

The Passing of the Old Rent Concept

Since the time of Ricardo the Rent Concept has been constantly under criticism, and many amendments of it have been suggested. Yet it holds its place in the texts and in discussion, and still determines to a large extent the outlines of our economic systems. No suggested amendment has succeeded in winning more than a meagre following until of late. Within the past decade, however, the attractive statement of new doctrines by Professor Alfred Marshall has contributed more than any other influence to bring about a remarkable change of opinion on this subject. He has met in a manner that has proved to be generally satisfactory the demand that had become imperative for a re-statement of the old concept. In view of the wide and well-merited influence of his *Principles of Economics*, it may be allowable to take it as typifying the state of contemporary thought on the subject of the rent concept; and it is for this reason that frequent reference will be made to it.

The present paper is an attempt to determine what are the difficulties admitted to-day in the old concept of rent and what defects must be recognized in the newer and dominant form of the concept. Five central ideas may be distinguished in contemporary discussion of rent, giving thus five concepts,—the land, the extension or space relation, the time or long period, the exchanger's surplus, and the no-cost concepts. These will be taken up in order.

1. THE LAND CONCEPT.

The original form of the rent concept makes it an income arising from land, one of the three factors of production. The essential thing distinguishing it from other incomes is the kind of agents for whose use it is paid. This is the first concept defined by Professor Marshall: "The income derived from the ownership of land and other free gifts of nature is called rent."¹ The definition is given in connection with a statement of the kinds of incomes derived from wealth, the other kind mentioned being interest on capital (profits are analyzed into interest of capital and earnings of management). This view of rent is found so repeatedly expressed in the text-books that it may be called the conventional view. The chapter on the agents of production begins:—

"The agents of production are commonly classed as Land, Labour and Capital. By Land is meant the material and forces which Nature gives freely for man's aid, in land and water, in air and light and heat." The next chapter begins, "The requisites of production are commonly spoken of as land, labour and capital: those material things which owe their usefulness to human labour being classed under capital, and those which owe nothing to it being classed as land." A few lines further the explanation is added, "The term 'land' has been extended by economists so as to include the permanent sources of these utilities, whether they are found in land as the term is commonly used, or in seas and rivers, in sunshine and rain, in winds and waterfalls."²

The usual three shares are not distinctly enumerated when Book VI., on "Value or Distribution and Exchange," is reached; yet the thought appears and determines the order of treatment and the chapter headings. It is said that there has been "left on one side, as far as might be, all considerations turning on the special qualities and incidents of the agents of production"; but there is promised a "more detailed analysis in the following three groups of chapters on demand and supply in relation to labour, to capital and business power, and to land, respectively."³ The treatment of distribution, accordingly, falls into these three main conventional divisions: "earnings of labour" (chapters 3-5); "interest of capital" (chapters 6-8); and "rent of land" (chapters

9, 10),—where each of the three shares is linked with a corresponding factor.

The land concept of rent, thus presented, involves many difficulties;⁴ and a recognition of these leads to a modification of the concept. 1. It is shown that the distinction between land and the products of labor is a loose one, impossible to make in practice. 2. It is said that the distinction is of no importance to the practical business man. In these two statements the distinction seems to be abandoned or discredited. 3. But it is said to be valid, because land is a fixed stock for all time, while capital is not. These points will be considered in order.

1. In the following passages the difficulty of trying to distinguish between land and capital is recognized:—

Those material things which owe their usefulness to human labour [are] classed under capital, and those which owe nothing to it [are] classed as land. The distinction is obviously a loose one: for bricks are but pieces of earth slightly worked up; and the soil of old settled countries has for the greater part been worked over many times by man, and owes to him its present form.⁵

Further on is emphasized strongly the control that man has over many of the utilities connected with land:—

If the soil be well provided in other respects, and in good condition mechanically, but lack [only certain elements] then there is an opportunity for man to make a great change with but little labour. He can then turn a barren into a very fertile soil by adding a small quantity of just those things that are needed. . . . He can even permanently alter the nature of the soil by draining it, or by mixing with it other soil that will supplement its deficiencies.

All these changes are likely to be carried out more extensively and thoroughly in the future than in the past. But even now the greater part of the soil in old countries owes much of its character to human action; all that lies just below the surface has in it a large element of capital, the produce of man's past labour; the inherent or indestructible properties of the soil, the free gifts of nature, have been largely modified; partly robbed and partly added to by the work of many generations of men.⁶

Later is added: "In an old country it is seldom possible to discover what was the original state of the land before it was first cultivated. The results of some of man's work are for good and evil fixed in the land;

they can not be distinguished from the results of nature's work, but must be counted with them. The line of division between nature's work and man's work is blurred, and must be drawn more or less arbitrarily."⁷

In these passages the concept first stated seems to be given up; for, if only those things which owe nothing to labor are classed as land, and if it is then shown that there is no material thing in settled countries of which this can be said, it follows that everything must be classed as capital.

2. The distinction between land and capital is formally given up by thinkers of this school, so far as it concerns the individual owner, the investor, or business manager. It is said:—

The balance of usage and convenience is in favour of reckoning rights to land (*sic*) as part of individual capital.⁸

It is to be observed that land is but a particular form of capital from the point of view of the individual producer.⁹

A manufacturer or trader owning both land and buildings, regards the two as bearing similar relations to his business. . . . When he comes to decide whether to obtain [more] space by taking in an extra piece of land, or by building his factory a floor higher, he weighs the net income to be derived from further investments in the one against that to be derived in the other. . . . This argument says nothing as to whether the appliances were made by man, or part of a stock given by nature.¹⁰

It is true that land is but a particular form of capital from the point of view of the individual manufacturer or cultivator.¹¹

There is likeness [between land and appliances made by man] in that, since some of the latter can not be produced quickly, they are practically a *fixed stock for short periods*, and for those periods the incomes derived from them stand in the same relation to the value of the produce raised by them, as do true rents.¹²

It may be well to refer once again to the relations between land, whether agricultural or urban, and other forms of wealth regarded from the point of view of the individual investor. Even from the point of view of normal value, the distinction, though a real one, is slighter than is often supposed; and even in an old country, the distinction between land and other forms of wealth has very little bearing on the detailed transactions of ordinary life.¹³

The impossibility in practice of distinguishing accurately

between things that are "natural" and things that are produced, the absence of any suggestion of a measure to aid in classifying the things that compose land and capital, require the usage approved in these quotations when practical questions are considered. Nearly all economic discussion is from the standpoint of the individual producer. We will note later some of the results of the adoption of this usage.

3. These changes in the concepts of land and capital are not treated as equivalent to an abandonment of the distinction entirely, for it is justified from a different standpoint.

