

In Defense of Ricardo

By A COMMITTEE OF RICARDIANS

WHILE we are in accord with Mr. McNally on the importance of the phenomenon of rent in modern society, we cannot agree with his theories. We therefore feel obliged to submit this extended comment on the thoughtful article Mr. McNally has written.

In presenting his analysis of three theories of rent, Mr. McNally begins with the Ricardian, the "orthodox" conception. After a statement of the Ricardian law (in the first paragraph under the heading "The Ricardians"), the author uses the familiar island illustration to attempt to prove the inadequacy of the theory (second paragraph). In settling A on better land and B on poorer, he assumes the need for A to police his own holding. But the assumption is unwarranted that A's excess of five bushels is the result of police protection; it is due to the greater fertility of A's location. Admitting for the sake of argument that policemen have enabled A to produce the extra five bushels, and admitting further that they get the whole excess should we assume that A gets no other benefit from police protection? Since we are asked to assume the necessity of protection for the five (rent) bushels, is it asking too much that the policemen also protect A in his possession of the remaining five bushels, as well as A's person in his daily exposure to the thieves and murderers of all kinds in Mr. McNally's *realistic* world?

As for Mr. McNally's criticism, (in the fourth paragraph) that the Ricardian demonstration does not apply to an exchange society, we say: Not only is the Ricardian theory applicable to an exchange society; it is not really applicable to any other. The simple conditions used by Ricardians in illustrating the law of rent are *situations of an exchange economy*, with society reduced to a few individuals, for the sake of simplicity—but this is not a "primitive" or individual economy as opposed to an exchange economy, which Mr. McNally would have us believe.

In the same paragraph, Mr. McNally attempts to show the inconsistency of the Ricardian theory by asserting that since B would gain no advantage in renting A's land for five bushels, rent would have to be less than five bushels, i.e., less than the excess; the inference being that if B did not rent A's land there would be no rent. This, however, is not true. If B does not rent A's land, we have a right to assume that A will use it himself and collect, out of the produce of ten bushels, five bushels as rent and five as wages. It may be argued that A might have more land than he needed for himself and it is this surplus land which he offers to let for rent. But such an argument would suppose a case of land *speculation*. In other words, the ten-bushel land, of which we have just assumed a surplus, would be the *normal* margin, and the five-bushel land an *abnormal* or speculative

margin. Normal rent cannot be less than the excess productivity, because the competitive bidding keeps the rent up to the whole of the excess productivity. When the supply of land is greater than the demand, that land is marginal and can have no value. If, as in the case here given, A is willing to take less than the "excess" as rent (let us say three bushels instead of five), this is proof that speculative rent had entered the picture, and the acceptance of the smaller, more normal, rent signalizes that the speculative bubble has begun to burst, and speculative rent is coming down. The Ricardian law is still working—the margin is raised from five-bushel land to seven-bushel land.

It is assumed, (in the fifth paragraph) that A and B now exchange products for products, instead of products for land. B on his inferior land produces five bushels of potatoes with the same labor that A produces ten bushels of corn. In the open market, says Mr. McNally, B would receive twice as much for each bushel of potatoes as A would receive for each bushel of corn, in which case A would enjoy no advantage. But this assumes that B's land is the only land on which potatoes are being produced, and that A's land is the only land on which corn is being produced. What of a third person, C, producing either corn or potatoes on still inferior land? In such a case, wouldn't both A and B enjoy an advantage? And wouldn't that advantage be due to the superiority of the natural qualities of their land? And of course it would be quite arbitrary to rule out that on A's land ten bushels of potatoes might be produced, as against B's five, so that A need not exchange at all with B on the basis that Mr. McNally has supposed.

The last paragraph under "The Ricardians" is full of amazing conclusions. We can agree that no one can profit from natural advantages when he does not own land, but must instead pay rent for such advantages. The fact is that landowners always charge for natural advantages, and such are not equalized through the process of exchange; they can only be equalized through the process of a tax on land values.

The statement that A would go bankrupt if he did not own land but rented it from some one, is puzzling. We fail to find any ground for this conclusion in the examples previously given. First, (second paragraph) we are told that there would be no rent. Then, (third paragraph) that the rent would be turned over to the police. Next, (fourth paragraph) it is said that rent could not be more than the excess and might be much less. Finally, (last paragraph) there is another illustration of no rent. But if the sobriety of this type of discussion may be moistened with a little levity, we think Mr. McNally and ourselves are on common ground

when he supposes a situation in which anyone but a landlord is very likely to wind up in bankruptcy!

