John R. Commons, The Distribution of Wealth, Vol. 3 (1893)

http://books.google.com/books?pg=PA204&id=dhVEAAAAIAAJ#v=onepage&q&f=false

[see p. 253] Furthermore, if the *size* of fortunes is taken into account, it will be found that perhaps 95% of the total *values* represented by these millionnaire fortunes is due to those investments classed as land values and natural monopolies, and to competitive industries aided by such monopolies.

pp. 133-145 +

[134] The law of rent is a deduction from the law of diminishing returns. It is, therefore, of supreme importance in all discussions upon rent to adhere strictly to this fourth standpoint. We have thus a common basis of measurement for all industries. In order to show further its importance, it may be well to notice some objections to the law of rent as usually stated, which, however, disappear when we plant ourselves consistently upon the fourth standpoint.1

1. If diminishing returns apply only to agriculture, there can be no law of rent for manufacturing and mercantile sites. On the contrary, rent could rise to infinity in manufactures, so far as quantity of product is concerned. If the returns here are constantly increasing, there is no reason why the rent, measured in product, should not be correspondingly unlimited. But there is a limit, as already shown, to the increase of returns for every industry. The solution of the difficulty is found in rigidly

1 The argument can here be stated only on the negative side. Its full significance will appear in Chapter IV. when we take up the positive answer to the problem of rent and distribution.

[135] maintaining the fourth standpoint of increasing and diminishing returns, in contemplating both agricultural and other industries, so long as we are discussing problems of rent. When we take up the question of profits of other monopolies analogous to rent, we are compelled to take the third standpoint, as will be shown later.

2. There is no actual margin of cultivation, according to which the rent of superior lands may be measured, as is contemplated by the current theory. All land, as soon as it is cultivated at all, bears some rent, and has some value. Says Professor Patten [*Premises of Political Economy*, p. 22]: "That the poorest land in cultivation should pay no rent, requires that there should be no other purpose than cultivation to which the land can be put. This is rarely, or never, true, as man does not subsist alone on cultivated plants, such as wheat, oats, and corn, but also on plants that require no cultivation, and on animals that can live on uncultivated land; he also has use for lumber and fuel, and the trees from which they are obtained grow on untilled land. When land is needed for cultivation, it cannot be had for nothing, since it is valuable to its owners for other purposes. Upon uncultivated land, for instance, cattle and sheep can be kept. Persons who wish to cultivate land must compete with those who wish the land for grazing purposes, and as all lands that can be cultivated can be used for pasture, and will yield the usual profit and leave

something for rent, those [136] who wish to till the land must be able to bid over the herders in their offers of rent."

3. Even if there were a margin of cultivation, the rates of interest and wages on that margin would be higher than the rates nearer the centres of industry. Hence the surplus remaining above wage payments and interest for the rent of land with a given productivity of capital and labour must be less than the surplus remaining from an equal productivity where wages and interest are lower. The current statement does not co-ordinate with the fact of the varying local rates of wages and interest, but assumes a fixed worldwide rate for each.

4. In order to get a law of rent for building-lots, it is necessary to go back to agricultural rents. For example, Professor Mac Vane says [*Political Economy*, p. 307]: "The new building lots in the outskirts of a city may be regarded as having their rent determined roughly *by* the agricultural rent of the land. ... At the meeting line of the two kinds, the difference of rents must always be slight. . . . The economic rent of each more central lot is equal to the rent of an equal area in the outskirts, plus the equivalent of its special advantages over the latter." So that ultimately we are to conclude that the law of rent for lots on Wall Street depends on the returns to labour and capital on an imaginary margin of cultivation somewhere near the Rocky Mountains!

