

competition, with a wholly beneficial result. The tenant and landlord, being substantially on an equality as to intelligence, enterprise and freedom of movement, seek each his own interest, yet without injury to the other.

**269. English Rents.**—When, however, we reach England, we find a new force entering actively to influence rents, all on the side of the tenant. Here the sentiment is universal that there are classes which, by reason of wealth, education, and social position, are bound to do and to forbear much, out of regard to the interests of classes deemed to be permanently and hopelessly weak.

The gentleman must never forget, in dealing with his servants, his laborers, his tenants, and even in some degree his trades' people, that he is dealing with inferiors and dependents, who are, in a sense, under his protection, who can not easily defend themselves against encroachment or fully assert their own interests, and that, in consequence, he is bound to act somewhat differently, it may be very differently, from what he would were he dealing with his equals.

But it is in regard to land that this sentiment operates with the greatest force. It would be impossible for an English landed proprietor to feel that freedom in regard to raising rents which characterizes the action of an American landowner. A gentleman there who should undertake to force up rents, acting on the principle that, if his present tenants could not or would not pay his price, he would find others to do it, would feel the lash of public indignation descend on his back till life was made a burden to him. Instead of gaining increase of style and state through an enlargement of his rent-roll thus obtained, his social standing would be destroyed.

With public sentiment thus acting strongly and steadily in restraint of the natural impulses of the landholding class, we should look to see a divergence of actual from theoretical rents, all on the side of the tenant's interest; and such, indeed, we find to have been the case down to the time when, perhaps ten years ago, American competition began to operate with prodigious and altogether unprecedented force. "The rent of agricultural land," wrote Prof. Thorold Rogers, "is

seldom the maximum annual value of the occupancy; in many cases is considerably below such an amount."

**270. Customary Rents on the Continent of Europe.**—On the Continent of Europe, rents are, in general, not determined by competition, but by custom, to which Mr. Mill has assigned the same beneficent function in economics it has always performed in the sphere of politics, as "the most powerful protector of the weak against the strong." In Switzerland, France and Italy, rents were formerly fixed almost universally by the custom of the country, at a certain definite portion of the produce of the land. This species of tenure, known as the Metayer tenancy, has been fully recognized as giving to the peasantry the use of land at less than the maximum rents, as determined by the application of the purely economic formula. So strong is custom in protecting the tenant's interest, in these countries, that oftentimes it happens that, where cities have sprung up during the continuance of a family upon the soil, giving a local market for produce, and, by consequence, raising prices, the landlord, even in admitting a new family to the estate, does not attempt to exact a larger share of the produce.

"A proprietor," says Sismondi, writing of Tuscany, "would not dare to impose conditions unusual in the country; and, even in changing one metayer for another, he alters nothing of the terms of the engagement."

**271. Rents in Ireland.**—We have seen how far actual may be made to diverge from theoretical rents, all on the side of the tenant's interest, by the force of public sentiment. Let us now turn to a country where, in the time of which we are to speak, the population was not homogeneous; where prejudices of race and religion had engendered animosities that descended from generation to generation; where no friendly public opinion stood guard over the interests of a peasantry whose improvidence concurred with the greed of the landlord class in exciting a fierce and unrelenting competition for the occupancy of the soil.

The story of the wrongs done to Ireland is so familiar that it is needless to enter into details to show why it was that in



Ireland nothing intervened between landlord and tenant to break the force of competition. It was not merely that the two classes were of different races, of different religions, and in some degree also of different speech. The confiscations and colonizations of Elizabeth, the wars of Cromwell, and lastly the Penal Code, of which the temperate Hallam says, "to have exterminated the Catholics by the sword, or expelled them, like the Moriscoes of Spain, would have been little more repugnant to justice and humanity, but incomparably more politic"—these were the prime causes which had engendered antagonisms and animosities such as have rarely, in modern times, divided the population of any land.

272. In addition hereto another and most potent cause contributed to the severity with which rents were exacted. This was absenteeism, a great part of the soil being owned by landlords who resided in England and transacted their business through local agents, or through "middlemen," who assumed the estimated rental of large estates and wrung from the peasantry whatever they could.

By a kind of natural selection, out of these agents and middlemen came to be developed a distinct species of social animal, peculiarly fierce and cunning, of preternatural acuteness to search out every possible occasion for fresh exactions, with heart of flint and face of brass. Only men with a natural aptitude for exaction, distraint and eviction were selected for such a work; years of practice made them perfect in the arts of extortion, while the consciousness of being despised and hated to the point of frenzy choked every casual thought of pity, and made absolute heartlessness both a professional virtue and a condition of self-preservation.

