will drop, and what the owner pays as community rent he saves in not having to pay mortgage interest. Owners of labor, capital, and land, are thereby in true harmony.

Bastiat elsewhere recognized that property provides the best base for public revenue, as the earlier French economists, the physiocrats, also recognized. So in policy, Bastiat was close to George after all. But Bastiat was wrong to think that natural land itself has no value. Modern economists recognize that each factor of production has its own contribution to make.

In his Chapter 13 on "Rent," Bastiat recognizes that landowners properly pay taxes in exchange for services that add value to their sites. The logical tax is therefore on the site value. Fans of Bastiat should look at his total thought, and not focus narrowly on Bastiat's error in thinking that nature has no value. That error was also made by Marxists. Economic as well as environmental harmony requires our appreciation for the value of nature, in harmony with the value added by labor and capital goods.

-- Fred Foldvary

Copyright 2002 by Fred E. Foldvary. All rights reserved. No part of this material may be reproduced or transmitted in any form or by any means, electronic or mechanical, which includes but is not limited to facsimile transmission, photocopying, recording, rekeying, or using any information storage or retrieval system, without giving full credit to Fred Foldvary and The Progress Report.