

CHAPTER XXIV.

RENT.

250. THE ordinary use of the word **Rent** is so different from its meaning in political economy that some confusion may be avoided by noting this difference. Persons speak popularly of paying a "rent" for a house, or a store, or a warehouse, but a large part of such a payment is really a return for capital invested in the buildings. The return to capital is termed interest, not rent. In the economic sense, however, rent is the **payment which an owner receives for the use of natural agents**, and these "natural agents" include land, whether arable or timber land, mineral deposits, water-power, or land peculiarly suited for building purposes. Rent is a payment, not for the use of another's capital, but for the use of natural agents belonging to another. Rent is possible because natural agents are not unlimited in quantity, as air or sunshine is. As soon as certain kinds of land are in supply less than the demand, a price can be exacted for their use by the one in whom ownership is vested.

We must now try to find the general principle which regulates the amount of rent that each owner can take from the produce as his share. For this purpose we shall speak only of land, and of agricultural land; for the principles thus found will also be applicable to other natural agents.

251. The whole theory of rent, which forms one of the

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fundamental parts of political economy, is based upon the **law of diminishing returns** from land. If we accept that physical law, affecting the powers of the soil, we must logically accept the doctrine of rent. On every farm in the country the law of diminishing returns is being daily exemplified; for every farmer knows that, if he were to double the capital and labor on each acre in cultivation steadily, he could not each time double the produce. The law in question is not based upon what men may be able or willing to do, but upon the inherent physical capabilities of the soil which Nature has given us. Private dispatches are sometimes written in invisible ink, which, when exposed to certain treatment, reveals the words of the message; in a similar way, the soil, by its very nature, is required to reveal the law of diminishing returns, and the process which reveals it is the **demand for an increased amount of food**. This increased demand for food comes with the growth of population. So we see the connection of the various forces leading up to rent: (1) an increase of population, causing a demand for more food; (2) the demand for more food, which brings to light the fact of the diminishing returns from land; (3) consequently, because the best grade can not produce unlimited food, this explains why different grades of land are in cultivation at the same time. Whenever this situation is created, rent will exist, as we shall soon see.

252. Lands are of **varying degrees of productiveness**. They vary not only in their power of producing different articles, such, for example, as wheat and tobacco, but they do not all produce the same thing equally well. No state, county, township, or farm is like any other state, county, township, or farm. The slope, drainage, constituents of the soil, vary from field to field even in the same farm, so that some lands afford a large return to labor and capital, while others do not; the former are **superior**, and the latter are **inferior**, soils as regards fertility.

Two pieces of land, which are of equal fertility, as regards their natural productiveness, might also be so affected by **situation** that one would be classed as superior and the other as inferior. Suppose that one piece, A, were situated near a railway station, and another, B, twenty-five miles away from any market, and that each parcel of land produced one hundred bushels of wheat. In the case of B, the value of ten bushels might be spent in carrying the produce to the station near which A was situated. The farmer of B would be no better off than if he cultivated land close by A, which produced but ninety bushels. The cost of transportation enters into the outlay of producing wheat on B, so that, although equal in natural productiveness, **B is really inferior to A by situation**; consequently we may speak of superior and inferior lands, although this difference of grades may be due solely to situation.

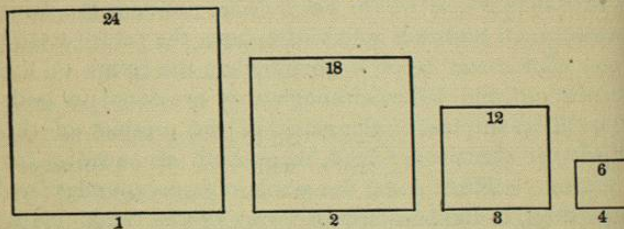
253. It has been already explained (in section 139) that there can be but one price, or value, for grain, although it is grown on soils of different degrees of fertility. It was shown that the demand of increasing numbers for food raises the price until it is sufficient to repay the farmer for producing more food from poorer soils. It is more expensive to grow grain on the inferior soils, and yet the demand for food is not satisfied by the quantity produced on the better grades (and sold at a price which is low, but still enough to reward the sacrifices incurred on rich soil). **The grain produced on both the superior and inferior soils is needed**, and that is the reason why the price was forced up until more was supplied from inferior land. The people on the rich land, however, growing grain at less cost, might be willing, some one may suggest, to sell their grain for a less price than that necessary for those cultivating inferior soils. They might, it is true, and so a millionaire might give away his fortune to the first poor man he met, but such things are rarely done.