With all deference, we submit that Mr. McNally misunderstands Ricardo's law. He seems to think that rent, according to the Ricardians, is determined by actually measuring the wealth produced on a given location with that produced at the margin by men of identical ability. Such a process is impracticable as well as unnecessary. Rent is determined by *demand* on the part of many individuals—of varying ability, it may well be—for particular locations. It is obvious that their demand will be determined by the *possibilities* of the different locations, and by a knowledge of such possibilities on the part of the men, with an ability to take advantage of them. The rent of land will *tend* to be determined by these possibilities, and this is implied in Ricardo's statement. Rent can be determined just as easily whether the bidders be of the same or varying degrees of ability. What each bidder is willing to pay for land is based upon its superiority over another location, the value of which in turn can be determined by still less desirable land, and so on until we reach the poorest location in use, which has no (exchange) value, and which is the margin. As long as there is a margin, it will be the final basis of determining the rent of land. When the margin has disappeared altogether, rent will be determined by the minimum of subsistence.

Mr. McNally has not disproved the Ricardian law of rent. We reaffirm our conviction in Ricardo's self-evident proposition: *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.*

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More time is spent in "Three Theories of Rent" on the *Neo-Ricardians* than on the Ricardians. Mr. McNally would have done well to spend more time on the latter, for his whole superstructure depends upon a refutation of the Ricardian law of rent, as we shall see.

The "Neo-Ricardians" is a recent name for those who hold that rent is due only to social and governmental services and not to natural advantages. We would like to interpolate at this point that so-called social services, as distinguished from governmental services, are nothing more than the activities of people, springing from the division of labor. If we examine the idea of *governmental* functions it will be seen that they are but the result of a specialization or extension of the ordinary social services, being different only in degree and not in kind.

Mr. McNally considers the Neo-Ricardians a step in advance of the Ricardians. However, he has some criticisms to make of their views. In his second paragraph (under the heading "The Neo-Ricardians") he criticizes the idea of so-called "stand-by" services as a factor in rent. Mr. McNally here seems to misunderstand the Neo-Ricardians in

their meaning of "stand-by" services, for he describes these as consisting of the cost of carrying goods in stores, or standing ready to render some form of service. But this cannot be what the Neo-Ricardians mean if they intimate that the value of stand-by services goes to landowners. No individual service can increase rent. Goods and services are paid for in the price charged to the customer, as Mr. McNally correctly states. But the convenience of being located near the various services rendered is a service over and above that rendered by individual business men. That is a community service, caused by the presence and activities of the population, and is expressed in rent. If the Neo-Ricardians do attribute this service to the individual businesses themselves, they are in error.

In this next paragraph, Mr. McNally includes proximity to market with natural advantages. We contend that this is a community advantage. However, Mr. McNally would eliminate *both* natural advantages and social services as factors of rent. His claim is that while they give *utility*, they do not give *value* to sites. Here he places some of his own philosophy, *realism*, in jeopardy. For it is not possible that these advantages and services can give to all sites the same degree of utility; some sites are bound to get more than others, and as a result, must have some value. This is a truly real, as well as a Ricardian viewpoint. Mr. McNally has not eliminated the market—nor, indeed, any other social advantages—as a determinant of rent. Is it not a matter of common observation that sites near the market command more rent than sites farther away? Indeed, as the Ricardians maintain, *any factor*, in the way of natural or social advantages, that makes one piece of land more desirable than another, will give to that land a rent.

In the rest of his discussion of the Neo-Ricardians, Mr. McNally criticizes their psychology that "rent is a debt due the public." We can discover nothing fundamentally wrong in this view which he assails, but since the limitations of space press upon us, we will proceed to an examination of that concept of rent which Mr. McNally endorses, and which he calls the "Realist" view.

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In the second paragraph, Mr. McNally translates the processes of the goods market into the transaction of *landowners selling public services*. He has sought to eliminate natural and social advantages as factors in creating rent, and to contend that only governmental or public services are factors. We have heretofore shown that governmental or public services are but items in the larger category of social advantages, so that we find here another case of "reasoning in a circle." In his third and fourth paragraphs Mr. McNally further elucidates his conception of the landlord in the market, selling "public services." He says of the bargaining between landlord and tenant, "This is democracy at its best." Now it is obvious that land is needed by labor

in order to produce. Those who do not own land are not on an equitable basis with those who do. Mr. McNally answers this by saying that land is not a "monopoly"; that the use of land is on a competitive basis. We reply that no matter how widely diffused is landownership, the fact remains that the owner has an advantage over the landless man. In countries such as France where there were a great many holdings split up among a great number of landowners, tenants were rackrented worse than where land was the subject of closer monopoly.

