

THE PROGRESS REPORT

The Rent, the Whole Rent, and Nothing but the Rent

By Fred E. Foldvary

Rent is the highest bid that a normal tenant would pay for the use of land. Economists have divided the resources that go into production into land, labor, and capital goods. The wealth that is produced is distributed to the owners of these three "factors of production." That portion that goes to landowners is rent.

The meaning of rent as the return to land has been broadened in economics and in popular use to including hiring any asset, such as renting a car. But for economics, the term "rent" should strictly mean the payment for the use only of land.

[Professor Nicolaus Tideman](#) defines rent more precisely as the "second highest bid for the use of land when it is unimproved, when the user has an option on continued use into the indefinite future." In an ideal auction, we want the good to go to the highest bidder but at the price set by the second-highest bid, to avoid penalizing too-high bidding. In practice, if the folks who want to rent land have no special emotional attachment to a site, then the highest bids will be similar.

Land includes all natural resources, including the spatial surface of the earth, material resources such as water and minerals, the radio spectrum, the atmosphere used for travel or as a dump, all wildlife, and the genetic information in living beings.

A tenant's payment for a *site* has two components.

- The pure land rent is the natural rent, the payment for the resource as provided by nature.
- The second component is a rental for the advantages of a site due to the civic works. This is the infrastructure such as streets, parks, utilities, security, schools, and the legal system which makes real estate much more useful. This rental is really a return to capital goods and labor services rather than land.

Real-estate land rent and rentals arise from the differing productivity of various sites: **rent is the differential between the productivity of a site relative to the least productive marginal sites.** This is the same as the "marginal product" of land as used in economics. Buying land for speculation anticipating higher future rentals not paid for by the landowner can induce higher prices for land that shifts the margin to inferior lands, raising the rents on superior lands and **lowering wages set at the margin.**

If we regard human beings as having equal moral worth, then it is morally wrong for some to be masters and others slaves. Each person therefore has proper moral ownership of his labor and wage. Such self-ownership does not extend to land, but people may properly have individual rights to possess land, since this is necessary for the application of labor, and it is efficient for land to be under private title and control.

But it is not necessary for efficiency for the pure land rent to belong to the individual title holder. Economists use the term "economic rent" for payments beyond what is needed to put a factor of production to efficient use. Land rent is economic rent, since the land is already there, and for real estate, the amount of land within some boundary line is fixed. So when rent is used for the public finances, it does not reduce the quantity of land. The rent will not be passed on to the tenant, since the payment of the rent to a community does not change the supply or demand for land.

The use of rent for public revenues therefore has no excess burden, no burden on society or the economy. Taxes on income, goods, and transactions do have an excess burden, since by raising the price and reducing the quantity of goods, resources do not get allocated to where the people most want them. Taxes on labor and goods raise prices, while rent-based payments do not affect the rent, and they lower the price of land rather than raise it.

Rent is therefore the ideal source of general public and community revenue. Tax reform should therefore shift to rent as the primary source of general funds. Pollution charges can supplement the rent, and indeed can be considered a rental charge for using and abusing the atmosphere, land, soil, and other forms of land. There could also be user fees for services specific to users, fines for violating traffic rules, and profits from enterprises.

The economic rent from minerals, water, and oil would be natural resource royalties that could be paid by bidding for the rights to extract, from payments based on the amount of mining, and the profits from the operations, depending on the circumstances.

When the civic works such as streets and security are provided by private enterprise, whether it is a single owner of a shopping mall or an association of owners as in a condominium, the rentals for these works would be paid to the providers. Private communities can perform all the civic functions of government, and usually do it more efficiently. Networks and associations of private communities can provide the public goods suitable for a large area.

The philosophy and economics of using rent for community services and sharing the rent equally is called "geoism." The economist [Henry George](#) popularized this idea, so it has been called "[Georgism](#)" after him, although the concept was proposed a hundred years earlier by the French economists calling themselves the [Physiocrats](#), physiocracy meaning the rule of natural law.

Some geoists think that land rent belongs equally to members of local or global communities, so it should be distributed to the residents in equal shares as a "citizens' dividend" to spend on personal or civic services as the individuals choose. Other geoists think that all the natural rent and the rentals due to government civic works and services should be the "single tax" spent primarily on governance and public goods, with any remaining revenues distributed as dividends. Anarchist geoists consider the rent and civic rentals as the best source of community revenue, but only among those who choose to belong to such a community network.

The implementation of geoism can take various forms. Whichever implementation you prefer, rent and rentals are important concepts that are not given enough attention in conventional economic texts and in political dialogues. The public and community collection of rent puts land

at its most productive use, maximizing the wages of workers while minimizing sprawl as well as boom/bust cycles. We need to understand rent to fully understand the market process and the cause and remedy of many of today's social problems.

-- Fred Foldvary

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