If the price were lowered by such underselling, the cultivators on the inferior lands (whose cultivation is necessary to supply the food for the whole community) would not receive the usual returns for the cost of production, and they would cease to be worked. This would cut off the supply, and there would not be enough food for all. Thus an urgent demand would be created, and the price would be instantly raised, and would be kept permanently at a rate which would repay the farmers for cultivating the poorer soils. The value of this class of commodities is, in short, regulated by the cost of production on the poorest soils in cultivation (Chapter XIV); the cultivator of rich soils gets just as high a price as the cultivator of poorer soils.

254. When different grades of land are in cultivation *at the same time* (producing the same article), the cultivator of the richer soil receiving the same price per bushel as the cultivator of the poorer soil, the former will get more for his work and capital than the latter. The same capital and labor produces on the rich land more bushels per acre than it does on the poorer land; and, as the price at which each bushel is sold is the same, the return to the former capital and labor is greater than the return to the latter capital and labor, although they are equal in both cases. This surplus of the value of the product of the richer over the poorer land, when both are needed for cultivation, is **Rent**; and the whole of it goes, under free competition, to the landlord or owner of the land. Suppose one man, A, to be using the same amount of capital and labor in agriculture as another man, B. Although working on inferior soil, B gets enough to pay him the customary returns for his sacrifice in production (the main part of which is interest on his capital and wages for his laborers in working the land). A, however, having rented a better piece of land, gets more of a return than B. Now, if B's return is the sum which one would ordinarily ex-

pect for the given amount of labor and capital here employed under free competition, A can not hope to get more. The owner can say, "B shall have the land. All the surplus over the sum which repays him for his sacrifices in production he will pay to me. For he goes on working now for a sum just equal to the latter amount; he gets interest on his capital and good wages for his labor, and he could not do better than that in any other business." Just so long, then, as there is any one, like B, who will take the richer land and agree to pay the landlord the excess above the sum which repays him for his sacrifices in production, the amount of rent on that grade of land will just equal the excess of the value of its product over that of the poorest land which is cultivated to meet the demand of the community. The law of rent was first stated and applied in a clear way by Ricardo at the beginning of the present century. It is, therefore, commonly called Ricardo's law.

255. This law of rent is capable of simple illustration. Suppose we have four grades of land which pro-



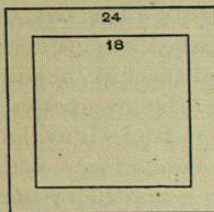
duce, respectively, 24, 18, 12, and 6 bushels of wheat whenever a fixed amount of capital and labor is expended on each. At first suppose that the demand for wheat can be wholly supplied from the first grade when the price is \$1 a bushel, so that \$24 is the return necessary to satisfy the labor and capital. As yet the other three grades can not be cultivated, for the second will yield only 18 bush-

els, or \$18, while \$24 is needed to pay the sacrifices of production. Whenever, by an increase of population, more wheat is needed than can be grown on the first grade, the price will go up under the increasing demand until more can be supplied from the second; but the second will not be cultivated until the same amount of capital and labor, which, when employed on the first, received a return of \$24, will also receive a return of \$24 when employed on the second. So 18 bushels must sell for \$24, and the price must rise to \$1.33 $\frac{1}{3}$. Now, we have two grades of land in cultivation at the same time, producing the same grain, and the better of the two must, therefore, pay a rent. The price now being \$1.33 $\frac{1}{3}$, the 24 bushels grown on the first, by the same amount of labor and capital which produces 18 bushels on the second, will have a value of \$32. But we have supposed that \$24 was sufficient to pay the sacrifices of production on the first grade, so that land of the first grade is yielding, at the higher price, \$8 more than the usual returns to labor and capital. Then the first grade can pay \$8 of rent, and yet the capital and labor will be as well paid as that employed on the second grade of land. The payment of rent equalizes the position of the two farmers.

