

CHAPTER 2 RENT AND THE LAW OF RENT

The term rent, in its economic sense—that is, when used, as I am using it, to distinguish that part of the produce which accrues to the owners of land or other natural capabilities by virtue of their ownership—differs in meaning from the word rent as commonly used. In some respects this economic meaning is narrower than the common meaning; in other respects it is wider.

The economic meaning of rent is different from the word as commonly used.

It is narrower in this: In common speech, we apply the word rent to payments for the use of buildings, machinery, fixtures, etc., as well as to payments for the use of land or other natural capabilities; and in speaking of the rent of a house or the rent of a farm, we do not separate the price for the use of the improvements from the price for the use of the bare land. But in the economic meaning of rent, payments for the use of any of the products of human exertion are excluded, and of the lumped payments for the use of houses, farms, etc., only that part is rent which constitutes the consideration for the use of the land—that part paid for the use of buildings or other improvements being properly interest, as it is a consideration for the use of capital.

Payments for products of human exertion are excluded.

It is wider in this: In common speech we speak of rent only when owner and user are distinct persons. But in the economic sense there is also rent where the same person is both owner and user. Where owner and user are thus the same person, whatever part of his income he might obtain by

If land having a value is not used, there is no rent actual but there is still rent potential.

When the user of land is also its owner, whatever part of his income he could obtain by letting the land to another is rent.

Thus, rent arises not from the capacity of the land, but from its capacity as compared with that of land that can be had for nothing. Very rich land yields no rent so long as there is other equally good land to be had without cost.

letting the land to another is rent, while the return for his labor and capital are that part of his income which they would yield him did he hire instead of owning the land. Rent is also expressed in a selling price. When land is purchased, the payment which is made for the ownership, or right to perpetual use, is rent commuted or capitalized. If I buy land for a small price and hold it until I can sell it for a large price, I have become rich, not by wages for my labor or by interest upon my capital, but by the increase of rent. Rent, in short, is the share in the wealth produced which the exclusive right to the use of natural capabilities gives to the owner. Wherever land has an exchange value there is rent in the economic meaning of the term. Wherever land having a value is used, either by owner or hirer there is rent actual; wherever it is not used, but still has a value, there is rent potential. It is this capacity of yielding rent which gives value to land. Until its ownership will confer some advantage, land has no value.¹

Thus rent or land value does not arise from the productivity or utility of land. It in no wise represents any help or advantage given to production, but simply the power of securing a part of the results of production. No matter what are its capabilities, land can yield no rent and have no value until some one is willing to give labor or the results of labor for the privilege of using it; and what any one will thus give depends not upon the capacity of the land, but upon its capacity as compared with that of land that can be had for nothing. I may have very rich land, but it will yield no rent and have no value so long as there is other land as good to be had without cost. But when this other land is appropriated, and the best land to be had for

¹In speaking of the value of land I use and shall use the words as referring to the value of the bare land. When I wish to speak of the value of land and improvements I shall use those words.

nothing is inferior, either in fertility, situation, or other quality, my land will begin to have a value and yield rent. And though the productiveness of my land may decrease, yet if the productiveness of the land to be had without charge decreases in greater proportion, the rent I can get, and consequently the value of my land, will steadily increase. Rent, in short, is the price of monopoly, arising from the reduction to individual ownership of natural elements which human exertion can neither produce nor increase.

If one man owned all the land accessible to any community, he could, of course, demand any price or condition for its use that he saw fit; and, as long as his ownership was acknowledged, the other members of the community would have but death or emigration as the alternative to submission to his terms. This has been the case in many communities; but in the modern form of society, the land, though generally reduced to individual ownership, is in the hands of too many different persons to permit the price which can be obtained for its use to be fixed by mere caprice or desire. While each individual owner tries to get all he can, there is a limit to what he can get, which constitutes the market price or market rent of the land, and which varies with different lands and at different times. The law, or relation, which, under these circumstances of free competition among all parties (the condition which in tracing out the principles of political economy is always to be assumed), determines what rent or price can be got by the owner, is styled the law of rent. This fixed with certainty, we have more than a starting point from which the laws which regulate wages and interest may be traced. For, as the distribution of wealth is a division, in ascertaining what fixes the share of the produce which goes as rent, we also ascertain

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The law of rent determines the price which, under circumstances of free competition, with the land owned by many different persons, can be got by the owner.

what fixes the share which is left for wages, where there is no co-operation of capital; and what fixes the joint share left for wages and interest, where capital does co-operate in production.