Such was the situation in Ireland, on the part of the landlord class, furnishing all the conditions necessary to a rigid and relentless enforcement of rent, up to the economic maximum—*i. e.*, to the extent of giving to the owner of the land the entire surplus produce above the cost of cultivation on the poorest soils.

273. How was it on the side of the peasantry? Were they prepared to supply the conditions which should prevent

competition from becoming disastrous, destructive? Unfortunately, the peasantry of no country in Europe were less fitted to enter upon such a struggle with the landlord class. Sanguine, improvident even to recklessness, the Irish people clung the more closely to the land the more miserable their lot; multiplied at a rate inconsistent with the capacity of the soil for providing subsistence, and competed among themselves for the occupancy of smaller and continually smaller parcels with a passionate eagerness. Had it been a stationary population, like that of France, which entered on this struggle for the fruits of the soil, the peasantry might have had some chance; but, with a population at least fifty per cent. beyond the capabilities of the soil to support, as the art of agriculture was then practiced, while every year largely increased the number of eager, penniless competitors, misery could hardly fail to result.

In the situation described, it was a matter of course that rents were advanced to the full limit allowed by the law we have stated. But there was more than this and worse than this. Rents were demanded by the agent, or middleman, rents were even offered by the peasantry in the eagerness of their competition, in excess of the economic maximum; in excess of what could possibly be paid; in many cases in excess, incredible as it may seem, of the whole annual produce of the soil.\*

274. But, it may be asked, if the tenants could not pay the rents, what harm to promise them? The landlords clearly would be disappointed; but how would the tenants suffer?

The injury done to the peasantry through this cause was threefold.

First. The whole possible produce above the bare necessities of subsistence, belonging to the landlord, the tenant had little interest in the crop or in keeping up the productiveness

\* Cottier rents are nominal in pecuniary amount, because these rents are fixed so high that it is impossible for the cottiers ever to pay them. The nominal amount of the rent far exceeds the whole produce which the land would yield.—H. Fawcett, "Pol. Economy." This statement is probably somewhat too sweeping.



of the land. Having nothing to hope for, and being in so bad a plight that there was nothing but eviction to fear, all inspiration died out of the cultivation of the soil. What was done was always the least and the meanest that could be done.

Secondly. The promise of excessive, and indeed impossible, rents kept the tenant always in debt to his landlord. Hopeless debt differs little from slavery. The Irish cottier lived by the breath of the agent or the middleman.

Thirdly. The joint effect of the causes described was continually to lower the standard of living, and consequently the cost of cultivating the no-rent land, or lowest grade of soils, by making the peasantry reckless regarding the increase of their numbers.

**275. Effects of Unequal Competition.**—In the foregoing description of the state of the Irish tenantry prior to 1844, we have an illustration of the results of an unequal competition. That same force which in the United States, operating upon an intelligent, alert, active, aggressive population, under equal laws, produces effects only beneficial, in Ireland, under the conditions recited, produced disaster.

**276. Actual vs. Theoretical Rents.**—We see, then, that practically there may be three classes of cases in respect to rent.

First. Where, under active competition, with both parties substantially on an equality in respect to intelligence, alertness and freedom of movement, with no laws or habits or sentiments opposing the exaction of all which any thing that is the subject of bargain and sale may be worth, rents, as in the United States, conform nearly to the Ricardian formula.

Second. Where, among a population presenting wide differences of wealth and intelligence, and perhaps, also, of rank and political power, sentiments of personal kindness and mutual regard between landlord and tenant, and a strong authoritative opinion throughout the community respecting the obligations imposed by the ownership of property, especially of landed property, serve, as in England, and in many

countries of the continent of Europe, to reduce the pressure of the landowning upon the tenant class; making the landlord slow to seek occasions for raising rent; reluctant in forcing matters with the tenant to extremity, and altogether unwilling to proceed, in the case of a decent, well-meaning tenant, to distraint and eviction. Hence it comes about that rents vary widely from the Ricardian formula, always on the side of the tenantry.

Third. Where, with a tenantry ignorant, improvident, perhaps reckless in respect to family increase, and by consequence unable to offer effective resistance to an acquisitive, aggressive treatment of the question of rents, little in the way of sentiments of personal kindness on the part of landlords, and nothing in the way of an authoritative public opinion, enters to restrain the impulses which tend to advance rents. Here we have a result of ultimate injury to the economic interests of both parties and of the entire community.

