

# What is the Rent of Land?

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I HAVE never found a deep discussion on Henry George's definition of the law of rent. Of course, our opponents try to refute it, but they do it in such a superficial way that to reply is not difficult. Perhaps this facility gives us the false belief that we really understand the statement. But, in spite of George's warning, we "take it for granted" because he said it. Unconsciously we rely on his words instead of following his methods. If an opponent shows the seeming weakness of that definition, in what manner could we support it?

In *Progress and Poverty*, Book III, Chapter II, paragraph six, Henry George says: "The rent of land is determined by the excess of its produce over that which the same application can secure from the least productive land in use."

The necessity for a more exact explanation of this statement was noticed by an illustrious Georgeist, Max Hirsch, who in his book *Democracy Versus Socialism*, gave the following definition: "The rent of any piece of land is determined by the excess of its productivity over an equal area of the least productive land in use, after deducting the sum of exertions which in both cases yield the most profitable result." This statement is a praiseworthy attempt at a precise explanation of the previous statement. Unfortunately, as will be seen later, its precision is reached at the expenses of its correctness.

I have tried, therefore, to produce a definition that is both precise and true. The table on next page illustrates the reasoning that led me to my statement.

In order to understand the table it is necessary to consider the following points:

(1) The least productive land in use is almost the same as the most productive free land and is styled the margin of cultivation, the margin of exploitation or marginal land. I will use the last name, which is the shortest.

(2) The word "application" means the use of land by labour, most frequently with the aid of capital. The best application consists of those kinds and amounts of labour and capital that yield the greatest returns to both factors of production. If we knew the current wages of labour and the current rate of interest on capital, we could resort to those figures in order to deduce the rent; but as rent is the primary charge we cannot know these figures; they must be deduced from the rent of land, or better, from the reduce of those factors on the marginal land.

(3) The application which we must consider must be the best one, because, by virtue of the "law of the least exertion," the land owner asks the highest possible rent or land value, and the tenant or buyer will pay it only if he can get it through his best "application." If the sum of labour and capital he can provide is not sufficient for the best use of the piece of land in question, so as to get the greatest result from the three factors, he will prefer a smaller or a cheaper piece of land. If the sum exceeds the best application he will consider what is more profitable, resigning himself to proportionally lower returns on that piece of land or taking and paying for more land.

(4) The best application depends upon the average conditions of the country. An application that in a backward country is regarded as the best one will be considered mediocre or even defective in a progressive country. In order to simplify the question, I will disregard land speculation.

(5) In order that the reader may more easily understand the table, I have employed in it a single unit of value, the shilling, instead of the system of pounds, shillings and pence, but with no wicked intention of undermining this capital pillar of British finance and prosperity.

(6) In order to express the selling value of land, I supposed the capitalisation of rent at 5 per cent, i.e. selling value = rent x twenty.

Keeping in mind the above, let us examine the examples in the table.

A shows a piece of land of the same kind as the marginal land, both plots being supposed to be agricultural soil fitted for corn growing.

The other sections show the different ways in which the definition of rent can be understood.

B follows Max Hirsch's statement. Its result is false; it is magnified by the greater application to the city plot; in the supposed rent there is a part which is wages and interest.

C, D and E are the different ways of comparing the productivity per area (per square yard) of both types of land from the same application to each. In C the common application is the best for the marginal land but is insufficient for the city plot. In D the best for the city plot is excessive for the marginal land. In E an intermediate

Type of land	Application (in shillings per year)	Area (square yards)	Annual Produce*	Annual rent (per square yard)	Land value (in shillings per square yard): rent x 20
A Field	20 (best)	1	3	$3 - 1 = 2$	40 (correct)
Marginal	20 (best)	1	1	0	0
B City	1000 (best)	1	60	$60 - 1 = 59$	1180 (too high)
Marginal	20 (best)	1	1	0	0
C City	20 (scanty)	1	7	$7 - 1 = 6$	120 (too low)
Marginal	20 (best)	1	1	0	0
D City	1000 (best)	1	60	$60 - 20 = 40$	800 (too high)
Marginal	1000 (excess)	1	20	0	0
E City	510**(scanty)	1	18	$18 - 11 = 7$	140 (too low)
Marginal	510**(excess)	1	11	0	0
F City	1000 (best)	1	60	$60 - 50 = 10$	200 (correct)
Marginal	1000 (best)	50***	50	0	0

\* Produce after recovering the value of the applied labour and capital.

\*\* Average of 1000 and 20.

\*\*\* 20 shillings per square yard, as in A.

amount is insufficient for the city plot and excessive for the marginal land. All these examples give false results because the best application for one type of land is not suited to the other.

In C the small application cannot make use of all the advantages of the city plot. It is like growing cabbages in a city centre. In D the excessive application to the marginal land does not allow the best results of the applied labour and capital to be obtained. It is like ploughing daily when once a week would suffice or planting too many cabbages too close together and spoiling them with too much manure. In E the application is wrong for both lands. It is like growing flowers in forcing-houses in the city centre and on the most distant fields, instead of building the forcing-houses in the neighbourhood of the cities or of the railway stations. Both results are low and their difference is also too low.

In order to subtract from the total produce of the city plot the produce that comes from the applied labour and capital we must know the produce of these two factors alone. This is the produce of the same application to marginal land. But if it is done to the same *area* of marginal land, as Max Hirsch says, this application will not be the best. Hence we must take as much marginal land as is necessary in order that the application of labour and capital be the best one. We can do this because, no matter how much marginal land we take, no rent is added to the result; on marginal land there is no rent.

Max Hirsch was misled by the aim of comparing the productivities of both kinds of land upon equal areas of the land. George did not commit this mistake, as we shall see by enlarging upon his definition. Thus: the rent of (any piece of) land is determined by the excess of its

produce (through its best exploitation) over that (greatest produce) which the same application (of labour and capital) can secure from (the most suitable area of) the least productive land in use (or marginal land). In this manner we understand it more precisely and we see that there is in it no error at all.

Another form of the statement of the law of rent is the following: "The rent of a certain piece of land (country, city, mine, etc.) is determined by the excess of the produce of the best application of labour and capital to it, over the produce which the equivalent amount of labour and capital can obtain in equal time from as much marginal land as their best application requires."

It seems to me that this is a good tool for both teaching and polemics.

#### EXPENSIVE SPACE

**F**OR eleven acres of building land known as The Timbers, at Rustington, on the West Sussex coast, George Wimpey & Co. have paid £127,000. The land is six miles from Worthing. There is outline consent for 108 houses and thirty-eight flats.

**A**T Stechford, Birmingham, some two-and-a-half acres zoned for residential purposes, sold for the British Railways Board and British Transport Hotels, realised £38,500.

**I**N Kent, £190,000 is being quoted for twenty-four acres, subject to confirmed planning permission, at Wrotham. The land is part of 133 acres, the remainder of Trosley Towers estate.