[137] A positive reason for taking the standpoint of area is the fact that land is valuable, primarily, because it furnishes only room and situation. [See Chap. II] This is practically all that is furnished in agriculture, and notoriously all that is furnished in other industries. These are its only '; original and indestructible powers." Soil is *capital*, and its returns are governed by the same law as that which governs returns from machinery. Ricardo and his followers have developed their law of rent from the circumstances of a new country where "there is an abundance of rich and fertile land." But new land is not the normal condition of agriculture. After the first generation of settlers the original qualities have been worn out, and whatever remains is due to the productive power of labour and capital. This must be renewed and repaired every year like machinery. In the case of soil the forces of nature, which are utilised and economised by labour, are summed up in the attributes fertility and vital forces; in machinery these forces are cohesion, attraction, heat, electricity, which appear in the forms of water-power, steam, and electric motors. Agriculture and manufactures are simply two different ways of utilising the forces of external nature. In each case, "putting things into fit places for being acted upon by their own internal forces," is all that man can do. The gifts of nature become capital as soon as they are utilised by man. Before they are utilised they have no economic significance, and are,

[138] therefore, neither capital nor land, in the economic use of those terms. By adhering to the standpoint of a given area of ground we keep this fact before us, and are able to utilise directly the definition of land already adopted as connoting only room and situation. Both critical and positive reasons, then, seem adequate for carefully establishing ourselves upon our fourth standpoint when investigating questions of rent.

It will be noticed that, in consonance with the classical treatment of the subject, diminishing returns are found to appear in the *quantity* of the product which can be produced on a given area. But it will not be difficult to show that in taking the fourth standpoint, — a given area of ground, — we are also concerned, as in the third standpoint, not with diminishing product but with diminishing value. The landowner does not produce goods for his own consumption, but for sale. Hence his land is valuable to him in proportion to the exchange value of the product. Now, our fourth standpoint, compared with our third, has this important limitation, that a given area of ground does not usually afford room for the production of so large a supply of goods as to affect the general prices of those goods. The prices of products are determined by the general forces of society, operating throughout the world, as shown in describing the second standpoint. So far, then, as a given area is concerned, the price per unit of its product changes so little [139] that we may regard it as fixed and constant. The total *value* of its product varies, therefore, exactly in proportion to the *quantity* of the product, and as this is subject to the law of diminishing returns, so also must be its *value.*

But there is a stronger reason for holding that the essential and common element in diminishing returns on a given area of ground, is the value of the product, and not the quantity. The essential feature of land, viewed from the standpoint of distribution, is situation. Situation is simply access to markets. The size of a market depends upon the number of purchasers who compose it, and their wealth. An area of ground situated at the centre of a great population, offers access to a wide market, while the same area on the outskirts of cultivation, has a very limited access. What the landowner sells to his customers is place-utility. Place-utility commands a monopoly value, and is, therefore, a surplus above the cost of production of the articles in which it inheres. The total amount of this surplus, producible on a given area of a given situation, must, therefore, depend upon the number of customers who find this situation most convenient for making their purchases, and on the wealth of these customers. It requires an investment of capital and labour to supply the wants of these purchasers, and the amount of capital and labour that can be profitably invested, depends upon the extent of this want.

[140] Now, granted that a given area of given situation offers a very large market, it would be impossible to make correspondingly large investments were it not that modern industry makes possible in certain enterprises a wonderfully intensive concentration of capital and labour on limited areas. The business manager accomplishes this object, where the situation gives access to large markets, by changing the character of his industry to suit his situation. Industry being carried on for profit, the character of the enterprise is indifferent to him — he will change readily from an extensive to an intensive enterprise, if the latter promises higher profits. We must look upon all capital as one, its essential attributes being value and productivity. But though one in essence it is protean in phenomena. It takes on all sorts of forms, and changes from one form to another according to the wants of society and the situation where it is invested, the main purpose being to produce that aggregate of value which the given situation warrants.

The total aggregate of value, which can be produced on a given area, depends on two factors. 1. The kind of goods that are produced, with regard to the amount of value which can be condensed into a given unit; and 2, the quantity of such goods, which can be produced on the given area. The ultimate condition in each factor is the intensity of the industry which it is possible to adopt. It is, again, the situation of the land which determines how [141]

intensive the enterprise must be, and what must be its character. Forest and pasture land occupy the lowest position. They are on or near the margin of cultivation. Very little investment of capital and labour can be profitably made on them. This corresponds with the fact that they are far removed from the centres of population. Both the extensive character of their cultivation and the limited demand for their place-utility, co-operate to bring in very soon the point of diminishing returns.