When regarding capital from the social point of view it is best . . . to separate the capital, which is the result of labour and saving, from those things which nature has given freely.¹⁴

The reason for this distinction is given as follows:—

[Although land and other wealth appear alike to the individual], there is this difference from the point of view of society. If one person has possession of another farm there is less land for others to have. His use of it is not in addition to, but in lieu of the use of a farm by other people. Whereas if he invests in improvements of land or in buildings on it, his investments will leave as good a field as before for an increasing population to improve other land or put buildings on it. . . . There is likeness amid unlikeness between land and appliances made by man. There is unlikeness because land is a *fixed stock for all time*: while appliances made by man, whether improvements in land, or in buildings or machinery, &c., are a flow capable of being increased or diminished according to variations in the effective demand for the products which they help in raising.¹⁵

The same argument is presented in replying to the suggestion that the farmer considers in just the same way whether he shall try to get more work out of his stock of ploughs or out of his land, and that, therefore, the income does not enter into price any more than does rent. It is answered:—

So far as the individual farmer is concerned the two cases are indeed, parallel. But if he decides to have another plough instead of getting more work out of his present stock of ploughs, that will not make a

lasting scarcity of ploughs since more ploughs can be produced to meet the demand: while, if he takes more land, there will be less left for others; since the stock of land in an old country cannot be increased.¹⁶

The argument contained in these passages will be criticized in two particulars; and we shall seek to show that it involves in the first place a comparison of one factor viewed statically with another viewed dynamically, and in the second place a comparison of the total supply of one factor with that portion of another factor used in a single industry or by a single undertaker.

(a) The argument assumes that the land is in an old settled country, and that therefore its quantity is fixed. Later, however, it is shown that inventions that will turn the soil deeper, discoveries and new means of transportation that will bring into competition great areas of new land, and improvements that make available the resources before unused are constantly changing the limits of the supply of natural resources, in the economic sense of the word "supply." The view that land is a fixed stock for all time is contradicted when it said:—

The supply of fertile land cannot be adapted quickly to the demand for it, and therefore the income derived from it may diverge permanently much from normal profits on the cost of preparing it for cultivation.¹⁷

Despite this it is assumed that the economic supply of land is necessarily and always fixed; and it is then contrasted with the stock or supply of other things, which is supposed to be increasing and capable of indefinite increase. Whether a static or dynamic view be taken, it is logically necessary to take it alike of both factors: either land must be recognized as an increasing and increasable factor, as well as capital, in which case the question becomes the somewhat speculative one as to their probable future rate of increase compared with the urgency of the demand, or both must be treated as fixed for the moment. In either case, when they are looked at from the same standpoint, the appearance of an essential difference in the two kinds of wealth disappears.

Again, objection must be made to the view of the increase of capital. Capital, as the term is here employed, can be increased; but it does not increase because it is employed in one industry rather than in another. It is sure to be employed in some industry or it is not capital. Why should its use in a particular industry increase the total supply? The additional ploughs can be produced to meet the demand only by the use of the available appliances, which are limited in amount, and which, if used for the ploughs, cannot be used for other things. There will be less productive power to put into other industries unless the general stock of wealth is increased. It is hard to see how the use of the existing stock of capital in one industry rather than another can be assumed to be the cause of this.¹⁸

If the historical or dynamic view is taken, the supply of utilities connected with land cannot be treated as fixed in amount. If the static view is taken, it cannot rightly be assumed that capital increases instead of being a limited supply which must be economized. It is from inharmonious assumptions that the conclusion is drawn that an essential difference exists between these things in the real world.

(b) It is argued in the passages under consideration that land and other wealth are different from the point of view of society. This can only mean when both are viewed from that standpoint; but in the argument stated the land only is thus viewed, the capital is still considered only from the individual standpoint. In the case of land the total supply is clearly borne in mind, and the use of land in one industry is seen to take it away from another. But in the case of capital there appears to be a shift to the individual view and the supply used by one undertaker; and, because he can increase or decrease the capital employed in his industry "according to the effective demand" (which means in that one industry), it is concluded that the total supply of capital is thus altered. The objections that have been given in the preceding paragraphs apply here also. The line of reasoning here criticized is interwoven with the idea of the static and dynamic supplies of the various factors; but here and there it can be plainly distinguished.

2.

*EXTENSION AS THE FUNDAMENTAL ATTRIBUTE OF LAND
AND THE BASIS OF RENT.*

Many of the difficulties just considered are generally recognized in current discussion of the rent concept. The old classification of the material things composing wealth, into land and capital, is admitted to be impossible for some purposes, and only justifiable for others by reasoning that is foreign to the Ricardian treatment. In current discussion of the rent concept the view appears that, although the reasons usually given for contrasting land and capital may not hold, yet there is a sound ground for the distinction. One suggestion has just been considered. Another closely related to it is that,

underlying [the distinction between] those material things which owe their usefulness to human labour . . . classed as capital, and those which owe nothing to it . . . classed as land, there is a scientific principle. . . . When we have inquired what it is that marks off land from those material things which we regard as the products of land, we shall find that the fundamental attribute of land is its extension. The right to use a piece of land gives command over a certain space—a certain part of the earth's surface. The area of the earth is fixed. The geometric relations in which any particular part of it stands to other parts are fixed. Man has no control over them.¹⁹

It is stated that this principle has important bearings on economic theory.

We shall find that it is this property of "land" which, though as yet insufficient prominence has been given to it, is the ultimate cause of the distinction which all writers of economics are compelled to make between land and other things. It is the foundation of much that is most interesting and most difficult in economic science.²⁰

Then, after some statements as to the way in which the soil can

be enriched by man's action, it is said:—

We may then continue to use the ordinary distinction between the original or inherent properties, which the land derives from nature, and the artificial properties which it owes to human action: provided that we remember that the first include the space-relations of the plot in question, and the annuity that nature has given it of sunlight and air and rain; and that in many cases these are the chief of the inherent properties of the soil. It is chiefly from them that the ownership of agricultural land derives its peculiar significance, and the Theory of Rent its special character.²¹

(a) In these statements an initial difficulty results from a lack of positiveness in their expression. In the last paragraph it is stated that the distinction in question may be retained because it rests on the property of extension in land; but, instead of concluding that the only inherent or original properties to be considered in the land concept are the space relations, it is said that they "include" the space relations. This leaves the statement still undefined, for it implies that other things also are included. The intention to include other things appears further in the phrases "in many cases," "the chief of the inherent properties," "chiefly from the ownership." Such phrases give vagueness at the outset to the "fundamental attribute," "the scientific principle," that is being stated.

(b) There are some difficulties in the reasoning of the passages quoted. This attribute of land is singled out as the essential one in the distinction between land and other kinds of wealth, for the reason that it is thought to be the one property which man is incapable of influencing. It is thus stated:—

There are other utilities over the supply of which [man] has no control: they are given as a fixed quantity by nature. . . . The area of the earth is fixed: the geometric relations in which any particular part of this stands to other parts are fixed and man has no control over them.²²

Here is a jump in thought from the "supply" of utilities furnished by the extension of land, the accompanying natural forces of rain, sunshine, and the like, to the physical area of the

earth. One could dispute the truth of the statement that the physical extent even of arable land is fixed; but, neglecting the small area of made land, the supply of natural utilities and the existing area of land are widely different things. Part of the earth's surface undiscovered or inaccessible does not exist for economic purposes: it is not a part of the supply, although it may become such in the future. The utilities of new areas become available to man, become a part of the "supply," when, as is constantly happening on a large scale, they are brought into relation with industrial communities. The geometric relations, physically considered, are as nothing in economic discussion, compared with the time relations and what might be called the sacrifice relations of two parts of the earth's surface. New transportation routes and new motive agents are constantly changing the time and toil relations of two areas. When districts which were a month's journey apart are brought within a day's journey of each other, when continents are brought into economic relations with markets and with wants, does not the statement that "geometric relations remain unaltered" become a play on words? In cutting tunnels, levelling hills, building railroads, bridging rivers, connecting oceans by new waterways, man exercises as great a control over space relations, it would seem safe to say, as he does over any other material conditions. In the work which has been quoted is discussed the development of new countries, and the effects on prices of products, and on the values of lands in the older countries with which the new countries are brought into competition; and it does not seem possible to consider these facts other than a negation of the idea of a fixed supply of the utilities connected with land.²³