Then, if the price should rise to \$2 a bushel, the third grade will return \$24, and it will come into cultivation; but at that price the first grade will return \$48 and the second \$36; so that the first grade will pay in rent \$48 - \$24, and the second grade will pay in rent \$36 - \$24. In a similar way, if the price should ever rise to \$4, the fourth grade would pay the necessary expenses of production, \$24, and the first would yield a surplus over the fourth of \$72, the second of \$48, and the third of \$24.

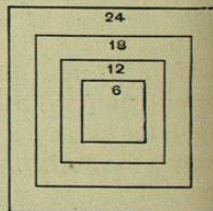
256. It might be said, however, that instead of cultivating new land more capital and labor might be put upon

the first grade. But this will follow exactly the same principle as that just explained. Suppose that a second application, or "dose," of labor and capital were made on the first grade, and that it yielded only 18 bushels. There are now two "doses" of labor and capital on the best



land, the first yielding 24 bushels and the second yielding 18 bushels, or, altogether, $24 + 18$ bushels. But this second "dose" would not be given unless it received a sufficient compensation, which, again, we may suppose to be \$24. When the price goes up to \$1.33 $\frac{1}{3}$, so that 18 bushels will yield \$24, the second

"dose" will be applied, and not before. The first "dose," however, still yields 24 bushels, and at the higher price returns \$32, or a surplus of \$8 over the second "dose." Therefore, the first application of labor and capital can pay a rent of \$8, and yet receive as much of a compensation as the second "dose." In the same manner, successive "doses" can be applied to the **same piece of land**, as well as to different grades of land, as shown in the annexed figure. But the third "dose" will be applied only when the price has gone up to \$2 and when its 12 bushels will sell for \$24, and the last "dose" will be applied only when the price has risen to \$4 and when its 6 bushels will sell for \$24. The basis of the



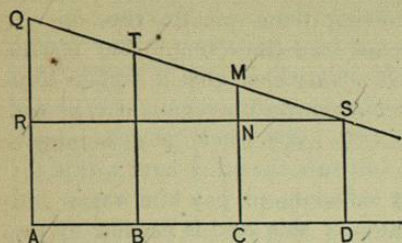
whole theory is the law of diminishing returns to the application of equal amounts of labor and capital; and it makes no difference whether these successive applications are made on the same land or on different grades of land.

257. When a farmer is looking over a farm which he intends to rent, he will consider how much each field can

produce. He will estimate his expenses as nearly as he can, and he can offer as rent the surplus of the produce over these expenses (which include wages and interest on his working capital). Land lying within the limits of the farm, which will only pay for the sacrifices of production, will have no effect in fixing the rent; for they do not offer any surplus which can be paid as rent. The farmer will consider those fields only which give a surplus over the wages and interest, and, considering them alone, he will count up the amount of rent. But when he gets possession of the farm he will cultivate the other land within the farm which yields only sufficient to pay him wages and interest; for the cultivation of this land is needed by the population, since the price would not have advanced sufficiently to warrant its cultivation had not its produce been demanded by the community. This land which pays no rent the farmer will work for a very good reason. If he has any capital to invest, he can put it into the cultivation of this kind of land, because it returns him, besides wages, the usual interest, and that is all he could get if he invested his capital in any other occupation, and it is all he gets on any of his land, even on the richer land for which he pays rent; for the rent takes off all the surplus. So that almost every farmer who leases land finds some fields in his farm **on which he pays no rent**, but which he will cultivate because they return him the current rewards for his sacrifices. This kind of land is conveniently termed the **margin of cultivation**; for land poorer than this will not be cultivated for a profit, and this kind of land marks the poorest quality, whose cultivation is rendered possible by the existing prices of agricultural products. If the price rises, poorer land can be cultivated; or, as it is said, "the margin of cultivation descends."