Land cultivated with the plough presents but little variety respecting the amount of capital and labour applied to it yearly. In Ohio the yearly investment on wheat land, including cost of seed and fertilisers, ploughing, harvesting, and marketing, ranges from ten to fifteen dollars per acre. In Nebraska and Dakota it ranges from five to seven dollars per acre. Ohio being nearer the market for wheat, it pays to invest more capital in its production, while in Nebraska and Dakota land is nearer the margin of cultivation, and it does not pay to invest so much.

As we come nearer to city markets, we find that it is profitable to invest larger quantities of capital and labour on the land. The character of production changes, cultivation becomes more intensive, spades, hoes, and rakes are used in addition to ploughs and harrows, and great quantities of fertilisers and costly seeds make up a larger use of capital. Instead of from five to fifteen dollars annual investment, it ranges, in vegetable gardening, from [142] twenty-five and thirty to fifty and a hundred dollars per acre.

Land that is suitable for the use of factories is farther away from the margin of cultivation than arable and most vegetable lands. It is nearer the city, most of it within the suburbs of cities. Here are to be found the advantages of transportation, water-power, access to fuel and labour markets. With manufacturing industries there is a great difference respecting the amount of investment which can be profitably applied. Factories in the suburbs will be one or two stories high, while those of the city will be three, four, and five stories. On one acre in the suburbs there may be one hundred labourers employed, and a yearly investment of labour and capital of $500,000. In the city there may be 500 labourers on one acre, and a yearly investment of one million or more. The advantages of this land are such that it no longer pays to use it merely for wheat or vegetables. It pays to apply a much larger number of increments of capital and labour per acre, than can be applied in farming or truck growing, and this is done by adopting a more intensive industry. But finally, just as in the previous industries, there comes a point where further investments will yield a less than proportionate return, and at last a margin of profitable investment is reached where it no longer pays to apply further increments. If the owner has more capital to invest, he seeks new fields; perhaps invests in farming near the margin of cultivation, [143] or goes into some other industry which has not yet reached the margin of profitableness.

Commerce and exchange, including wholesale and retail business and banking, require the best localities available. They represent the heaviest concentration of capital and labour. The buildings are of great height and expensive, thousands of employe's and clerks can be concentrated on one acre, and these represent some of the highest paid labourers, such as salesmen and expert clerks. The character of the capital is the most expensive, such as finished goods in retail stores ready for consumers, and in banks we have gold and silver money, notes, certificates, and other evidences of property, the highest possible condensation of wealth. Millions of dollars and credits pass through these offices, and the wealthiest men of the country

are assembled on these narrow areas. But even here, on the site best located of all, there is a stage of diminishing returns, and a limit beyond which it is no longer profitable to invest capital and labour.

To sum up this discussion, the entrepreneur produces goods, not for the sake of the goods themselves, but for their values. Therefore, as the situation of land changes from regions where there is little demand for place-utility to sections where the demand is great, the character of cultivation changes from the extensive to the intensive, from raw material to more and more finished goods, whereby greater and greater values are produced on [144] given areas. But in all these cases, the stage of diminishing returns for a given area of ground, though further and further postponed, yet on account of the physical conditions of production, and the inevitable demand for room, is sure eventually to come.

Thus it can be seen that in the fourth standpoint as with the third, it is the extent of the demand for commodities that determines the range and period of diminishing returns. This is the common and significant feature in the law of diminishing returns, and it is a phenomenon of value instead of product. Upon it is based the whole theory of the distribution of wealth.

In order to bring out more fully the distinctions between the four standpoints, we may review the conclusions already reached, and add several other important considerations.

