

THE TIME IS RIGHT FOR A LOOK AT RENT

The two problems of inequality and housing are now becoming acute, and we need to reappraise what we are doing.

First, we need to be clear that Rent, as now understood, stands for two quite separate factors. On the one hand, part of what we pay for is the “hire charge” of the house and other man-made items. On the other hand, there is the charge for the use of a site. In this article we shall refer to Rent as the site charge. How much it is will depend on many factors. If a buyer knocks down the house, we can be sure that all the rent is a site charge. With a new property, maybe a substantial portion is the hire charge. All the recent increase in property prices is solely the site charge, hereinafter designated as “Rent”.

From the point of view of those that pay rent, its level now leaves them no margin for saving for a deposit. As a result the ownership of property by those aged from 20 to 50 has sharply declined. There is even talk of the constant battle to pay ever increasing rents leading to a decrease in life expectancy of 20 years or so. Why does rent always go up, never down?

This is because nothing tangible is being supplied, so that rent will rise to the maximum affordable. Every increase in the general level of wages will lead to a rent increase. Furthermore, any government scheme to “help to buy” will lead to a rent increase. There is no let-up possible for those now locked in to the rental market.

From the point of view of those who receive rent, it is seen as an excellent investment. As rents increase, so do land prices. The price for land is the current value of a stream of rents for the foreseeable future. Thus, we have the attraction of “buy to let” whereby anybody with cash to spare will buy up property, thus adding impetus to land price rises, which of course leads to further rent increases. And rent received is something for nothing. All that is being supplied is access to a site which is actually free for all. Land is supplied to the human race for no charge whatsoever. We accept the provision of air to breathe, with no charge. Why should it be different with land?

Thus, we have two problems; inequality arising from receiving something for nothing, and a housing problem getting tighter and tighter. Is there a way out?

Therefore, we must ask, “Why does a site have value?” First, it is obvious that the landowner contributes nothing to the value solely as landowner. We can readily see that the nearness of a station or road network does contribute to land value, as does nearness to a city. And, in the cities themselves we see the highest land prices.

It is therefore clear that site values are the result of communal efforts, paid for by taxation or borrowing. Ask yourself three questions; “What is site value? Who created it? To whom does it belong?” The site values have arisen directly from communal efforts to provide facilities to enhance the quality of life. The way to pay for these facilities is to collect the benefits arising. We can say that rent is the natural source of Public Revenue. It does not belong to the landlord.

However, as a result of not collecting from the natural source, we have created a tax system which adds its own distortions. For example, most of our taxes are collected through wages, more or less doubling the cost of employment and all government expenditure.

Surely we should begin to collect site values, and use the proceeds to reduce taxes. We will find that reducing taxation has the effect of increasing land values. But it will also change the forces giving rise to wages, which will rise closer to the value actually created by work. The rent now paid to landowners is a pure waste of government resources.

This may be the way to remove the major cause of inequality, whilst making it possible for our younger generations to buy a house for its actual price.

Is it not plain that allowing rent to be passed into private hands is theft from the rightful owner, the community which created it. ■