

## **They Don't Dare Call it "Rent"**

By Fred E. Foldvary

They call it "producer surplus" or "interest" or "profit" or "capital consumption." Anything but rent. They are the powers that be, politicians who set the agenda by creating the misleading categories of data, and economists who use government numbers because that is what exists.

You buy real estate to rent out, and have a mortgage. Your tenant pays rent to you the landlord, and you then use the rent to pay the mortgage to a bank, which then pays interest to the account holder. The money gets counted as interest income, even though it really came from rent originally. The building part of the real estate is declared to undergo heavy consumption every year, offsetting the rental not just from the building, which does depreciate, but also from the land, which does not depreciate. In the national accounts, the rent is consumed down to zero.

The government can't ignore real estate entirely, so they label it "gross housing product." Much of that is rent, but then the U.S. declares that "rental income of persons" is about zero. Somehow almost all the gross housing product gets offset by costs and depreciation - you would think that we were all living in dwellings rapidly deteriorating.

Land owned by corporations is not owned by "persons" and its rent ends up as corporate profit, and when you look at their annual reports for the value of their land, why, it's not worth much at all, because they list it at the historical purchase price, going back to the days when horses pulled covered wagons across the prairies.

The rent of government-held land is not counted at all. After all, the government is not paying any rental to any landlord, right? But if the government did not hold that land, it would be rented out. So it does have an economic rent. A military base has rental value, and should be counted just as the rental of any owner-occupied land. They don't want to count it, because it would add to the expense side of the ledger, and they want you to think the base is not that expensive.

Economists draw supply curves that slope up. With a higher price, more stuff gets produced. At lower prices, the low-cost producers can still produce the good, so they get extra revenue when the price is higher. Economists call this revenue a "producer surplus." But who gets it? It goes to the landlords as rent. But the economics textbooks just call it a "surplus," and not one student in a million asks where the money goes. They just write down "producer surplus" in their notes, because that will be the "correct" answer on the exam.

So a couple of trillion dollars of rent in the economy of the US, and similar quantities in all economies, gets hidden and lost. It is a surplus, profit, interest, housing product, gets snuck into capital consumption, or is just ignored. They don't dare call it "rent"!

If they did accurately measure and report the land rent, data-driven economists would start putting this into the textbooks. Folks would start asking why they had to pay such high taxes on

their wages, when most of the rent is kept by the holders of land. Somebody might even realize that government public works pump up that rent, and is it not right that the value received by those public goods be paid back to the government? Is it fair for workers to be double charged and have to pay both rent and taxes?

Powerful lords of valued land holdings have controlled governments world-wide. Land value is highly concentrated in a few hands, and they have the strong incentive to keep it that way. It is not enough for their rent to be almost tax-free. To keep it that way, we must not even think of rent. In the economic textbooks, there are a couple of paragraphs on rent, maybe a graph, and then it is ignored in the rest of the book. The chapters on government policy don't even go there.

What economics should be is a key that unlocks the reality beneath the superficial appearances. Economic sophistication is the understanding of implicit reality. Real rent is not what a tenant happens to pay some landlord. Rent is an implicit reality, caused by the differing qualities of land, the differences in qualities creating economic rent. Rent is there regardless of who owns the land or how a plot is used or how much money the landlord is getting or whether it gets counted.

When you see the cat hiding under the deck, when you understand economic reality, you will realize that the rent is there, that it provides the efficient and equitable and natural way to pay for public goods. We suffer today from global conflict because billions of people are kept in miserable poverty by governments that serve the few at the expense of the many. Only when rent is exposed and brought to light can we even begin the freedom reforms that will lead to peace and prosperity.

Truth or dare? Call it "rent," and dare them to prove you wrong!

-- Fred Foldvary

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