(c) The statements under consideration raise hopes of a contribution to economic theory that are unfulfilled. The thought of extension as the essential attribute of land and the foundation of rent has never been developed and applied to "elucidate the interesting and difficult" parts of economic science. "Extension" is not again mentioned in the succeeding six hundred pages of the work quoted, nor is there anything essential in the argument which can be traced to its influence. The

concept is distinctly repudiated in the supposed case of meteoric stones which fell in a shower and proved to be of great value in industry. The income from their use, it is said, "would be a true economic rent, whether [the owners] used the stones themselves or loaned them out to manufacturers."²⁴ The illustration is introduced to show "that the immovability of land, though a most important attribute of land for many purposes, is not essential to the eminent claim which the income derived from land in an old country has to be regarded as a true rent."²⁵

The illustration, it is said, shows "a perfect form of true rent yielded by a movable commodity." Here what is called the attribute of extension is apparently implied in immovability, but it is not considered fundamental, it is not essential: it is merely "important for many purposes," though what those purposes are is not stated. Here is a case of "true rent," though it was said that the theory of rent derives its special character from space relations. The theory of rent is presented in a number of ways quite independent of space relations. It appears that the old concept of rent as a payment for the bounty of nature is not displaced in this treatment by the concept of extension.

Closely allied to the thought just noted is the one that in the rent of land there is an element due to environment, or to situation, which is separable from the elements due to the "value of the soil as it was made by nature," and that due "to improvements made in it by man." It is said that in "the full rent of a farm in an old country" the third element, "which is often the most important of all, [is due] to the growth and rich population, and to facilities by communication by public roads, railroads, etc."²⁶

This idea is not further developed until we reach the chapter on "Influence of Environment on the Income from an Appliance for Production. Situation Rent. Composite Rent." Reference is made to the two preceding chapters as dealing with "the income derived from the ownership of the 'original powers' of land and other free gifts of nature, and that which is directly due to the investment of private capital."²⁷ The purpose of the chapter is then stated:—

But there is a third class, holding an intermediate position between these two. It consists of those incomes, or rather those parts of incomes which are the indirect result of the progress of society, rather than the direct result of the investment of capital and labour by individuals for the sake of gain. This class has to be studied now.

Then follows a discussion of "situation rent." The distinction heretofore considered is that between the first and second elements, land and capital: the distinction now suggested is one between the part of land value due to the free gifts of nature and the part due to environment or situation. This appears to be open also to serious objection. No matter what are the "original powers" of land, they have no fixed or predetermined value: they have value only with reference to the social situation, to the needs of men. The value of a piece of land is apparently thought of as a given amount due to nature in one given set of circumstances; and then, changes such as those mentioned being supposed to take place, the increased value and income of the land is attributed to a new element, the situation. But it may be objected that the situation of the "gifts of nature" near human wants was essential to their value in the first case, just as the presence of certain qualities in the gifts is essential to their value in the second place. In considering time, place, form, and elemental value, it may be assumed for logical and practical purposes that any three of the four features of value are given, and then the change in the value may be attributed to the fourth feature. A ton of ice on a July day in a city may be said to owe its value to its situation, if you contrast it with another ton a thousand miles to the north; but you may also contrast it with a ton of ice six months earlier, or with a ton of water then and there, and then its value appears to be due to other things than situation. The value is equally dependent on the substance, form and time, place, and the presence of wants that can be satisfied. In the case of land the social environment is not a new element which imparts a value separable from that due to nature. The social environment is always one of the conditions which make it possible for the gifts of nature to have any value whatever. While, therefore, it may be permissible, in looking at the subject

historically, to speak of a change in the value of natural resources as due to a change in the advantages of the situation, it does not seem allowable, in viewing the subjects statically, to speak of two classes of income from natural resources, one due to the free gifts of nature and the other to the increase in value of those gifts with social progress.

3.

*TIME AS THE GROUND OF THE DISTINCTION
BETWEEN RENT AND INTEREST.*

It is said that the distinction between rent and interest may be made to turn on a difference of time. It is probably true that nowhere in current discussion will the statement be found that this is the *whole* difference, but it is put thus:—

The greater part, though not the whole, of the distinction between rent and interest on capital turns on the length of the period which we have in view.²⁸ [And again:] For the time they [the net incomes derived from appliances for production already made] hold nearly the same relation to the price of the things which they take part in producing, as is held by land or any other free gift of nature.²⁹

The idea recurs frequently that “for the time” the supply of any agent may be regarded as fixed, and, therefore, as not conforming to its cost of production; and in such case the income yielded by it is “of the nature of rent.”³⁰ The reservation in the phrase, “though not the whole of the distinction,” leaves in doubt the value of the statement for exact theory. But the trend of the thought is evident. It is a departure from the land concept, wherein rent is always a return for the gifts of nature, and from the extension concept, where rent is paid for one property of land. It is a continuity concept of a peculiar sort, the difference between rent and interest appearing gradually as the time is lengthened within which the productive agents are considered. “In passing from the gifts of nature through the more permanent improvements in the soil to less permanent improvements

... we find a continuous series."³¹

In this conception, as the period under consideration is lengthened, the rent bearer, if it is a perishable thing, gradually becomes an interest bearer, rent gradually merges into interest, and there is no sharp dividing line between them. In the static view of industry, the income from material agents is rent, and interest is nonexistent. If there is any thought here of the bounty of nature or of the attribute of extension, it comes in the dynamic view of industry in considering long periods. The income derived from the durable sources is always rent (in this conception), and never becomes interest; while the income from appliances which must be renewed, is sometimes rent (in short periods), but becomes interest if a period of some length be considered.

In this brief restatement and explanation is implied no adverse criticism. That this concept has a much different content from the others may make an inconsistency in an economic treatise, but not necessarily within the concept itself, which may be an improvement on those found defective. That it is a continuity concept, and that only the two extremes are in logical opposition, is not necessarily a fault. The question is, What sort of continuity is shown? The difficulty is that this concept is never thought of by business men in the conduct of practical affairs. Such a usage of terms cannot be maintained except on the most abstract plane. A terminology which does not reflect distinctions present, though perhaps but vaguely, in the minds of practical men, does not meet the requirements even of the abstracter economic theory.

Further criticism may be reserved, for the time concept is nowhere in contemporary discussion fully worked out; and it may perhaps be looked upon as an undeveloped thought suggested by the recent mode of treating costs and rent. Those goods which are worn out and renewed more or less frequently tend, in the long run, to conform (it is thought) to the cost rule, while the durable goods are independent of the cost rule. In the latter case the income is a true rent; but all the other appliances yield what appears to be a rent, if they be studied for short periods, within which their value cannot be adjusted

to their cost. This supposed relation between cost and rent—the no-cost concept of rent—will later be given a fuller consideration.

4.

RENT AS A GENERAL SURPLUS.