**277. The Rent of Pastures.**—We have thus far spoken only of the rent of arable land. We have taken this first, not only because it is most important, so far as the mere amount involved is concerned, but also because the principles governing rent can be here most easily discerned. If we have done our work well, there will be little difficulty in applying the principles discovered to the rent of pastures, water privileges, building lots, mines and wood lots.

We have, throughout the foregoing extended illustration, assumed the existence of a considerable body of no-rent, arable lands, furnishing the base-line from which the rentals of the superior lands are respectively measured. To a certain extent this assumption corresponds to the facts of agriculture. More commonly, however, those lands whose net productiveness is so low that they could only be cultivated on the condition of paying no rent, are turned into pasture or grazing land. We might, therefore, say that, in many agricultural regions, the base-line for ascertaining rents, is furnished by a certain grade of pasture-lands, large tracts of which would yield but a scanty subsistence to a few cattle or sheep. Then come the more valuable pastures, which pay an appreciable



rent, and, parallel with these, arable lands of moderate fertility, paying, also, an appreciable rent.

As we go upward in the scale of fertility, lands may be transferred from grazing to tillage, or from tillage to grazing, according to the demand for animal as compared with the demand for vegetable productions, at the time prevailing in the local market, or according to other conditions which we need not enter into here. Arable land is, also, often turned into pasture for the purpose of allowing it to recuperate in respect to certain properties of the soil which have been unduly drawn upon by the crops of previous years.

While, thus, a large part of the lands of any agricultural district may be used interchangeably for tillage and for grazing, it seldom happens that the best lands are used at all, or, at any rate, for more than the briefest period, as pasture. Generally speaking, the poorest lands are always used as pasture, the richest lands are always cultivated excepting, only, during intervals required for recuperation. It is in respect to the intermediate grades of soil that the alternation referred to takes place. The principle which determines the rent of pasture lands is the same as that with which we have already become familiar through our discussion of rent in its application to arable lands.

**278. The Rent of Water Privileges.**—Water privileges have three uses: first, for power, in connection with saw-mills, grist-mills, cotton-factories, etc.; secondly, for the supply of water, for drinking, washing, and other domestic purposes, to cities and towns; thirdly, for the irrigation of land, for the purposes of agriculture. The volume of water, the convenience of its application to the purpose for which water is, in the specific instance, required; proximity to the market, that is, the place where the water is to be used, these are the principal considerations which determine the productiveness of water-privileges for the purposes of rent. For the supply of cities and towns, the quality of the water also becomes an element of importance.

Productiveness being thus estimated, there are all degrees of productiveness among water privileges. There are the

no-rent privileges, which, by reason of distance, or inconvenience of application, or of insufficient or irregular flow, are not used at all, or only used on condition that no compensation is exacted therefor. Above these, are found low-rent privileges and high-rent privileges, the measure of rent being the degree of productiveness.

**279.** An instructive illustration of the relation of monopoly to value is often afforded by the action of water-power companies, in regulating the prices they charge for power, according to the price of coal. In, for example, a given textile manufacturing city of New England, if coal can be delivered at four dollars a ton, the water-power company sells to a cotton or woolen-mill the right to take water sufficient to create (by its fall through a given number of feet), one-horse power, for, say, \$24 a year, that amount representing the estimated cost of maintaining one-horse power, throughout a year, by the consumption of coal, at four dollars a ton. Should the price of coal fall to, say, three dollars, the water-power company would readjust its charge to meet the changed conditions of competition with steam.

Within the limits thus determined, the price of water-power is a monopoly price, being entirely irrespective of what it cost the company to acquire its rights and construct its works, and of what it may cost to keep up its service. To that monopoly, however, a limit is set by possible competition with steam-power.

**280. The Rent of Building Lots.**—The rent of building lots is determined by the principles already set forth. There are no-rent building lots in abundance. Every township has its squatters whose cabins, placed out of the way, on worthless land, pay no rent. Even in the neighborhood of large cities, shanties are perched on the rocks without objection from owners of land which, in another twenty or fifty years, may bear a high rent.

But something more is wanted in the case of a building, than ground to stand upon. The building must be placed with reference to its uses; and it is the productiveness of the lot in that respect which determines the rent. Among build-



ing lots that bear a rent, the minimum may be said to be determined by the value of land for the purposes of agriculture. A man leases a hundred acres of arable land, of uniform quality, for \$500, a year, and places his house upon some convenient spot, occupying, with barns and sheds, half an acre of ground. The rent of this building lot is \$2.50 a year. If he were a market gardener near a large city, the rent of the lot so occupied might be \$25. If, on the other hand, he were a market man instead of a market gardener, he might pay \$50 for the rent of the ground on which to build his cottage in the suburbs of the city, and five times that sum as the ground rent of his little shop in the heart of the city. If a banker, he could better afford to pay \$2,000 or perhaps \$5,000 ground rent on State Street, or Wall Street, or Lombard Street, than occupy premises half a mile away were he permitted to do so for nothing.

