

LAND AND ITS RENT: SOME ILLUSTRATIONS

RENT IN ECONOMIC SCIENCE means revenue derived from the ownership of land. It represents the annual amount which will be paid for permission to make use of any particular plot of land. Rent in the economic sense exists whether the owner of the land uses it himself or lets it to another. If he uses it himself a portion of the income he derives from the land must be classified as rent, namely, that portion which he could in any case have obtained if he had let the land to someone else.

The next question is: what determines the amount of rent which will be paid for any plot of land. Let us take the simplest possible case. Let us suppose that the only use which can be made of land is for growing wheat. Let us suppose also that all the land will produce 40 bushels of wheat an acre, except one single acre which, with the same amount of labour will, because of its higher fertility, produce 60 bushels an acre. Then the rent of that one acre of land will be 20 bushels, because it will pay anyone to give up to that amount for the use of it rather than use the remaining land, which will only produce 40 bushels.

This extremely simplified example already tells us a number of important things. It shows that rent arises because some land is for equal effort more productive than other land. But this is not sufficient in itself to produce rent. If there was so much of the 60-bushel land that it was not necessary to have recourse to the 40-bushel land, no one would require to use the latter and no one would pay rent for the former. Hence, in addition to difference in productivity, there must also be relative scarcity of the more productive land.

The next point to observe is that after rent is paid, the income left to the producer (of equal skill or ability) is the same, no matter whether he works on the better land or on the poorer land. The competition of producers among themselves brings about this position. Rent is, as between producers, an equalizing factor; it reduces them all to the same level. As between producer and non-producer (between worker and owner of land) it has exactly the opposite effect. The owner of the more productive land gets an income from his ownership, which depends entirely upon the relative productivity of the land he owns and not upon the work he does.

The illustration also brings out the fact that rent is essentially a share of the wealth produced. In developed communities it is usually, though not always, paid in money. The money rent represents the value of the excess produce obtained from the more productive land. At least, this tends to be so on the average. The landlord or the tenant may make a miscalculation, especially if the contract between them is for a long period; but so far as their knowledge goes, the rent represents the differential advantage to be obtained from the more productive land.

If the goods produced are sold in the open market, or under conditions of free competition, they will if identical, all sell for the same price no matter what land they have been produced on. The goods produced from the more productive land do not sell for a lower price, because they have taken less effort to produce. They sell for the same price as the rest and so rent is paid for that land.

In actual fact land consists of many different qualities. It can be used for many different purposes. Its productivity may depend almost entirely upon its situation, as for example land in the centre of cities. Competition sorts out the land for the purposes for

which it is best fitted. Land in the centre of London might be well suited for growing corn, and better fitted for this than land actually growing corn, but as it has a much higher productivity for other purposes it is used for these. Rent, therefore, in practice represents the result of competition between all the various uses of land and is fixed by that use which gives the highest return. It still under the most complex conditions represents the difference between what can be produced on any given site and what can be produced by equal effort at the datum line. This datum line consists of the least productive land in use, and is called the margin of production. The rent paid for marginal land is negligible, because there is still land of the same or slightly inferior productivity which no one wishes to work and for which no one will pay any rent.

Thus we see that rent represents the differential advantage of having the use of a piece of land for some definite period (conventionally for a year) as against having the use of land on the margin of production.

In the simplified illustration it is assumed that equal quantities of labour (and capital) are used on equal areas of land. In actual practice we see that much more labour and capital is employed (area for area) on the more productive land. The employment of labour and capital on the more productive land can be carried to the point at which the additional return coming from the last unit of labour and capital employed is equal to what the same quantity of labour and capital would produce from marginal land. It is the use of the more productive land up to this point which yields the maximum rent for it.

Rent inevitably arises from the differences in the productivity of land. It cannot be abolished. It can be diverted from some individuals to other individuals, or it can be diverted from individuals to the state or the community. But it must always exist so long as some sites are more desirable than others.

THE LAW OF RENT

THE FOLLOWING diagrams are intended to illustrate the theory of economic rent. Each rectangle represents land of a certain productive capacity or utility. The degree of productivity or utility is designated by the figures inside the circles. Land which is used is shaded. Land which is unused is unshaded. The economic rent of any kind of land is fixed by the difference between what can be produced on it and what can be produced on the poorest quality of land which it has been found necessary to bring into use (the margin).

Figures 1 to 4 show how, with increase of population requiring the occupation of land of less and less

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productivity, the margin falls and with it wages also, while rent rises.