1. The first standpoint—that of an entire industry through a long period of time — has no direct significance in the theory of distribution. Its importance lies in the study of the growth of prosperity. The second standpoint has an important part, because it furnishes the means for determining the exchange values of social products. The third and fourth standpoints are the essential ones in a theory of distribution. They are the standpoints of the individual, and are, therefore, the basis for determining the individual's share of the social product. The individual is concerned with the *value* of the [145] social product which he contributes to society, that is to say, with the quantity of other products which he receives in exchange for his; and the significance of diminishing returns, therefore, lies not in diminishing product, but in diminishing values.

2. Cost of production, when viewed from the first standpoint, is "real" or " metaphysical" cost. It is the sacrifice and effort endured by the producers. It is cost viewed from the standpoint of society, "It represents what man parts with in the barter between him and nature." It is composed of three elements. 1. Labour, which is measured by the time and intensity of the aggregate work of society.

2. Abstinence, measured by the *time* of the *waiting* and the intensity of present pleasures foregone.

3. Risk, "a hardship inseparable from the exercise of either labour or abstinence." 1

Cost viewed from this standpoint furnishes the ultimate measure of utility, but not the measure of value.2 This is true, also, of the second standpoint so long as we remain in the region of questions of production. Society may be looked upon as a single producing body, and social

labour and abstinence as the effort it makes to satisfy its varied wants. With a given stage of the arts and industries, and a corresponding efficiency of labour, society produces goods along all the lines of production, until the

1 Andrews, *Institutes of Economics*, p. 76.

2 See article by Professor J. B. Clark, in *Yale Review*, November, 1892, on *The Ultimate Standard of Value.*

pages 198-205

[198] We are now prepared to notice more in detail the distinction between personal and permanent profits.1 Personal or temporary profits are due to fluctuations in prices, fortunate coincidences, and to the ability of the entrepreneur. Such profits disappear with the return of prices to a normal level, the disappearance of the fortunate circumstances, and the death or retirement of the entrepreneur. They are principally due to the personal abilities of the entrepreneur, and might best be called personal entrepreneur profits. Since this income is not a permanent one, depending upon fixed and certain social opportunities for the sale of products, it cannot be capitalised and disposed of by the entrepreneur to other parties; it follows the person of the entrepreneur himself.

Permanent profits are such as arise out of the monopoly privileges which have been described in Chapter II. They depend upon the nature of the business (natural monopolies, trusts), the possession of natural resources or opportunities (land), the possession of legal advantages (patents, franchises, copyrights), long-established relations to the community, inspiring confidence and popularity (good-will). These advantages consist in the fact that they enable the monopolist to limit the supply of his product relatively to the demand, and at the same time either to sell a larger quantity of his product than he could do without them, or to sell at higher prices, or both. Permanent profits can

1 See the suggestive discussion by Gross, *Unternehmergewinn.*

[199] be safely estimated in advance. They are such that the entrepreneur can make contracts based upon them either in borrowing money, in agreeing to pay rents and royalties, or in purchasing a business. Permanent profits are absorbed by any monopoly which is concerned in the production and sale of goods. If profits are temporary and not capable of previous estimation, they fall directly to the entrepreneur as such. He also bears any temporary losses. But if profits are permanent, the entrepreneur, for the sake of occupying the especially favorable opportunity involved, can afford to pay for the privilege in proportion to the increase of revenue he expects therefrom. The owners of the monopolistic element can demand and obtain a share of these permanent profits, because the entrepreneur, in possessing the monopoly, is at just so much advantage over his competitors. But he cannot permanently retain such advantages, because if he is not paying for the monopoly the entire difference in profits between what others get without it and what he gets with it, they will bid against him the next time the opportunity is put up for sale

or lease, and he will be compelled to pay over to the owner of the monopoly its full value as evidenced by its permanent profits. He cannot complain of this, because he is still left on a level with his fellow entrepreneurs. His profits are, however, no longer of the permanent variety, but personal. They depend on his own abilities as an organiser and manager, or upon the unforeseen [200] turns of the market. They are the changing surplus above expenses of production and permanent profits of monopoly. Permanent profits now become a part of his expenses, but over and above them there still remains a margin where, by the display of extra abilities, he can secure true personal profits.