The accepted law of rent, which coincides with common sense, is that

The rent of land is determined by the excess of its produce over that which the same application of labor and capital can secure from the least productive land in use.

This law, which applies to all uses of land and all natural agencies, is self-evident.

Fortunately, as to the law of rent there is no necessity for discussion. Authority here coincides with common sense², and the accepted dictum of the current political economy has the self-evident character of a geometric axiom. This accepted law of rent, which John Stuart Mill denominates the *pons asinorum* of political economy, is sometimes styled "Ricardo's law of rent," from the fact that, although not the first to announce it, he first brought it prominently into notice³. It is:

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.

This law, which of course applies to land used for other purposes than agriculture, and to all natural agencies, such as mines, fisheries, etc., has been exhaustively explained and illustrated by all the leading economists since Ricardo. But its mere statement has all the force of a self-evident proposition, for it is clear that the effect of competition is to make the lowest reward for which labor and capital will engage in pro-

²I do not mean to say that the accepted law of rent has never been disputed. In all the nonsense that in the present disjointed condition of the science has been printed as political economy, it would be hard to find anything that has not been disputed. But I mean to say that it has the sanction of all economic writers who are really to be regarded as authority. As John Stuart Mill says (Book II, Chap. XVI), "there are few persons who have refused their assent to it, except from not having thoroughly understood it. The loose and inaccurate way in which it is often apprehended by those who affect to refute it is very remarkable." An observation which has received many later exemplifications.

³According to McCulloch the law of rent was first stated in a pamphlet by Dr. James Anderson of Edinburgh in 1777, and simultaneously in the beginning of this century by Sir Edward West, Mr. Malthus, and Mr. Ricardo.

duction, the highest that they can claim; and hence to enable the owner of more productive land to appropriate in rent all the return above that required to recompense labor and capital at the ordinary rate—that is to say, what they can obtain upon the least productive land in use, or at the least productive point, where, of course, no rent is paid.

Perhaps it may conduce to a fuller understanding of the law of rent to put it in this form: The ownership of a natural agent of production will give the power of appropriating so much of the wealth produced by the exertion of labor and capital upon it as exceeds the return which the same application of labor and capital could secure in the least productive occupation in which they freely engage.

This, however, amounts to precisely the same thing, for there is no occupation in which labor and capital can engage which does not require the use of land; and, furthermore, the cultivation or other use of land will always be carried to as low a point of remuneration, all things considered, as is freely accepted in any other pursuit. Suppose, for instance, a community in which part of the labor and capital is devoted to agriculture and part to manufactures. The poorest land cultivated yields an average return which we will call 20, and 20 therefore will be the average return to labor and capital, as well in manufactures as in agriculture. Suppose that from some permanent cause the return in manufactures is now reduced to 15. Clearly, the labor and capital engaged in manufactures will turn to agriculture; and the process will not stop until, either by the extension of cultivation to inferior lands or to inferior points on the same land, or by an increase in the relative value of manufactured products, owing to the diminution of production—or, as a matter of fact, by both

Put another way, ownership of land gives power of appropriating wealth in excess of what labor and capital could obtain on the least productive land in use.

There is no occupation in which labor and capital can engage which does not require the use of land.

processes—the yield to labor and capital in both pursuits has, all things considered, been brought again to the same level, so that whatever be the final point of productiveness at which manufactures are still carried on, whether it be 18 or 17 or 16, cultivation will also be extended to that point. And, thus, to say that rent will be the excess in productiveness over the yield at the margin, or lowest point, of cultivation, is the same thing as to say that it will be the excess of produce over what the same amount of labor and capital obtains in the least remunerative occupation.

The law of rent is but a deduction from the law of competition, resting on the fundamental principle that men seek to gratify their desires with the least exertion.

