

ELEMENTARY ECONOMICS

By Thomas Nixon Carver (1929)

CHAPTER XXX

THE RENT OF LAND

I. Topical outline

1. Rent the price paid for the use of land
2. Why rent is paid
 - a. Differences in the desirability of land
 - b. Location as an element of desirability
 - c. The margin of cultivation
3. Factors which extend the margin of cultivation

II. Terms to be defined

unearned increment marginal land rent

fertility margin of cultivating

III. Points to keep in mind in the study of this chapter

1. Everything else being equal, the margin of cultivation in a new country tends to rise, whereas in an old country it tends to fall.
2. Increase in land values is coincident with increase in population.
3. A tract of land, in a progressive society, tends to rise in value without effort on the part of the owner. Society is experiencing a growing interest in this "unearned increment " as a source of taxation.

Rent the Price Paid for the Use of Land

The rent of land originally meant the price paid for its use during a given period of time. Its meaning is now extended to cover the income which the owner derives from it, whether he uses it himself or lets it out to someone else. The selling price of land is the price paid as a lump sum for its permanent possession, which includes its use through all future time. There is thus a very close connection between the value, or price, of land, on the one hand, and its rent, on the other. The rent is the value, or the price, of the flow of utilities which it yields during a given period of time, such as a month or a year. Both the value and the rent of land come under the general law of value.

Why Rent is Paid

The utility of land is of various kinds and degrees. In some cases land yields its utilities directly, and thus is a consumers' good or at least resembles consumers' goods in this respect. Parks, pleasure grounds, and residence sites yield their utilities in this way instead of yielding tangible products. In other cases land yields its utilities indirectly; that is, it produces or helps to produce tangible products which are themselves useful.

There are great differences in the utility or desirability of different pieces of land, whether they are used for one purpose or for another. In the chapter on land it was pointed out that these differences are mainly in location and fertility. The other qualities which make land usable, such as extension and solidity, all land possesses in equal degree, so that these qualities do not make one piece more desirable than another; but in the qualities of location and fertility there are great differences, and these differences powerfully affect its desirability and its value.

Differences in the Desirability of Land. The problem of rent may be approached in several ways. In the first place, we may concentrate our attention on the differences in rent or the differences in the desirability of different pieces of land. There is always land somewhere the use of which can be had free of charge. But such land is likely to be in some out-of-the-way place, a long way from civilized centers, in the mountains or the deserts, or to be so poor in quality as to make it of no value. Nevertheless, men will be found paying high rents for other land which is more desirable than that which can be had for nothing. The fact that it is more desirable than the free land is what makes it command a rent. In the case of land which is useful for production only, its desirability is of course determined by its productivity. He who secures the use of a superior piece of land can either produce more at the same cost than would be possible on the kind of land which is free or he can produce the same amount at lower cost. This difference in productivity gives its owner a rent when he cultivates or uses it himself and enables a tenant to pay rent in case the land is worked by a tenant.

Location as an Element of Desirability. That the location of a piece of land will affect its productivity will be clear to anyone who will consider that the cost of transporting

goods to market is a part of the cost of production. If one farm is so badly located with respect to railroads and markets that it costs ten cents a bushel to haul the wheat to the nearest railroad, and another farm is so well located that the hauling costs only two cents a bushel, it is evident that if the two farms are equally fertile the former will be worth considerably less than the latter.

If land were so abundant that the badly situated farm in the foregoing illustration and other land equally desirable could be had rent free, and if it were the most desirable land which could be had free, then land of this type might be called marginal land, or land on the margin of cultivation. By "marginal land" is meant land which, under the conditions of the market, men would be induced to cultivate if it cost them nothing, but which they would abandon and leave unused if they were required to pay even the lowest conceivable rent for its use.

The Margin of Cultivation. Aside from the productivity of the land, two other factors help to determine the margin of cultivation. These are the demand for products and the demand for labor, or the opportunities for the employment of labor. An increase in the demand for products will generally bring land into cultivation which would otherwise have remained idle, whereas a decrease in the demand for products will cause some poor land to be abandoned which would otherwise have remained in use. The margin of cultivation may change, however, for other reasons. When the prairies of the West were brought into cultivation the margin was extended in that direction, but this threw so many products on the market that some of the less productive lands of New England could no longer be advantageously cultivated. Much of this land was abandoned, and the margin of cultivation was contracted in this section. The extension of the margin on the Western frontier and its contraction on the rocky hillsides of New England tended to counteract one another. There was, however, at the same time a growing demand for products, so that the expansion in one direction more than made up for the contraction in the other. In other words, the total production actually increased, despite the diminution on some of the New England farms.

Factors which Extend the Margin of Cultivation

An increase in the supply of labor which is seeking employment, unless counteracted by a corresponding increase in the demand for it elsewhere, will generally extend the margin of cultivation and cause land to be cultivated which would otherwise have

remained idle. This problem may be approached from two points of view. In the first place, idle land may be regarded as an opportunity for idle men.

When the supply of labor increases faster than the demand for it, the number of idle men increases. Some of these idle men are then crowded out onto the idle land. Even if they are not actually thrown out of work, the results are much the same. There is always a current of migration from the farms to the towns. When the labor market in the towns is overcrowded, country boys find fewer inducements to leave the country. Therefore they must remain on the farms and cultivate the land. When larger inducements are offered in the towns, more of them leave the farms and less land can then be cultivated.