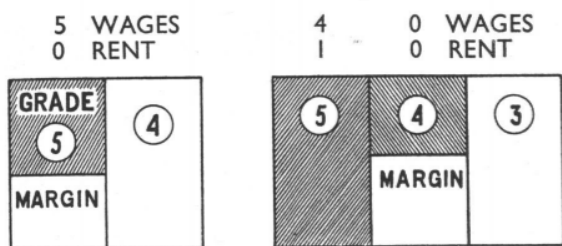


Figure 1

Figure 2

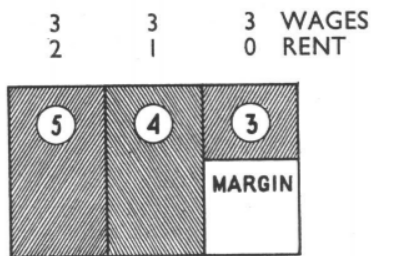


Figure 3

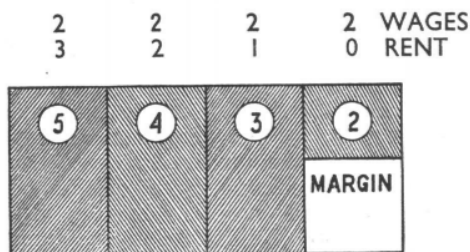


Figure 4

Figures 1 to 4 show what would happen if with increase of population there were no increase in the efficiency of labour. But this assumption which lies at the root of the Malthusian theory does not correspond with the facts. Growth of population is accompanied by all that material progress in the way of inventions, machinery, co-operation and division of labour which adds so enormously to wealth producing power. Figure 5 exemplifies the effects of these factors.

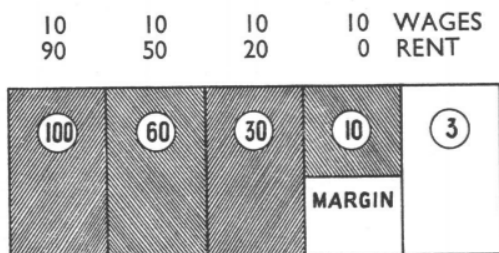


Figure 5

Figure 5 shows how inventions, machinery, the division of labour and so on increase the productivity of land, and especially of land above the margin.

The foregoing diagrams illustrate what happens upon the supposition that land is brought into use according to need, that is to say, the more productive land is used before recourse is had to less productive land. This is the assumption which is made in the usual treatises on economic theory. One of the great contributions made by Henry George to economic theory was to point out that under existing conditions of land tenure this

assumption is not true, because expectation of future increases of land value induces some owners of land to hold land not for use but for speculation.

Figure 6 shows what happens when valuable land is held out of use. The margin is depressed below where it need be. Rent is increased and wages reduced.

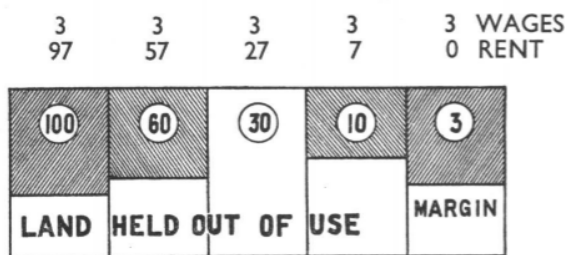


Figure 6

When the economic rent is collected for the community, and it thus becomes impossible to hold land out of use, the state of affairs will become that shown in diagram 5.

Mr RICHARD ACLAND, M.P., ON SITE VALUES

The Editor, Land & Liberty.

DEAR SIR,—I really do not quite understand why your commentator quarrels with my article on site values which appeared in the *Fortnightly Review*. He assumes, quite contrary to the plain English of what I had written, that I am only in favour of taxing the increase in site values as from the appointed day. If he will look at what I wrote more carefully he will see that I proposed that any increase in site values should be not taxed, but taken. I have made it quite clear that site values existing at the appointed day should be taxed. The only difference between me and your commentator is that he would probably desire the tax on existing site values to be very high indeed. So high as to amount, in fact, to an expropriation of the site value. I, on the other hand, ask for a small but sensible tax on the existing site value. I want a tax which the landowner will feel just sufficiently to prevent him from declaring a site value vastly in excess of anything that could actually be realised.

My suggestion has many disadvantages, no doubt. For example it would not bring in so much money as the larger tax. But I do contend that it has one advantage. It could, I believe, be passed through a progressive House of Commons, and driven, by a progressive Commons, through the Lords. I seriously doubt whether the same can be said for the tax that would in fact be wholly expropriatory.

Yours sincerely,

RICHARD ACLAND.

[We are glad to give publicity to this letter, although we did refer to Mr Acland's proposal for a "small but sensible tax." His article left us with the impression that no increase should be made in this small tax, and we could not assent to such a limitation.—EDITOR, *Land & Liberty*.]

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