258. The margin of cultivation gives us a means of estimating the amount of rent. If, on the horizontal base line A D, we erect perpendiculars at A, B, C, and D, in

height proportional to the returns from applications of equal amounts of labor and capital on four different grades of land (or from successive applications of equal amounts of labor and capital on the same land), S D will represent



the return to the last application, and S D will be the product of that land which yields a sum equal to the current rewards for sacrifices in production but pays no rent.

Since S D is a sufficient remuneration, M C will be more than a sufficient remuneration by just the amount M N cut off by the line R S drawn through S parallel to A D; and so on with B T and A Q. Thus the whole product of the farm which contains these four grades of land is represented by the whole area contained by A D S Q, the whole of the various expenses of production by the area A D S R, and consequently the part of the produce which can be paid in rent to the owner is represented by the area R S Q (that part above the line R S). From this illustration we may understand the statement of the law of rent. **The rent of any piece of land is the excess of its produce over the produce of that land which just repays the current rewards for the sacrifices of production.**

259. We are now in a position to accept as true what at first seems to be a startling error. We hear a great deal about the incomes of landlords and the immense sums paid to them as rent by tenants. The sums are no doubt very great; but **rent does not affect the price of agricultural products** in the least. No matter what the rent is, the price of wheat or of the bread made from the

wheat will not be affected thereby. Rent does not affect the price. On the contrary, price affects the rent; price is the cause and rent is the effect. It has been already explained (section 139) that the value and price of grain are fixed by its cost of production on the worst land which is cultivated in order to supply the quantity needed; and we have just seen that this land (the "margin of cultivation") pays no rent. It is very clear that the price is determined on land which pays no rent, and, if that land pays no rent, it is evident that rent can have nothing to do with the price.

The proposition that it is the price which governs the rent follows from what was said in a previous section (251). The demand for more food raises the price. This makes it necessary to cultivate inferior soils. The further down cultivation is forced to poorer and poorer soils, the larger the surplus of the better lands over the poorest in cultivation, and consequently the larger the amount of rent which can be paid. In the figure in the last section, if S D were shorter, the line R S would be lower down, and this would increase the area R S Q, which represents the rent. Rent, then, does not affect the price of agricultural products, but the price affects the rent.

On the land which pays no rent but which fixes the price of the product, the shares of labor and capital will be distributed independently of rent. Rent, then, does not affect the value of the product to be divided between labor and capital. The sum paid for rent is in proportion to the superiority of the land used by the farmer, and this places all farmers on an equality. We now see why it was possible without error to pass by the share of rent (in section 187) before settling the shares of labor and capital.

260. We have thus explained how an increase of population demanding more food brings the law of diminishing returns into operation, and, by requiring the cultivation of

different grades of land, at the same time creates rent. It now remains to state what the **forces are which counteract the tendency of rent to increase.** In brief, they are those which we saw before (section 42) counteracting the law of diminishing returns. Any improvements in cultivation, in machinery, in intelligence, in chemical knowledge of the soil, in methods of transportation, etc., which check the law of diminishing returns, will help to keep rent from rising. But every such gain which cheapens food only makes possible a larger population. The tendency of population to increase is so strong that cheapened food is only a permission for further increase. The discovery of new lands, the cheapened cost of transportation by railways and steamers from the Western States to England, has enabled England to maintain a larger population than could otherwise have been possible; thus **the growth of population has generally been manifest as soon as improvements come,** and has kept agricultural products from falling (see Chart IV). The opening up of new lands by railways and the progress of improvements in agricultural machinery ought to have materially cheapened food for our people; but this has been prevented by the steadily advancing tread of an increasing population. As fast as improvements lower prices the growth of population raises them.

261. Where the farmer is also the owner of the land, as is generally true of the United States, the principle by which the rent is ascertained holds true all the same. In considering the share which goes to the landlord it makes no difference as to its amount whether the farmer pays it to another person as landlord or pays it to himself as landlord. **If the farmer is also the landlord he pays rent to himself,** and may also receive a return for his wages and for the use of his working capital. Whenever the return is greater than will pay the rewards of sacrifices in production, the excess is rent to whomsoever it is paid.