The law of rent is, in fact, but a deduction from the law of competition, and amounts simply to the assertion that as wages and interest tend to a common level, all that part of the general production of wealth which exceeds what the labor and capital employed could have secured for themselves, if applied to the poorest natural agent in use, will go to land-owners in the shape of rent. It rests, in the last analysis, upon the fundamental principle, which is to political economy what the attraction of gravitation is to physics—that men will seek to gratify their desires with the least exertion.

The law of rent is widely accepted although many writers seem to view it merely in relation to agriculture, while manufactures and exchange yield the highest rents.

This, then, is the law of rent. Although many standard treatises follow too much the example of Ricardo, who seems to view it merely in its relation to agriculture, and in several places speaks of manufactures yielding no rent (when, in truth, manufactures and exchange yield the highest rents, as is evinced by the greater value of land in manufacturing and commercial cities), thus hiding the full importance of the law, yet, ever since the time of Ricardo, the law itself has been clearly apprehended and fully recognized. But not so its corollaries. Plain as they are, the accepted doctrine of wages (backed and fortified not only as has been hitherto explained, but by considerations whose enormous weight will be seen

when the logical conclusion toward which we are tending is reached) has hitherto prevented their recognition⁴. Yet, is it not as plain as the simplest geometrical demonstration, that the corollary of the law of rent is the law of wages, where the division of the produce is simply between rent and wages; or the law of wages and interest taken together, where the division is into rent, wages, and interest? Stated reversely, the law of rent is necessarily the law of wages and interest taken together, for it is the assertion, that no matter what the production which results from the application of labor and capital, these two factors will receive in wages and interest only such part of the produce as they could have produced on land free to them without the payment of rent—that is, the least productive land or point in use. For, if, of the produce, all over the amount which labor and capital could secure from land for which no rent is paid must go to land owners as rent, then all that can be claimed by labor and capital as wages and interest is the amount which they could have secured from land yielding no rent.

Or to put it in algebraic form:

As Produce = Rent + Wages + Interest,

Therefore, Produce - Rent = Wages + Interest.

Thus wages and interest do not depend upon the produce of labor and capital, but upon what is left after rent is taken out; or, upon the produce which they could obtain without paying rent—that is, from the poorest land in use. And hence, no matter what be the increase in productive power, if the increase in rent keeps pace with it, neither wages nor interest can increase.

The moment this simple relation is recognized, a flood of light streams in upon what was before inexplicable, and

⁴Buckle (Chap. 11, "History of Civilization") recognizes the necessary relation between rent, interest, and wages, but evidently never worked it out.

Thus wages and interest depend not upon the produce of labor and capital, but upon what is left after rent is taken out, or upon the produce they could obtain without paying rent.

This explains the paradox of poverty.

Where the value of land is low, production may also be low, but wages high.

When productive power increases, if the value of land increases in greater ratio than productive power, rent will swallow up more than the increase, and wages and interest will fall.

All this is exemplified in actual fact.

seemingly discordant facts range themselves under an obvious law. The increase of rent which goes on in progressive countries is at once seen to be the key which explains why wages and interest fail to increase with increase of productive power. For the wealth produced in every community is divided into two parts by what may be called the rent line, which is fixed by the margin of cultivation, or the return which labor and capital could obtain from such natural opportunities as are free to them without the payment of rent. From the part of the produce below this line wages and interest must be paid. All that is above goes to the owners of land. Thus, where the value of land is low, there may be a small production of wealth, and yet a high rate of wages and interest, as we see in new countries. And, where the value of land is high, there may be a very large production of wealth, and yet a low rate of wages and interest, as we see in old countries. And, where productive power increases, as it is increasing in all progressive countries, wages and interest will be affected, not by the increase, but by the manner in which rent is affected. If the value of land increases proportionately, all the increased production will be swallowed up by rent, and wages and interest will remain as before. If the value of land increases in greater ratio than productive power, rent will swallow up even more than the increase; and while the produce of labor and capital will be much larger, wages and interest will fall. It is only when the value of land fails to increase as rapidly as productive power, that wages and interest can increase with the increase of productive power. All this is exemplified in actual fact.