The word "rent" is frequently used of late in reference to almost any surplus gain. For example, the term "consumer's rent" is applied to "the excess of price which [a buyer] would be willing to pay rather than go without [a thing], over that which he actually does pay."³² Rent is here not connected with any particular kind of agents, nor is it any regular form of income; but it is merely a margin of advantage in an exchange. It must be noted that the term is used cautiously: "It has some analogies to a rent; but is perhaps best called simply consumer's surplus."³³

The word is used also in connection with the "extra incomes which are earned by extraordinary natural abilities."³⁴ It is said that there is strong "cause for regarding them as of the nature of a rent, or producer's surplus, resulting from the possession of a differential advantage for production, freely given by nature." Several cases are cited where the term might be misleading; and it is said that "the greatest caution is required in the application of the term rent to the earnings of natural ability."³⁵ Yet the use is sanctioned under some circumstances.

The term "producer's surplus or rent" is used still more broadly of the earnings of the most ordinary ability, as indicating a surplus of pleasure to the workers above the sacrifice involved in their work. As they are paid for the earlier hours "at a rate sufficient to compensate them for the last and most distressing hour," they are said to be "reaping a producer's surplus, or rent,"³⁶ on the earlier hours.

Still another variation is given to the term when it is said that "a negative rent" is "reaped" by the man who would prefer to stop work an hour earlier, but cannot.³⁷ In all these cases the thought is that an income, or share, of the product should be called a rent

whenever it represents a value greater than that which is attributable to the sacrifice that is or must be made to secure it. The rent concept has become one of surpluses found throughout the whole range of industry.

5.

EXAMINATION OF THE DOCTRINE THAT RENT DOES NOT ENTER INTO MONEY COST OF PRODUCTION, PRELIMINARY TO THE STUDY OF QUASI-RENTS.

Pervading the current treatment of rent is the thought that it is a share of the product (or an income, or the yield of a factor) which "does not enter into the cost of production." This comes to be the very essence of the rent concept. The criticism of this concept naturally divides itself into two parts, corresponding to the generally recognized double meaning of cost of production.

The term cost of production [is used] in two senses, sometimes to signify the difficulty of producing a thing, and sometimes to express the outlay of money that has to be incurred in order to induce people to overcome this difficulty and produce it.³⁸

The "efforts and sacrifices" required to make the commodity are called "the real cost of production," while "the sums of money that have to be paid for these efforts and sacrifices" are called "the money cost of production, or, for shortness, the expenses of production," "or, in other words, they are the supply price."

There is no question that it is with cost in the money sense that rent is linked in the proposition above quoted.

The price of the whole produce is *determined by* the expenses, or money cost, of production on the margin of cultivation; and rent does not *enter into* cost of production.³⁹

It is this doctrine which will now be examined with the view of determining what basis it affords for a concept of rent. First, let it

be noted that, in viewing the money costs of production as regulating value, one is taking the individual standpoint. The costs are thought of as incurred by the undertaker when he pays out money. We are told that in studying this feature of rent "the easiest as well as the most practical course is to go straight to production for sale in a market."⁴⁰ There is no question as to how much sacrifice is involved to the laborer, to the capitalist, or to the landlord, in giving services or the use of the wealth which they control to the undertaker who pays for them. Cost of production is said to regulate or determine the value of products because, if the price is not high enough to meet these money costs, some undertakers will reduce their output, others will go out of business. *Vice versa*, if prices rise, other undertakers will be tempted into the business by the more than ordinary balance over and above expenses. In this view, everything that an undertaker pays out in order to produce a commodity would seem to be a necessary part of his costs, and, it being supposed that he is not a land-owner, rent is a part of these as much as is any other payment. The typical undertaker is supposed to rent his land, to hire his labor, and to borrow his capital. To the undertaker, be he farmer, manufacturer, or merchant, these various costs stand in just the same relation to his production. No one of them is to him a surplus, for he is paying their full value as fixed by competition in the market. The only surplus to him is a surplus of the price over and above the sum of costs entering into the product.

A consideration of these facts gives an appearance of self-evident error to the doctrine in question. It seems to be a denial of the good sense of the undertaker. It suggests the thought that those who state the doctrine have overlooked the fact that the undertaker pays rent. Indeed, it will be shown later that the idea of rent as a surplus starts with the thought of the owner who has especially good land and thus gets a surplus product;⁴¹ but, in the argument at the stage we are now considering it, the facts above stated are fully conceded. It is said:—

The doctrines do not mean that a tenant farmer need not take his rent

into account when making up his year's balance sheet. When he is doing that, he must count his rent just in the same way as he does any other expenses.⁴²

This argument does not imply that a manufacturer when making up the profit and loss account of his business would not count his rent among his expenses.⁴³

In making up the profit and loss account of the cultivation of land, the farmer's rent must be reckoned among his expenses.⁴⁴

These imply also that rent must be taken into account just as any other expense in any increase of the business which involves the use of more land. The doctrine would thus seem to be given up; but it is justified by this reasoning:—

What they do mean is that, when the farmer is doubting whether it is worth his while to apply more capital and labour to the land, *then* he need not think of his rent; for he will have to pay this same rent whether he applies this extra capital and labour, or not. Therefore if the marginal produce due to this additional outlay seems likely to give him normal profits, he applies it: and his rent does not *then* enter into his calculations.⁴⁵

It has before been assumed that it is possible to estimate the expenses of production while omitting rent; that is, "on the margin of cultivation."

That is, they are estimated for a part of the produce which either is raised on land that pays no rent because it is poor or badly situated; or, is raised on land that does pay rent, but by applications of capital and labour which only just pay their way, and therefore can contribute nothing towards the rent. It is these expenses which the demand must just cover: for if it does not, the supply will fall off, and the price will be raised till it does cover them. Those parts of the produce which yield a surplus will generally be produced even if that price is not maintained; their surplus therefore does not govern the price: while there is no surplus yielded by that portion of the produce the expenses of production of which do take direct part in governing the price. No surplus then enters into *that* (money) cost of production which gives the level at which the price of the whole supply is fixed.⁴⁶

The last unit of product which the undertaker attempts to secure, it is said, contains no element of rent, whether it be produced on rich rent-bearing land (on the intensive margin) or on the poorest piece of land (on the extensive margin). Most stress is placed, however, on the argument as to the intensive margin; for that is present in every industry.

A number of reasons may be adduced for rejecting the doctrine that has been stated.

1. The statement that rent does not enter into the cost of production, when interpreted as has been shown, is a violation of the plain and usual meaning of the words, and one that is confessed. Nearly all the attention that has been attracted to the phrase has been due to its evident contradiction of the facts as understood by the practical man.⁴⁷ It is here justified by giving it a most unpractical meaning. It is said that, while rent is practically a part of the expenses of production at every moment of time, exactly as every other outlay is, yet in a certain logical sense it may be looked upon as not being a part. Even if the logic of this were sound, it comes very near being a quibble on words.