The doctrine applies to any land in any country where the law of diminishing returns is in operation. In the United States, however, as regards wheat, it may be said that we have as yet scarcely occupied all our best grade of land; but the time will soon come when that can no longer be said.

262. The general principle of rent, as thus explained, applies also to natural agents of any other kind than agricultural land, such as water-power and mineral deposits. But we will confine ourselves here to one other case, the one in which land is used for building purposes. The payment for such land is called **ground-rent.** No one, of course, would let land for building purposes, unless the builder would offer more rent than the land would yield when used for agriculture; that is, the ground-rent must always be more than the agricultural rent of the same land. But the best business sites in the closely-settled centers of great cities are, in their nature, limited in quantity, and bear a very high price. A good situation gives the opportunity to sell goods rapidly, and it is much sought for; but, on the outskirts of a town, the land will not be so valuable for building purposes. On the basis of desirability for buildings, land in a town or city can be arranged on a graded scale, from the land which pays a fraction more than agricultural rent to the land which contains the largest warehouses, or dry-goods stores, or banks. In proportion to its desirability will it obtain a higher rent, and this may be raised to any sum.

263. It is to be observed that, in stating the process by which the amount of rent is to be ascertained, we have gone upon the supposition that **competition is free.** By this we mean that the owner is trying to get the utmost he can in rent, and that there are farmers competing together for the land, so that the one who gets it is obliged by competition to give in rent all that a competent farmer could pay. It is to be understood, however, that, while the eco-

nomic rent is thus to be ascertained, the actual rent may be less or more than this. A landlord may not wish, or public opinion will not permit him, to exact the whole of the surplus which we have explained as rent; and, on the other hand, tenants may be ignorant, or may be overreached by the landlord or his agent. A farmer, also, may have taken a lease for a long term of years at a fixed rent in money, and when grain falls in price he gets less for his produce, but is under an obligation to pay the same rent as before. In such ways a farmer may suffer so long as he holds the lease, while the landlord may be protected from a loss which should fall wholly on him. In all such cases, although there are modifications in the practical operation of the principle, the principle is still there; and because of its existence only are we able to know whether the tenant or the landlord is getting his proper share.

264. Exercises.—1. When a ship is chartered for a voyage, should you say that rent is paid for its use?

2. Before the pilgrims landed at Plymouth, is it likely that the Indians paid rent for land? Give reasons for your answer.

3. It is said that a seed of grain, if planted, will reproduce many of its kind. This is true. Then why is there any limit to the amount of grain which can be grown? Is land necessary to the planting? Is suitable land unlimited? Mention, if you can, any piece of land you know of which you can have for the asking.

4. Which lands would you say were the superior lands for wheat-growing: those in Massachusetts or those in Minnesota and Dakota? Little or no wheat is grown in the former, and yet Massachusetts is much nearer European markets.

5. If it is cheaper to grow wheat in Dakota than in New York and to send it to Europe, can it be said that the railways are hostile to the interests of farmers in the West?

Is it not also for the interest of the railways that grain should be sent to Europe in order that they may have freight to carry?

6. Why can a land-owner exact rent?

7. Why should a tenant be satisfied with merely his wages and interest on his capital? Is a cabinet-maker satisfied to get merely this for his table?

8. In section 255, after grade four was in cultivation, what would happen if a new and large amount of land as good as grade one were suddenly discovered, or reclaimed, close by? Would the price fall? Would it be cheaper to grow wheat on grade one than on grade four? If so, would rent fall?

9. Why does the "margin of cultivation" change with changes in price?

10. If the farmer were to keep the rent, instead of paying it to a landlord, would the price of grain be lowered? What controls the price? Is grain any lower when the farmer is also owner and pays rent to himself?

11. Why is it that land becomes more valuable as a town grows in size?

12. Did the man who owned a farm on which a city was built grow rich by producing anything? Was it his work that added value to the land?