The fifth paragraph seems to be the backbone of the Realist view. Herein we are told that waste in government and bureaucracy calls for more taxes than would be required for legitimate public services; that this reduces the value of public services to the site user who therefore *pays less rent*. "Landowners," says Mr. McNally, "do pay the public expenses *indirectly* when their rent is reduced by the taxes levied on their tenants." He proposes that *all* taxes be abolished, and all rent remitted to landowners, who would then, of necessity, be the administrators of public services on a competitive basis. This is indeed cause for rejoicing. (?) All the taxes of which tenants now complain are not the unmixed evil they think, implies Mr. McNally; are they not escaping the additional rent which the landowners would otherwise receive when waste and bureaucracy should be removed? This *is* a paradox.

All the blame for our present topsy-turvy system is placed upon bureaucratic cupidity. The landowner, as the true administrator of the public capital, says Mr. McNally, finds his hands tied by restrictions. But, he asserts, "landowners are no more aware of their functions and the true nature of rent than are other people." This is realism indeed!—to gratuitously offer landowners a function of which they have been unconscious all these centuries. If their predestined duty has made them the guardians of society, they have been woefully unaware of it. Plunder, aggression, greed, fraud, disregard of the common rights of others—these have been more characteristic of the lords of the earth throughout the ages rather than concern with the common welfare—and in times before bureaucracy could be made the scapegoat for all mankind's ills.

Now it is clear why Mr. McNally has endeavored to do away with natural and social advantages, and to suppose that rent arises only because of the public services rendered. Manifestly, if rent is due to nature, or to the mere presence and activities of population, there is no reason in the world why the landowner should be the administrator of the rent fund. He is then not rendering any service whatsoever in making these advantages "available." They are there for people to come and take, and he is merely standing in the way.

To explain why landowners, rather than the government, should be administrators of the rent fund, Mr. McNally

uses an illustration from private business, in his sixth paragraph. His conclusions as to the private business are correct, but we fail to see their applicability to public services. The analogy is ingenious, but serves no purpose.

Mr. McNally goes on to state that citizens of a country have no common interest; therefore no common administrator, like the State, can serve for all of them. He would accordingly turn over the government to the landowning class. This would be the end of democracy. The proprietary society advocated by Mr. McNally would be but the return to the old feudal system, in a new dress.

The Realists, however, believe that under their plan we would only be extending our free market system. They counter the fear of private property in land with a fear of common property in land. They believe that we would be scrapping our exchange system if we allowed the government to administer the rent fund. To publicly collect rent as a tax, says Mr. McNally, would make it a compulsory payment, not the free exchange that a free society demands. We fail to see his distinction between a landlord and the government, in this respect. If a person chose to remain on a certain site, the landowner would demand that the full rent be paid under Mr. McNally's system, as much as the government would, under the public collection of rent. And under this latter system, a tenant would have a free choice to move to another site if he so desired—even to a site where there was no rent to be paid at all—the margin.

Mr. McNally further objects to the proposal to force land into use by the taxation of land values. It is the word "force" that strikes him as being a bit fascistic. This is a quibble over words. If the "force" that we advocate will lead to a liberation of productive enterprise, let us not be concerned about the word's uglier connotations in the fascistic philosophy.

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Mr. McNally has spoken out against the evils of the bureaucracy of our present democratic processes. We join him in his sincere wish to be rid of the present corruption of officialdom, and we commend his able indictment of the arrogance of many of our public "servants." On the other hand, we feel there is less reason to distrust government of the people, with all its faults, than the aristocracy of landed proprietors which Mr. McNally offers as a substitute. We still believe in *democracy*, and one day we hope to attain a government *of* the people, *by* the people, and *for* the people—and to replace high-handedness with high-mindedness. Mr. McNally has said that landlords have not yet been made aware of their true function in society. We submit that this observation would have more weight if directed to the unawareness of our officials and electorate to their functions and duties. Government can be no better than the intelligence of the citizens who comprise it.