2. The logic by which it is shown that the undertaker need not consider as part of his expenses the rent of the last or marginal unit of product proves too much to be sound. In exactly the same way one can seem to show that interest, wages, and profits do not "enter into" the cost of production,—a *reductio ad absurdum* which has not failed to appear under the light of recent criticism.⁴⁸ Nor does this possibility escape the ingenious thinkers who hold the doctrine under criticism. Speaking of the farmer, it is said:—

The question whether he has carried his cultivation of a particular piece of land as far as he profitably can, and whether he should try to force more from it, or to take in another piece of land, is of the same kind as the question whether he should buy a new plough, or try to get a little more work out of the present stock of ploughs. . . . That part of his produce which he is in doubt whether to raise by extra use of his existing ploughs, or by introducing a new plough, may be said to be derived from a marginal use of the plough. It pays nothing *net* (*i.e.*, nothing beyond a charge for actual wear-and-tear) toward the net income earned by the plough.⁴⁹

Again, it is said more generally of the manufacturer or trader:—

That part of this production which he just forces out of his existing appliances, being in doubt whether it would not be better worth his while to increase those appliances than to work so intensively those which he has, contributes nothing of the income which those appliances yield him. This argument says nothing as to whether the appliances were made by man, or part of a stock given by nature.⁵⁰

When it is noted that these statements are made in connection with the thought that all material agents are capital from the standpoint of the undertaker, the conclusion seems necessary that all claims of any exceptional relation of rent to money costs, and hence to value, must be given up. But such consequences do not appear to be recognized.

To restate our argument: If it can be shown that each of the productive factors employed by an undertaker, in a certain logical sense, costs him nothing in the marginal product, it follows that no one of these factors and no one of the items of expenses is on this account in an exceptional relation to the value of the product. Either one must say that none of the undertaker's outlay "enters into" the cost of the product, which to the business man would appear to be a very Pickwickian statement, or one must say that all of them enter in just the same way, hence this can be no peculiarity of rent.

The same argument may be made to apply to each and every item of expense entering into costs. If seed, ploughs, horses, reapers, fences, barns, are used by a farmer in producing a certain crop, the amount of every item but one can be increased, and another unit or product procured, without any addition to the cost of that one item. Thus each item may be shown, with equal fallaciousness, to be no part of the cost of production of that unit of product supposed to be price-determining.

It must be borne in mind that the supposed peculiarity of rent is not made dependent on the element of time, the length of the period under consideration, but is based on reasoning applicable at any given moment, as appears above, to each and every item entering into production. By a mere logical device the actual

expenses of production may be conjured away, while the burden of their payment rests with undiminished force on the shoulders of the undertaker.

3. The doctrine contradicts the conditions which it postulates. A fundamental assumption of the whole argument is that there is free competition among intelligent renters. It is assumed that the tenant who rents the land knows what the land would be worth when used in connection with the best possible proportions of other agents, and bids that amount for rent. Of course, the best proportions are relative to the general state of knowledge at the time. Under the justifiable assumption of diminishing returns with increasing applications of labor and capital, there is an ideal point at which the maximum economic result would be secured from the land, and beyond which the application of the slightest additional capital would involve a loss. It is this ideal point which every practical undertaker is striving to attain. In theoretical discussion the additional doses of capital are supposed to be infinitesimally small, as are the additional units of product. The argument under criticism assumes that a blunder has been made by the undertaker, and that it would pay to add more capital than he had counted on. But, if the rent has been really a competitive one, and the doses be considered as infinitesimally small, there must be some product secured for rent for each added unit of capital and labor up to the very last, in order that the tenant may pay the competitive rent. The last unit of product of any finite amount would contain this element of advantage, and under competition would have to pay its corresponding rent. The only product obtained, in the strict theory of the case, without paying rent, would be one unit infinitesimally small,—in plain Anglo-Saxon, would be nothing at all. No finite unit of product can be shown to be a no-rent unit in the theory of the intensive application of labor and capital with regularly diminishing returns. The concrete units are produced at varying costs for labor and interest on capital, and every one contains an element of rent. This rent is a part of the undertaker's costs, and equalizes the total costs of the various units of product; for under perfect competition he is compelled to pay it,

if he is to retain control of that quantity of land which is economically most favorable for the output he is producing.⁵¹

4. The marginal costs in one industry may contribute to rents in another. If it were logical in the case of any business that is paying rent to look upon certain marginal units as contributing nothing to money rent in that business, and if these units, because just paying, were considered as regulating the price of the whole supply, still is it not a begging of the question to say that a payment to rent is not a part of the money costs of the marginal unit? For the marginal units of money cost are not ultimate factors of value. They are a complex of many payments for various elements, and there is no proof that these do not contain an element of rent which must be paid if the supply of materials is to be obtained and the supply of the product is to be maintained. Some of these elements may be secured from natural resources having a high rental value: some of them, in fact, may be bought from landlords who have received them as rents in kind. So when the theorist, seeking to show that rent is not a necessary part of money costs, has eliminated the rent of the immediate product, a final answer has not been reached: the difficulty has only begun. He must again take each portion of the costs and eliminate the rent found in it, seeking, if he may, the marginal units of these marginal units, in which no troublesome element of rent is found. These complex units of cost, which are admitted to enter into the price and determine it, are thus seen to be in many cases made up in part of payments to rents, to "price-determined" things of value. They are not the homogeneous, rentless units they were assumed to be.⁵²

5. Such rentless marginal units could not be considered as regulating and determining the value of the product in any causal or exceptional sense. The four preceding reasons all are in support of the view that rent is a necessary part of the expenses of any product in the same sense that any other outlay of the undertaker is. If those reasons are sound, the supposed peculiarity of rent in relation to costs is sufficiently disproved. But it may be made clearer that rent bears just the same relation to the money costs that every other outlay of the undertaker

does, if the analysis is carried one step farther to show that, if some units could justly be looked upon as rentless, they could not, except by chance, be the ones that fix the limits of supply and hence govern price, even in an abstractly logical view.⁵³ The marginal units of supply which it just pays the undertaker to produce may be those containing a large element of rent.

Start with the existing market price. It is determined by the market conditions at the moment. If price falls, there is a readjustment or reduction of supply because costs are not met on some units. If price rises, there is an increase of supply because other agents seek that industry. The only sense in which it is claimed that these marginal costs determine price is by their effect on supply. The marginal units produced with the poorest land (or other agents) or with the poorest powers of agents used, are assumed to be the regulative units. But neither is there practical proof of this nor is it logically evident. Any unit that is added to supply or taken from supply, because not paying at any moment, may be just as logically considered the marginal unit in determining supply. Suppose that a large fertile source of supply for wheat is newly discovered or made available. Coming into the market in large quantities, these units of product increase supply, depress price, and drive large areas of land either out of cultivation or into other industries.⁵⁴ There is a readjustment of the old sources of supply, a loss of the weaker units on the margin; but it is no causal matter, it is the effect of a change at another point. The employment in the industry and the very costs (that is, value) of these supposedly determining units are seen to be determined by other units of supply. Constantly some of the better agents are being tempted into other uses or agents yielding a high rental are brought back into the industry. Those sources of supply and units of product which have large elements of rent in them are just as effective in determining the final equilibrium of supply as any rentless units can be. The work of preserving the supply just where it will cause the price on the market to cover these costs is not left to a few rentless units along the margin. In the case of any important product it is performed by thousands of units of supply of the better agents, any one of

which is ready, at the slightest change of price, to shift into or out of the industry, if thereby it can earn a greater rental. If these marginal units of supply, which it just pays the undertaker to secure, thus usually contribute to rent, rent must be said to contribute to the marginal money cost of production.