The productiveness of land occupied for the purposes of manufacture or trade, has reference to the number of persons passing through the street, or to the proximity of water-privileges, or wharf-privileges, or railroad stations, or to various other facilities for either doing a greater amount of business with the same capital, or for saving expenditure upon a given amount of business. Such lots being limited in number, yet held by competing owners, their rent conforms closely to the Ricardian formula. In regard to this kind of rent, competition is, if not perfect, at least very active on both sides. No favor is shown or asked; the two parties to the bargain are regarded as equal. The landlord gets all the land will bring, if not from one tenant, then from another. The tenant expects to pay all that any man will be willing to give for the commercial advantages of occupying the ground.

**281. The Rent of Mines.**—The rent of mines is not governed wholly by the economic law of rent which, as stated (par. 253), has reference to the native and *indestructible* powers of the soil. Under proper care and husbandry, cultivation does not exhaust the soil. With rotation of crops, with annual manuring and an occasional season of rest, such as are provided for in most English leases, the land returns to its

owner, or his representative, after 30, or 50, or 99 years, with unimpaired virtue. The enjoyment of water privileges does not exhaust the capacity of the river. The occupation of the ground for a generation does not contract the surface available for the same or a different use by another generation.

By the very nature of such deposits, the enjoyment of mining privileges diminishes the sum of the mineral in existence. The mine may be "worked out" in ten years or in twenty or in fifty, and nothing but an ugly pit be returned to the owner, at the expiry of the lease. The rent of such properties is not, therefore, regulated by the Ricardian formula, without modification. The rent must be increased sufficiently to compensate for the ultimate exhaustion of the deposits: the destruction of the value of the estate. Otherwise, the rule of rent for these properties is the same as in the case of other natural agents. The chief elements, here, in determining productiveness for the purposes of rent, are the quality of the product, the extent of the deposits, the depth of working, the distance from a market.

There are, in the United States, vast deposits of coal, for instance, near the surface, not far from a market, which will not pay for working, even if no rent be exacted, because the quality is poor, though the coal will burn, will give out light and heat, and, if delivered at the furnace free of cost, would be worth using.

There are other deposits of coal, of excellent quality, which will not pay for working by reason of the thinness of seams, or their narrow extent laterally. There are, again, vast deposits of good coal, which, by reason of their depth below the surface, are not sought by productive industry and perhaps never will be. There are still others which, by reason of distance from market are not now worth taking up at the government rates, which may in another century supply great manufacturing cities with power. These and other mines, a little more fortunate in character or location, which will just pay for working, furnish the no-rent mines. Above these are mines which pay rent, the degree of productiveness



rising until the rental of a single mine becomes the income of a prince.

**282. The Rent of Woodlots.**—Woodlots and timber lands are, in fact, seldom rented in the United States and other new countries; first, on account of the difficulty which would be experienced in preventing waste and abuse by a tenant; and, secondly, because it is generally more profitable to cut off the whole body of wood or timber at once, than to pick from it, year by year, a certain proportion of what is standing. For these reasons, woodlots, when they reach the right condition for cutting, are commonly sold to large operators, at prices determined by the "net productiveness" of the individual tracts, reference being had to the amount and quality of timber and other wood, to the distance from market, facilities for transportation, etc.

The price at which an individual woodlot may sell, once in thirty or fifty years, may properly be conceived of as related to an annual rental, not collected at the time, but allowed to accumulate against the day of sale.

In old countries, where the value of wood and timber bears a much higher proportion to the wages of labor, than in new countries, and where the tracts so occupied are generally surrounded by dense populations, woodlots and forests are more commonly culled from year to year, instead of being cut off all at once. In such a condition, the Ricardian formula of rent would strictly apply to the several tracts supplying any given market, although, as a matter of fact, an owner would be likely to conduct the cutting of the wood and timber himself, or through his paid agents, on account of the difficulty, above referred to, of preventing waste and abuse on the part of a tenant.

**283. The Rent of Buildings and of Permanent Improvements on the Land.**—The so-called rent of buildings, exclusive of ground rent, is not governed at all by the economic law of rent, but by the principles which regulate the Interest on Capital, of which we are next to speak. A man owns a building lot, for which he could obtain a ground rent, that is, rent proper. Being also a capitalist, he erects a building thereon.