These principles will be still further brought out and illustrated in a discussion of such monopolies as land, franchises, patents, good-will, etc.

I. Land may be either a partial or an absolute monopoly. An absolute monopoly is the ownership of all the natural sources of a given kind of raw material. It is stated that there is but one nickel mine in the United States: the ownership of such a natural opportunity would be an absolute monopoly. Investments will stop at the point of the highest net returns. Each increment of investment represents expenses, and the surplus of receipts for each increment is permanent profits. This is absorbed by the owner of the absolute monopoly.

Such a monopoly will illustrate the steady transition from temporary to permanent profits. When it is first opened up it has no value. The entrepreneur enters as a speculator willing to invest his capital and labour, and to take the risks of securing a surplus of receipts. But the mine turns out to be wonderfully rich and easity worked. Profits are enormous. So long as the original contract with the owner lasts, profits fall to the entrepreneur. At the expiration of the original contract a new one is to be made.

[201] The owner and the entrepreneur perceive that these profits promise to be permanent. Consequently the new contract provides for a much higher royalty or rent than the old one. Permanent profits are thus transferred from the entrepreneur to the landowner; and yet the entrepreneur must remain satisfied because he is still in possession of an opportunity where his investments will yield to him as much as they would in any other enterprise.

In case the entrepreneur is also the owner of the monopoly, it is a more difficult matter to distinguish between that part of his profits which belong to the permanent monopoly and that part which is due to his own managing abilities. Yet the difficulty is no greater than the frequent problem which arises in case the entrepreneur is both capitalist and labourer, in determining what part of his income is profit and what part is interest and wages. The conditions vary with the ability of the man and the character of the permanent monopoly. If the business is such that it falls away and declines upon the death of the entrepreneur, we may assert that the monopoly was a temporary and personal one, though it may have existed throughout a long lifetime. But if the business continues just as prosperous as ever through the possession of some permanent differential advantage, such as patents, ground sites, franchises, we may conclude that the entrepreneur was simply the pioneer in developing this particular permanent monopoly, and that the profits which he obtained had [202] made the transition during his lifetime from the temporary to the permanent.

The partial monopoly in land is far more common. Here *the monopoly absorbs only the permanent profits of the least prosperous entrepreneur who actually sustains himself in business in the community.* He is the man who has no monopoly vested in himself, no especial advantage of good-will, etc., but is subject to the full play of competition. He is the marginal undertaker. He pays the customary wages for labour, the usual prices for capital and material, and is merely able to make interest and necessary profits on his investments. In the quotation given on page 193, from Adam Smith, the "good, moderate, reasonable profit" and the common and usual profit correspond closely with or perhaps slightly exceed the profit I have in mind when speaking of the least prosperous entrepreneur, the man who is just able to keep permanently in business in the community. According to the saying of the Frenchman, that 10% of the men who go into business succeed, 50% "vegetate," and 40% fail, he belongs to the 50% who "vegetate." He must have his necessary profits, or else he becomes one of the 40% who fail, some other entrepreneur takes his place, and he is forced to yield whatever permanent surplus may come to him from his business. In this way the rent of land is determined by what the marginal entrepreneur pays. Land furnishes opportunity for the production and sale of goods. If he is not using the land up to the [203] extent of the opportunity which it offers, and is, therefore, unable to make his necessary profit on his investments and also on the permanent surpluses on the increments before the marginal increment, then others who can use the land to the full extent of its opportunities will outbid him. Thus he will be left below the "margin of enterprise"[Patten, *Dynamic Economics*] and the margin will rise to the point occupied by the next entrepreneur, who will now be the marginal one. Neither will rent be permanently higher than this least prosperous entrepreneur can afford to pay; because, when he fails in business on account of rents higher than the opportunities of the land warrant, there will be no entrepreneur better than himself to take the land; if one should do so, he would be bargaining away needlessly a portion of any especial advantages he may himself possess, such as patents, superior business abilities, etc.