The facts above noted are admitted in the current defenses of the doctrine under discussion. It is said:—

“Each crop strives against others for the possession of the land. If any one crop shows signs of being more remunerative than before, relatively to others, the cultivators will devote more of their land and resources to it.” As a result, any one crop, as oats, must pay even for the poorest land on which it is grown enough rent to hold the land from a competing use. There thus results “a modification of the classical doctrine of rent and value.” “The margin of cultivation has now to be described as the margin of the profitable application of capital and labour to all land which the competition of other crops yields to oats.” And this means, as it is further explained, that “the expenses of production of those oats which only just pay their way, are increased by the diversion to other crops of land which would return large crops of oats; land which would yield a good rent under them, but which yields a better rent under other crops.”⁵⁵

Let us note what effect these facts are admitted to have on the doctrine under discussion. It is admitted that marginal units in one crop, which it just pays to produce, do contain an element of money cost sufficient to pay the rent that would be earned by a competing crop, and that the demand for land in other uses raises the marginal expenses and the price. It is distinctly stated that the argument is valid for urban as well as rural land. This would seem to cover the great majority of products, and nearly all the rent that is paid for any purpose. If the rents of all competing crops *mutually* enter into each other's prices, the door has been opened quite as effectually for the entrance of rent into price as if the relation had been made more direct. It is implied, further, that, in considering this competition for the use of fertile soils, “the classical economists” are not followed. It is admitted that “it requires a modification of the amended doctrines as to rent and value,” that the statement that the normal

value of a single crop is determined by cost of production under the most unfavorable circumstances (that is, on land paying no rent) was incomplete in the way above noted; and, finally, it is admitted that the phrase "rent does not enter into the cost of production," when applied to a particular crop or to any particular product, "is liable to misinterpretation," should be avoided, "and its use is inexpedient."⁵⁶ The phrase, when meaning the money cost of production, never is applied except to a particular product. So the doctrine appears to be effectually discredited by its defenders. But this conclusion is rejected, and the claim is made that "it is still true that rent is not an element in those expenses of production of marginal oats to which the price of the whole conforms." It does not seem to us possible to harmonize this with the facts above admitted. The only reason given, one considered sufficient to justify the doctrine, is the one fully considered in another connection,—the logical device of a rentless unit of product.

The suggestion may be ventured that, when considering the money costs of production as regulating the supply of various goods, the marginal unit is logically the no-profit unit for the undertaker. A no-profit unit of product, moreover, is, in an abstract view of the case (that is, assuming that there has been neither blunder nor miscalculation), the last unit that can be made to earn enough in the business to pay its burden of rent, wages, and interest. The no-profit unit results from just that ideal right combination of instruments which yields the highest net product in the whole industry. No change in the proportion of the various factors could make any one of them contribute a particle more to the net result of the undertaker's profits. When money costs of production are looked at concretely, as they are by the business men, all kinds alike are essential, and all enter into the cost. If the yield of the various factors be studied by the methods of marginal product and mathematical increments, each can be considered as reaching at last a point of no-yield to the undertaker. It is this which in an empirical way the business man is striving to locate. The marginal or no-profit unit, to any undertaker, is the unit where *every factor* may be logically looked

upon as having reached this point.

6. The doctrine is by logical necessity given up when land is classed as a particular form of capital from the point of view of the individual undertaker.⁵⁷ Passages have been cited in another connection⁵⁸ to show that contemporary defenders of the rent doctrine give up the attempt to distinguish between land and capital, and justify it only because of differences which are said to appear from a social standpoint. But, as has several times been pointed out in this paper, the undertaker views the payment of "rent" and "interest" in precisely the same way, as the purchase of so much productive power. All of these expenditures are, by means of the money expression, reduced to comparable and homogeneous units of money cost. All costs represent capital expended by the undertaker.

The giving up of the distinction between land and capital, when taking the business man's standpoint, involves as a consequence the giving up of the old distinction between rent and interest, when considering the money costs of production. The maintenance of the distinction and the founding upon it of an important doctrine (that of quasi-rents) can hardly be explained except as due to the survival of economic traditions, and to a failure to adjust the older and the newer thought.

The conclusion of this long series of arguments is not only that the time-honored doctrine is unsound, but that this is by logical implication repeatedly admitted by those who still formally assert its validity.

6.

THE NO-COST CONCEPT OF RENT.

The doctrine just stated, far from being rejected, is made the basis of the concept of rent which may be considered the dominant one at present among the economists of England and America. On the assumption that the doctrine has been proved, this peculiar relation to value is made the essence of the rent concept; and all the incomes which are thought to share this

peculiarity are classed as rent. It is explained that the "incomes derived from appliances for production made by man" are called quasi-rents, "partly because (in short periods) the stock of them has to be regarded as *temporarily* fixed," but essentially, as is stated in the next sentence, because "for the time they hold nearly the same relation to the price of the things which they take part in producing, as is held by land or any other free gift of nature, of which the stock is *permanently* fixed; and whose net income is a true rent."⁵⁹

In such cases the incomes from improvements on land "do not take direct part in determining the price of the produce, but rather depend on them" (*sic*).⁶⁰ Hence these incomes are called quasi-rents; that is, of the nature of rent. The point repeatedly insisted upon is that the mark of rent or of quasi-rent is that it does not "enter directly into the marginal cost of production."⁶¹ In this concept rent is an income that is "a result and not a cause of selling price."⁶² Rent is a share, or an income, that does not correspond to a cost which must be met if the supply of the product is to be maintained. The expression "a cause of selling price" means the same as "enters into the cost of production." Instead of a sharp classification of *sources* of income, as was involved in the original concept of rent, there is here presented a continuity classification of the incomes themselves, ranging from those at the one extreme, which never enter into the cost of production, in a continuous series to those which do not enter when very short periods are considered, but do enter at any other time. At the head of the series are the free gifts of nature, whose supply is said to be fixed, and likewise must be logically the incomes flowing from the possession of strictly unreproducible articles, as masterpieces of art, autographs, though these are not mentioned: all such are true rents. At various points along the scale come the incomes from appliances made by man, the supply of which can be renewed or increased in varying periods of time.

The attempt will now be made to show that this concept of rent as the no-cost income, and the doctrine of quasi-rents connected with it, involve a number of fallacies; that they are radically out

of harmony with the principles just criticized, on which they are supposed to rest; and that they grow out of a confusion between the two sets of ideas enumerated in parallel columns, as follows:—

- | | |
|-----------------------------|--------------------------------|
| 1. Between the undertaker | and the owner. |
| 2. “ undertaker’s cost | “ owner’s income. |
| 3. “ production of the good | “ production of the appliance. |
| 4. “ money cost | “ real cost. |
| 5. “ the individual | “ the social standpoint. |

1. The undertaker’s *vs.* the owner’s standpoint.

As we have seen, the consideration of money costs of production and their relation to the value of goods compels the adoption of the undertaker’s standpoint. The costs of goods act on their value, so far as they do it at all, through the medium of the undertakers, who adjust supply according to the price. We have maintained that in so doing they must count the rent of land precisely as they do any other item; while the doctrine here criticized seems to be that, just as the undertakers need not count their rent, so they need not count any other items of expense, for not one of them enters into the cost of production in short periods. Such a *reductio ad absurdum* must cause the no-cost doctrine to be renounced; but the conclusion is escaped because the thought has passed on from the undertaker and his burden of costs, and his constant endeavor to adjust supply to the price, and has gone over to the owner of the appliances of production.

