

## RICARDO'S LAW

WITH SPECIAL REFERENCE TO A CHAPTER IN THE BOOK  
TOWARDS A FREE SOCIETY

This commentary on Ricardo's law is to explain its unsuitability as a basis for a revenue system as proposed by Mr Middleton in chapter 20 of his book. In other chapters, the author commendably recommends a libertarian form of government, and his criticisms of a large array of other authors on socio-economic matters appear generally sound, though the extensive field covered necessitated some items being dealt with rather summarily. However, in his chapter 20 Mr Middleton says he will 'prescribe the treatment designed to cure' the ailing world.

As he has referred favourably to Henry George in earlier chapters, one would expect that he propose George's recommendation that all other taxation should be replaced by steadily increasing site value taxation on all sites to a very high level.

Sadly, not only does he fail to do that, but his prescription is incoherent. He commences favourably by saying that economic rent is the proper revenue for government, but then gives a series of odd descriptions of rent which differ greatly from those accepted by most economists. At one stage he says rent is the profit of associating, meaning presumably the gains obtained by specialisation and exchange of goods and services. But all gains of associating relate only to the two parties in each exchange. Exchanges occur because both parties benefit, no matter what they are swapping, including money. But such benefits are not rent and should not be the basis of taxation. Perhaps confusion has arisen between the association of people in transactions, and the association of people in locations, which of course makes sites valuable.

### RICARDO'S LAW

But the author then leaves the association explanation of rent, and turns to Ricardo's so called law—'The rent of land is determined by the excess of product over that which the same application (of labour) can secure from the least productive land in use'. It is suggested that most economists recognise this 'law'. Most would certainly know of it, but it is doubtful if any would accept it as a definition of economic rent, which Mr Middleton appears to. In fact the law is a childishly simplified superficial and erroneous concept of rent.

Firstly if rent is to be collected for revenue it must be in money terms. It would be absurd to try to operate in proportions of goods and services, even if the procedure was just; and it also would be absurd to have to compare sites on the basis of the same product being made on each. Clearly the rent must show itself as a market valuation of all the possible opportunities, benefits and advantages which those who are interested in the site may see in it in comparison with all alternative sites including the marginal one. Sites are not valuable only because of potential for production of material things.

### OTHER FLAWS IN THE 'LAW'

Ricardo's statement refers to the same application of labour (some quotes include capital also) but what do we find in the real world? Is the same labour or capital applied to a poor site as compared with a much better site? Obviously there is normally a greater application on the better site (higher rent site), and real economic rents are based on the applications appropriate to each site. If we did want to go along with this unnecessary surplus product calculation, how could we know the appropriate amount of labour to be used on each site, and what would we do if an inappropriate amount was being applied? Of course the whole thing is unnecessary because rents can be observed in their own market, the market prices for the privileges of being permitted to use a site for a given period.

Ricardo's Law is only a superficial and inaccurate attempt to explain what causes rent by an oversimplified example, the rents being already known from the market.

In passing, the law would also seem inaccurate in referring to 'the least productive land in use'. In fact the reference for a marginal site is the 'most advantageous site available freely'. If all land is 'taken up', then the marginal site is zero worth.

It seems that the author seeks to have residential land exempted from paying rent for revenue, and has sought to justify it by searching out a concept based only on 'product', and to do that he has chosen to quote Ricardo's inadequate explanation of rent.

It would be unfortunate if readers accepted this strange idea that rent only arises on land used to produce material things. It would be sad indeed if they thought Henry George had excluded any type of sites from his proposal for a high uniform taxation of site value. This is quite obvious from his statement in *Progress and Poverty* 'The owner of a vacant city lot would have to pay as much (in site value taxation) for the privilege of keeping other people off it as his neighbour who has a fine house upon his lot'.

Although Mr Middleton talks about his formula, it is not quite clear what it really is. If he really is suggesting that the excess product (or its money value) above a specified marginal amount should be taken from all sites, then no sensible person would produce more than that minimum (and there would be no revenue). But although he is not specific about it it seems he might be suggesting that heavy land value taxation could be applied only to land actually in production.

However in some later remarks, he appears to suggest that land value is not a suitable basis, because of speculative values. He does not seem to understand that high rates of site value taxation would remove speculative holding of idle sites, and also would tend to make the title prices relate almost entirely to current rents rather than to future rents. In passing one must deny his statement that 'advocates of

(over)

taxation of land values mistakenly hold the view that 'rent arises from land value'. The fact is that the value of a land title is merely the market price now for all future expected advantages, so it is the sum of all future expected rents, making allowances for any taxation and debasement of currency, and discounting the more future rents more and more heavily because of the waiting time and risk before the benefits are received.

Having dismissed site value taxation, the author seems to have left us with no clear plan which is administratively feasible. The only thing clear in the prescription is what it leaves out, which makes it considerably in contradiction to George's remedy, and it can hardly be expected to have the approval of Georgists.

This review is from the August 1980 issue of Good Government, Sydney, Australia, August 1980.