The marginal entrepreneur need not occupy the poorest land of its kind in his community in order that the rent of other land may be determined by the rent of his. If adjoining land is better, it will pay more rent; if poorer, less rent. For, if an entrepreneur, doing business on better land, does not pay more rent, the marginal entrepreneur can afford to leave his own site and bid higher for the better one; and if poorer land pays the same or higher rent than he does, the occupant of the poorer land will either go out of business, or secure a lowering of his [204] rent, or bid against the marginal entrepreneur for his site. In the first two cases it is plain that the rent is determined by what is paid by the marginal entrepreneur. In the last case, according to the assumption, the marginal entrepreneur is unable to pay higher rent. Therefore he gives up his position, goes out of business, the margin of undertaking rises, and higher rents are paid throughout the community. In every case the rent of all land is graded high or low with reference to the rent paid by the marginal entrepreneur.

Thus it will be seen that the average business and industrial qualities of the community are an important element in determining the rent of land. The degree of these qualities determines what grade of entrepreneurs shall be the marginal ones. But at the same time none of the undertakers will bid so high for rents as to swallow up any especial advantages one may possess, as patents, good-will, etc. They all estimate their own business prospects, and the rent they can pay, by the prospects and rent of the average or least prosperous of their fellow-undertakers.

Rent is the total surplus above expenses secured by the least prosperous entrepreneur who continues in business. It is the surplus product on each increment of capital and labour invested above the return obtained on the marginal increments. We have no difficulty in seeing the immediate factors upon which the size of this surplus or rent depends. [205] They are: 1. The *number of increments* of capital and labour invested before the margin of utilisation is reached. 2. The *size of the surpluses* obtained on each increment before the marginal increment is reached.

But while these factors determine immediately the amount of the aggregate surplus, rent, they are the secondary and not the ultimate factors. They themselves depend on two primary and final conditions: I. The extent of the opportunities afforded by the land for the production and sale of goods. II. The expenses of the factors of production, labour, capital, necessary profits, transportation, taxes, sales. The investigation of these conditions and their influence on rent will require careful and prolonged attention.

I. The extent of the opportunities afforded by the land for the production and sale of goods depends upon the height and range of the diminishing returns of a given area of land of given situation. It includes: *A.* With reference to production, land offers opportunities profitable for investments of labour and capital in proportion to the quantity of goods which can be produced with a given outlay of labour and capital, *e.g.* the greater or less fertility of agricultural land, access to natural water-power, etc. *B.* With reference to sales, the opportunities of land have regard to *(A)* the quantity of goods which can be sold and (If) the prices which can be obtained. The quantity which can be sold from a given area of land depends upon the situation of the land with (end 205)

p. 221

Rent, being determined as above indicated, now becomes a permanent part of expenses. The entrepreneur calculates upon it as upon the other expenses for labour, capital, taxes, and transportation. In order now to make profits, his receipts must cover rent in addition to other expenses.

This is true of agricultural as well as of manufactured products. The familiar dictum that rent does not form any part of the expenses of production of agricultural products is based upon the supposition that there is somewhere a no-rent margin of cultivation, and that the expenses of production there, being the highest actual expenses in the production of agricultural goods, set the price for all agricultural goods. Since this land pays no rent, of course rent does not enter into the expenses of production. But as I have already shown, there is no agricultural product which is raised on no-rent land. As soon as land is cultivated at all successfully, it yields a permanent rent, and this, if it be the poorest land in use for the production of the commodity in question, becomes a [222] permanent part of the expenses of production of that commodity. The superior rents paid out of the same commodity where it is produced on superior lands are again an additional surplus growing out of the superior advantages of such lands, and are only partly to be considered as expenses of production.

