

CHAPTER VI.—INFLUENCE OF THE PRICE OF LAND.

Question 7 : To what extent, if any, has the rise in the price of land, during the past twenty years, contributed to the rise in the price of commodities ?

1. The majority of the witnesses examined stated that the rise in the price of rural lands which has occurred during the last twenty years has not increased the prices of the principal necessities of life produced by the farmer, as the prices for commodities are fixed by those ruling in the foreign markets to which New Zealand exports. The opinion of the Commission concurs with this statement. The total price of the factors of production is determined chiefly by the value of the commodities that are produced by their agency, and the price of land is no exception to the general rule. The produce of land is high not because land is dear, but land is dear because produce is high, and farmers compete for its use in order to get the benefit of the high prices. Rural lands.

2. The same principle applies to urban lands. The growth of population in our towns has led to keen competition for advantageous sites for business purposes, and the rental values of such sites have risen. The rents paid vary with the differential advantages of the several sites, and their amounts depend upon the extent of profitable business done by the occupiers of the shops, warehouses, factories, or offices on the sites. It cannot be said, generally speaking, that these site-rents directly affect the cost of living by increasing the price of the goods produced or sold in the premises erected on them. For the price of these goods is governed by the relation of supply to demand, and the price in the long-run just covers the expenses of producing that part of the supply which is produced at the greatest disadvantage. Every other part of the supply gives a surplus above its cost of production, which includes the normal rate of profits, and it is this surplus that constitutes the fund out of which rent is paid to the owner of the site. Rent is therefore a result and not a cause of the selling-price. It does not affect the demand, and it cannot affect the supply, because, if the price were lower, that part of the produce which alone provides it would still be produced. Of course, this line of reasoning does not apply to that part of the rent of business premises that may fairly be assigned as interest on the landlord's capital invested in the buildings and other improvements ; this "profit" rent is a part of the expenses of producing all the supply, and therefore any increase in it tends to raise prices ; but such increase may be independent of increases in site values only. Urban lands.

3. There is, however, one way in which the increase of rural-land values may slightly affect the cost of goods produced or sold in the towns. If land on the edge of expanding towns is suitable for agriculture, it will not be built upon unless it yields at least the agricultural rent, and if agricultural rent rises greatly over all the country, on account of the demand for the food products of the land, the prices of goods manufactured in the towns may be raised through the consequent limitation of their field of production. But this factor can have had little detrimental influence in New Zealand. Land suitable for several uses.

4. The increase in the price of land thus brought about by the higher price of its products has added to the total wealth of the community, but there is good reason for believing that this increase of land-values is creating a class of people divorced from the active cultivation of the soil, who devote a large proportion of their wealth to the pursuit of pleasure and luxury ; and this tends to the investment of capital in unproductive and anti-social industries—an evil perhaps more marked in other classes of the population than the landowners and farmers. There are other indirect ways in which the prices of land have added to the cost of living—*e.g.*, by the creation of a class of speculators whose existence and whose gain depends on transfers of properties at continually increasing prices. Modes of using the wealth obtained.