2. Undertaker’s cost *vs.* owner’s income.

This shift of thought is evident in the first paragraph of the chapter on quasi-rents. It is said that

The farmer pays “rent” to his landlord [this is rent as undertaker’s cost] without troubling himself to distinguish how much of the annual net value of his land is due to the free gifts of nature and how much . . . to improvement.

In the next sentence the shift to rent as the owner’s income is made:—

Now the income derived from . . . appliances of production made by man have really something analogous to true rents. . . . For the time they hold nearly the same relation to the price of things which they take part in producing, as is held by land.⁶³

Every item of outlay by the undertaker may be viewed from two sides: to the undertaker it is always a money cost, and never an income; to the one who receives it⁶⁴ in payment for labor or the use of appliances it is always a part of income, and never a money cost. Now, in the chapter⁶⁵ on quasi-rents, after the first sentence, the discussion is all of incomes: "the incomes from buildings," "the net incomes from appliances for production already made may be called their quasi-rents," "the extra income derived from improvements that have been made in the land by its individual owner,"—these are a few of a large number of expressions showing that the payment is not looked upon as a money cost, but as an owner's income. This helps us to understand how it is possible to say that none of the shares are money costs: it is an unannounced and doubtless unconscious shift to a quite different conception.

In this connection it may be suggested that the idea that rent is not a part of undertaker's costs originated in just this fallacy. Here *no* share of the produce is a cost, because all are viewed as owner's income: there rent is not a cost, because for the moment it is assumed that the undertaker is an owner and has no rent to pay. The thought appears at the beginning of the chapter on Rent in these words:—

When a person is in an advantageous position for any branch of production, he is likely to obtain a "producer's surplus,"—that is, a benefit in excess of what is required to remunerate him for his immediate outlay. This surplus is likely to exist when he produces for his own consumption, as much as when he produces for sale.⁶⁶

It requires no argument to prove that this is a surplus only to the owner, and that competition keeps it from being a surplus to the undertaker and makes it a cost. So that, if the standpoint of money costs be held consistently, almost the exact opposite of the

usual statement must be made. Instead of rent being to the undertaker a "surplus above costs," it is essentially that payment which, as a part of costs, prevents the undertaker from getting any surplus which can be attributed to the rented agents.

3. Production of the commodity *vs.* production of the appliance.

The changes just noted involve a change of thought also from the production of the commodity in question to that of the production of the appliances. The things these appliances take part in producing are still spoken of, but the interest is indirect. In the case of the production of the commodity, the undertaker pays what he is forced to in each case for the agents of production "without troubling himself" about their origin. The period within which the supply affects price is that within which appliances can be diverted from one use to another. Here, however, the price of commodities is supposed to remain unchanged until new appliances can be brought into existence, tempted by the higher income: the period considered important is that within which the supply of "improvements" or of "means of production" can be increased. Their (real) cost is thought of as reflected on in the price of the goods; but let it be noted in passing that this can never raise, it can only lower the price, through increased supply. Only occasionally is it impossible to divert some of the existing appliances almost immediately to other uses with greater or less ease, so that the period sufficient to increase the supply of the commodity rarely is the same as that needed for creating new appliances. When the relation of money costs to the price of commodities was talked of, it was with reference to their influence in increasing or decreasing the supply of the various commodities: when the relation of owner's income to prices is talked of, it is with reference to the effect they will have in increasing or decreasing the supply of available appliances. The undertaker reaps his unexpected profit when the price of his product suddenly rises, and he has either a large stock of it or has contracts out for the materials, so that he can get a large margin between costs and price by producing quickly and more cheaply than his new competitors. The owner reaps an

unexpected income when his appliances are suddenly in greater demand. The case to test what the effect is of a relatively fixed supply of appliances on the undertaker's costs is that where he has no standing contract for materials when the increased demand for the product arises; and here can be seen most clearly that money costs do enter into price. The value of the appliance for the time limited would rise, its owner would get an increased income, and the undertaker must meet increased costs if he is to continue to produce the article.

4. Money cost *vs.* real cost.

All of these shifts of thought seem to be traceable to the perennial source of error,—the confusion of money costs and real costs. In speaking of the cost of the undertaker, it is usually money cost; in speaking of cost to the one whom the undertaker pays, whether he be a laborer, capitalist, or land-owner, it is real cost that is meant. In the quasi-rent discussion this error is palpable. It is said that

for periods that are long in comparison with the time needed to make improvements of any kind, and bring them into full operation, the net incomes derived from them are but the price required to be paid for the efforts and sacrifices of those who make them. . . . But in short periods . . . these incomes may be regarded as quasi-rents which do not take direct part in determining the price of the produce, but rather depend on them.⁶⁷

Here all the points are combined. It is the owner's income, the supply of improvements, and the cost in the form of effort and sacrifice which must be met. There is no hint of the thought that even in the shortest periods the payment that is income to the owner must be a cost to the undertaker. So throughout "the free gift of nature" is said to yield an income that is not a cost. The "made appliances" have cost "effort and sacrifice," which is no more than enough to remunerate the owner. This is the very heart of the quasi-rent doctrine,—the thought that there is a difference in the cost which must be undergone to bring into existence different productive agents. Some are free gifts, and involve no cost (sacrifice): others are made by man, and cost

effort. It is not clearly seen and borne in mind that money costs have no correspondence with these, but are merely the market value of the agents of which a producer makes use.

Here mention may be made of a troublesome fallacy in the very definition of land as "the free gifts of nature." If it is defined in this way, man cannot increase land by his efforts; for it is then not land, not being a free gift. Everything to which man has given the slightest effort becomes capital. But, if land be taken in the usual practical sense, as the earth and the materials it affords, whether difficult to get at or not, it is evident that most kinds of land can be secured with varying degrees of difficulty. All economists drop into this conception sooner or later.⁶⁸ In this sense, land has a supply price, just as any other good has. The supply is increased when the price is sufficient to meet the money costs in the same practical sense in which this is said of other things. This is plainly admitted when it is said that

the supply of fertile land cannot be adapted quickly to the demand for it, and therefore the income derived from it may diverge permanently much from normal profits on the cost of preparing it for cultivation.⁶⁹

5. The individual *vs.* the social standpoint.

The distinction between the individual and the social views of land, on which much stress is laid by contemporary economists, rests on the recognition of the two points of view indicated. By individual point of view is meant that of the undertaker who considers money costs. By the point of view of society is meant apparently that of owners in general, who are considered as expending effort, making sacrifices, incurring real costs, in the increase of productive appliances. This distinction is made repeatedly,⁷⁰ and it must be noted that it is fatal to anything but a "real cost" conception of rent. If land is but a particular form of capital to the undertaker, then there is no difference between rent and interest as money costs to the undertaker. It is only when real costs are considered that there is any difference to note. Now real costs are very little considered in practical business under a money economy. As they are not capable of

mathematical expression, they are dismissed pretty effectually from any discussion of practical business problems, of rent in its relation to market values, and from the economist's analysis of industry. It is difficult to see how the conclusion can be evaded that the distinction still insisted on in current discussion between rent and other shares of industry as they affect value, and the quasi-rent doctrine itself, [rests] on a confusion of these two essentially different conceptions.

7.

REVIEW AND CONCLUSION.

This paper has been mainly critical and negative, yet some positive results may appear in glancing over the ground that has been traversed.