II. So far we have been considering that fundamental monopoly privilege, land, and have discovered the general principles underlying the emergence of ground rent. We now turn to the other monopoly privileges. [end of this segment]

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249-255

## CHAPTER VI

### CONCLUSION

THE so-called conflict between capital and labour is at bottom a conflict between capital and labour on the one hand, and the owners of opportunities on the other. Capital is not the residual claimant of the current product of industry, seeing that the rates of interest are steadily declining. Neither is labour the residual claimant. This view of President Walker's overlooks the phenomena of necessary and permanent profits, and gives attention only to the temporary or personal profits. Necessary profits in the first place do away with the no-profits entrepreneur. But necessary profits may be looked upon as a kind of wages and interest. Personal profits are the residual or contingent share of the entrepreneur proper in any single round of production, and as its amount depends so largely upon the personal abilities of the entrepreneur it may well be considered as following a law similar to that of rent. In such case one may truly say that it does not enter into the price of products nor does it come out of wages; but it is a surplus above the production of the "no-profits" entrepreneur [250] who pays the same wages and interest. Hence the competition of entrepreneurs by driving out the lowest would raise the margin of entrepreneurs; the profits of others would be lowered and the gain from the general increasing efficiency and productivity of labour, being a gain which takes place under the "no-profits " entrepreneur as well as under others, would gradually be transferred to the labouring classes.

It is admitted by President Walker, and indeed is essential to his theory, that the individual entrepreneur is the residual claimant "in any individual transaction, . . . owing to the force of contract, just as the farmer, under a lease, pays the owner of the soil no more in years when the yield is exceptionally large, and no less in years when the crops are short."1 But these are temporary and fluctuating profits, and cannot be capitalised. If the profits in the case cited should turn out to be *permanently* "exceptionally large," we should find that at the expiration of the lease another would be drawn up, in which these permanent profits would be handed over to the owner of the soil in the form of increased rent. And so, not only do capital and labour not get the gain from permanently increased productivity, but even the entrepreneur proper himself fails to get it. He merely takes his chances of having good luck and better ability than his competitors in getting a temporary residual share above his costs

1 *Political Economy,* p. 249.

[251] for labour and capital and permanent monopoly profits.

President Walker seems also to overlook the element of manufacturing and mercantile rents. He holds1 that increased productivity of labourers would not go to the landlord class in higher rents, unless it would involve an increase in the amount of material employed. In this case "the increase would no longer go entire to re-enforce wages. A larger amount of materials being used, a greater demand would be made thereby upon the productive powers of the soil; the lower limit of cultivation would be pushed downwards, a longer or shorter distance, to supply the increased demand; and rent would be enhanced." This indeed accounts for the disposal of one part of permanent profits. Mining and timber rents take a large share from the product of capital and labour. But agricultural rents get a very small part, while rents paid for manufacturing and mercantile sites get an increasing share.

Taking together all the different kinds of permanent profits and rents, we can see that they are sufficiently able to rise up and absorb all the increasing production of capital and labour and business ability, where this is diffused so as to reach the lowest grades of capital, labourers, and entrepreneurs. Tracing a single product like furniture, in its transformation from the forest to the consumer, and noticing the different permanent monopoly charges which are

1 *Political Economy,* pp. 254, 250.

[252] successively deducted, it is easy enough to see where the residual claimants lie. First the stumpage owners, then the transportation profits; profits on patent rights, which are said to cover five sixths of the manufacturing industries of the country; ground rents paid for mill sites, operatives' dwellings, company's offices; the profits and rents absorbed by the agencies of exchange, such as bankers and boards of trade; and finally, whatever permanent monopolies may have been developed in the form of trusts by manufacturers, dealers, and middlemen. To these should be added the rente and monopoly profits of collateral industries furnishing coal and iron for manufactures.

The prime importance of monopoly privileges in the distribution of wealth is well shown by the results of the investigation of the *New York Tribune*1 in its efforts to ascertain the sources of the fortunes of the millionnaires of the United States. That investigation was undertaken to show that the system of protection has not been the main cause for monopolies and great fortunes. The investigation amply demonstrates this proposition. Of the 4047 millionnaires reported, only 1125, or 28%, obtained their fortunes in protected industries. The following partly estimated summaries are given, based on the *Tribune* report. They show that about 78% of the fortunes were derived from permanent monopoly privileges, and only 21.4% from competitive

i Published in June, 1892.