Why does he so? Because he believes that, in addition to the rent of the ground, he can also obtain, for the occupation of the house erected thereon, a fair remuneration for the use of his capital, a remuneration equal (damage, trouble and risk of loss being taken into account) to what he would receive were he to put his capital into the form of live stock or railroad shares, or government bonds. The building is an investment of capital. If his investment has been shrewdly made, he will receive from his tenants a sum which, in the view of the economist, consists of two parts, rent proper—ground rent—and interest. We shall see, in the next chapter, that these two elements of that remuneration are governed by widely different laws.

**284. The Unearned Increment of Land.**—We have seen how rent arises, under the private ownership of land, and what principles govern its amount and economic direction. We have seen that rent is purely a question between landlord and tenant, not between employer and employed, not between the producer and the consumer of agricultural produce. We have seen that, conceding the private ownership of land, rent must, so far as economic forces are concerned, remain in the hands of the owner of land; that it can only get into the hands of the tenant as a gift; that if it reaches the hands of the tenant, no economic forces will carry it into the hands of the agricultural laborer or of the consumer of food. It can only get there by a further gift or series of gifts.

We have also seen that, whenever the limit of cultivation is lowered, that is, whenever a less productive grade of soils is, by the increasing demands of population for subsistence, brought under cultivation, the rents of all previously cultivated lands are correspondingly raised, to the enrichment of their owners, not by reason of any increase in the yield of such lands, or by reason of any greater exertions put forth by the owners, but solely by reason of the necessity of cultivating a lower grade of soils.

Upon this view of rent, has arisen the question, Why should the private ownership of land be permitted to exist? at any rate, why should this incident of private ownership, the



aggrandizement of the owner through the growth of the community, be longer permitted to exist? Why should not this "unearned increment of land," to use Mr. Mill's phrase, go to the community, and not to any individual?

This demand has been made very vigorously, of late years, by a school of writers which embraces more than one economist of reputation. As the elements of the question are not purely economic, but embrace considerations of political equity and political expediency, I shall reserve all remark concerning it till we reach Part VI.

### CHAPTER III.

#### INTEREST.

**285. Definition of Interest.**—We have seen one share cut off from the product of industry—rent; one claimant satisfied—the landlord. The reader now sees why this topic was first treated. In economic theory, this is ever the first claim to be adjusted and paid. We can make no progress—not so much as by a single step—toward discovering the principles which govern the division of the product of industry among capitalists, employers, and laborers, until rent is taken out, until the claim of the landlord is satisfied. Hence the topic, Rent, comes first, in a treatise on the distribution of wealth.

We are now to speak of Interest: the share of the Capitalist in the product of industry.

In Part II. we inquired into the origin and office of capital. We saw that capital consists of savings out of earnings, the native powers of the earth, air and water not being regarded as capital. Wealth having been produced, some of it, much of it, must soon be consumed, in order to sustain the producing classes, and to repair the waste inevitably attendant upon production, and even upon the mere lapse of time. All of it

may be so consumed, and will be, under the urgent and constantly recurring desires which wealth alone can satisfy, unless some motive for saving can be found which shall prove strong enough to withstand the impulses to immediate gratification, and to wrest a portion of wealth from the jaws of appetite. We have shown what that motive is, and how it manifests itself in a barbarous condition.

In an advanced state of society, the motive to saving is not so much found in the desire of the individual to accumulate tools and materials for his own handling, as in the desire to obtain interest from some one else, for the use of that portion of wealth whose consumption is thus postponed. To the varying strength of this motive with different men, and different races, we shall have occasion to refer further on.

**286. Interest not Paid for the Use of Money.**—It has been said that interest is the compensation paid for the use of capital. The usual form of statement is that interest is paid for the use of money. Broadly speaking, this is not true. Money, which is one of the many forms of capital, is, indeed, often the agent in effecting the loan of other species of capital. But in these cases, it is not the money, philosophically considered, that is borrowed: The interest paid is for the use of the capital obtained through that agency. One borrows \$5,000, and gives a note for that sum, with interest. With this money he purchases live stock, machinery for his factory, or goods for his trade: these were what he wanted; these were what he really borrowed; these are what he pays interest upon. The money was solely a means to that end.

But money is not always, it is not in a majority of cases, in a highly advanced state of industrial society it is, indeed, rarely, the agent in effecting the loan of capital. The country merchant buys goods and gives his notes for two, four, and six months, promising to pay the price with interest. Interest on what? On money? No money passed in the transaction. What was borrowed was hardware and crockery, dry goods, and groceries. The young farmer buys cattle to stock his farm, and gives his note, promising to pay, with