[253] industries unaided by natural and artificial monopolies. Yet there can be no question that if this 21.4 % were fully analysed, it would appear that they were not due solely to personal abilities unaided by these permanent monopoly privileges. They were mostly obtained from manufactures, and five sixths of the manufactures of the country are based on patents. Besides, fortunate investments in real estate, stocks, etc., have often contributed to fortunes where they do not appear prominently.

Furthermore, if the *size* of fortunes is taken into account, it will be found that perhaps 95% of the total *values* represented by these millionnaire fortunes is due to those investments classed as land values and natural monopolies, and to competitive industries aided by such monopolies.

SUMMARY OF THE SOURCES OF THE FORTUNES OF AMERICAN

MlLLIONNAIRES.

Grand total 4047

Origin of fortune unknown .... 55

3992

| | | |
|---|---|---|
| In protected industries mainly . . . | 1125 | = 28.1 % |
| | | PER CENT. |
| Land values . . . . . | 981 | 24.6 |
| Natural monopolies . . . . | 386 | 9.7 |
| Artificial monopolies . . . . | 124 | 3.1 |
| Competitive industries aided by natural monopolies . . . | 1647 | 41.5 |
| Competitive industries unaided by natural monopolies . . | 854 | 21.4 |
| | 3992 | 100.0 |

LAND VALUES.

[254] LAND VALUES.

Protected natural resources are marked P.

Saw mills and lumber 138 P

Coal, iron, zinc, lead, copper, and quicksilver mines. . . 113 P

Marble quarries 2 P

Sugar plantations . 3 P

Tobacco growing and lands 3

Wool growing and lands IP

Cattle raising and lands 47

Real estate, advance in values 468

Silver and gold mines 73

Oil producing, refining, and transportation 72

Pine lands 19 P

Dealing in timber and mineral lands 11

Plantations, farming, and land 15

Nitrate beds in Chili 1

Asphalt street pavements 1

Plantations, West Indies and South America 6

Phosphate land in Florida 1

Stock raising and lands 3

Cotton raising 4

981

DISTRIBUTIVE INDUSTRIES, NATURAL MONOPOLIES.

Railroads 186

Express . 18

Telegraph and telephone 12

Gas, waterworks, street railways, ferries 70

Contracting and building railways, streets, and public works

generally 77

Contracting for railways in foreign lands 6

Grain elevators, storage warehouses, and wharf business . 17

386

BANKING, LOANING MONEY.

Loaning money and real estate 9

Banking, real estate, and securities 294

303

[255] ARTIFICIAL MONOPOLIES.

Patented and proprietary articles 93

Copyright books, with general printing in some cases . . 25

Copyright music 2

Mail contracts' 1

Royalties on patents 3

124

COMPETITIVE INDUSTRIES AIDED BY NATURAL MONOPOLIES, LAND VALUES, AND CURRENCY.

Manufacturing, with real estate, banking, and other non

protected business, in many cases 619

Brewing and real estate 79

Merchandising mainly, with, in a great majority of cases,

investments in real estate, banks, and securities . . . 986

Loaning money and real estate 9

Banking, real estate, and securities 294

Brokerage business and stocks 56

Law practice, real estate, and securities 65

Hotel and restaurant, with real estate 24

Show and circus, with real estate, securities 3

Medical practice and real estate 1

Pawnbroking and real estate 2

Pony express and lands 1

Mercantile agency and investments 2

2141

From these should be deducted a minority of the 619 manufacturers, who were probably unaided by monopolies, say 200[1]

Also from 986 merchants, for the same reason, say, 300[1]

500

1641

Miscellaneous investments, mostly protected 6

6147

1 See p. 256, where these figures are incorporated in the table of "Competitive Industries unaided by Monopolies."