(1) The land concept, the first of the rent concepts, was one that rested on a classification of material things. When anything had been classified as land, it followed that the income from its use was rent.

(2) The extension, or space relation, concept is an attempt to escape some of the difficulties of this classification by narrowing the concept of land to those properties only which were assumed to be neither increasable nor destructible. The fertile qualities of soil, the many destructible and removable material elements, would thus be classified as capital, even though they had not been produced by man. This concept is hardly more than suggested. It is not fully developed by any author.⁷¹

(3) Next in logical order is the one we reserved for the last and fullest treatment, the no-cost concept. It originates unquestionably from the land concept, in the thought that free gifts have no "real" cost, and, therefore, the material services rendered by them do not involve a cost. The application of this notion to rents has two phases, separately considered above. First, by an error of reasoning, the idea that rent is a surplus and not a "real" cost to the owner of land is carried over to the undertaker; and rent is assumed not to be a money cost to him.

So strongly does this notion take root that, when reasons are sought, a very evident fallacy is taken as convincing. It is then assumed that the reason why rent does not enter into the cost of goods is that land cannot be increased in quantity (though this was not the reason that had been given),⁷² and the same relation to cost must be found in anything else that is fixed in supply. Here the land concept is subordinated; and land is thought to yield a rent only because it has no cost of production, and does not enter into the cost of production of commodities.

(4) The time concept is but a variation of this. It takes time to increase the stock of productive agents, and an income from any agent is to be considered rent when brief periods are considered; for within that period, it is assumed, rent does not enter into the money costs of the commodities.

(5) The exchanger's surplus concept is merely a loose extension of the thought that any surplus may be looked upon as rent, any gain which does not involve a real sacrifice. It abandons the idea that rent is a regularly accruing income. It is carelessly thought out, and nevertheless has found its way into wide and reckless use during this period of psychological economics.

One feature marks all these concepts: it is the inclusion of land, the "free gift of nature." In the land concept it is the very essence. The extension concept is narrowed to those of these gifts which are deemed to be fixed in supply: in the other three, land becomes only one of many things which yield at one time or another a rent, yet it remains the typical rent, the "true rent," the "rent proper," because it is the one thing that is looked upon as unvarying in supply and incapable of increase. Yet this common feature does not bind these various concepts together into a consistent series: it does not make them mere variations of one another. In the land concept and in the no-cost concept, for example, there are essentially different central thoughts. Within the later concept, land is included merely because it is one of many things which are found to have the rent character.

The golden rule of the critic of art, never to judge a picture by its defects, may perhaps be adapted to the criticism of economic theory. The errors, if they be such, in the work of the distin-

guished economist from whom we have quoted, are inherited from the past. There is not one of them without a history. They merely become evident in their statement along with the newer ideas. In that which is most characteristic, original, and positive in his work, Professor Marshall has left the old concept of rent far behind. The logical consequence of his treatment is that all the division fences between the different sorts of material wealth have been levelled; and rent is the income of any material agent, when static problems, practical business rent, and the money aspects of production are under discussion. And this is a service of high order to economic thought.

The main conclusions of this paper may be summed up in these statements:—

The old concept of rent is passing; it is not being undermined by attacks of the old sort, by those who do not seek to understand it; but it is now abandoned in all but form by those who represent the most conservative wing of economic thought.

The various new concepts considered are imperfect and unsuccessful efforts to escape the difficulties of the older view.

The use of the term "rent" for any surplus above "real" cost is out of harmony with the conception of rent as a regularly accruing income, and with the practical needs of a money economy in which the concept must be employed.

The doctrine of quasi-rents, involving the idea that no income, or share, enters into market prices in short periods, cannot stand. On the other hand, the recognition that there is no difference in short periods between land and other wealth in relation to market values is a great advance.

The relation which rare and not easily producible appliances have to market price over long periods of time is of just the opposite character from that asserted. The less capable of increase particular appliances are, the greater income they yield, the more therefore it "enters into price" as the demand for their products increases.

The need for a new concept of rent which will evade the difficulties of the old is evident.⁷³ The way is prepared for it by the break-down of the old and the patent difficulties of the

substitutes that have been presented.

NOTES

1. P. 150. References are to the fourth edition, 1898.
2. Pp. 213, 220.
3. P. 628.
4. A number of these are noted in the article on "Recent Discussion of the Capital Concept" in this journal for November, 1900 [cf. 33-73].
5. P. 220. He adds, however, that "there is a scientific principle underlying the distinction, which is the fixity of the supply of utilities connected with land." This is discussed below, p. 322.
6. Pp. 223, 224. The indestructible properties are said to be robbed!
7. P. 233.
8. P. 144.
9. P. 492.
10. P. 493.
11. Pp. 607-8.
12. P. 494.
13. P. 717.
14. P. 144.
15. P. 493.
16. P. 478, note.
17. P. 494. See other examples, pp. 714, 760, 765. Note also the point discussed below, p. 327.
18. *E.g.*, p. 608, where this view is taken.
19. P. 220.
20. P. 221.
21. Pp. 224, 225.
22. Pp. 220-1.
23. See above, pp. 319, 322.
24. P. 501.
25. *Ibid.*
26. P. 233.
27. P. 504.
28. Preface, p. x.
29. P. 489.
30. Especially pp. 489-499.
31. P. 496.
32. P. 199.

33. *Ibid.* See also the diagram of producer's and consumer's rent, p. 521.
34. P. 661.
35. P. 663.
36. P. 598.
37. P. 599, notes.
38. P. 418, note.
39. P. 477. This is shown by many other passages; e.g., pp. 418, 423, 426, 428, 430, 431, 433, 473, 477, 561, 608.
40. P. 476.
41. See below, pp. 345-346.
42. P. 478.
43. P. 486.
44. P. 487.
45. P. 478.
46. P. 477.
47. See recognition of this, p. 482, note.
48. This point has been noted, doubtless quite independently, by Mr. H. M. Thompson, in *The Theory of Wages* (1892), pp. 49-80; by Mr. J. A. Hobson, *The Economics of Distribution* (1900), pp. 113-159; and by Professor J. B. Clark, *The Distribution of Wealth* (1899), pp. 354-365.
49. P. 492.
50. P. 493.
51. It is not intended to call in question the worth of the mathematical method of increments in economic studies, but only the correctness of this particular application of it.
52. This argument, if sound, invalidates the theory of distribution and the terminology presented by Dr. C. W. Macfarlane in *Value and Distribution* (1899).
53. P. 477.
54. Adam Smith, noting such facts, stated a doctrine opposed to that under criticism, saying that the most fertile coal and silver mines regulate the price of the whole supply. *Wealth of Nations*, Book I., chap. xi., Part II. This is equally unwarranted.
55. Pp. 481, 482. The thought is further illustrated, p. 487.
56. See pp. 481-483, *passim*.
57. P. 492.
58. P. 419.
59. P. 489. The italics are Professor Marshall's.
60. P. 491.
61. Pp. 419, 498.
62. P. 495.
63. P. 489.

64. If he be not merely another undertaker through whose hands the thing has passed and who must pass on to others a part of the price as part of his costs.

65. P. 489, Book V., chap. ix.

66. P. 476.

67. P. 491.

68. *E.g.*, p. 220.

69. P. 494.

70. See above, pp. 319-321.

71. Besides Professor Marshall, already cited, see Professor J. R. Commons's interesting and ingenious presentation of this idea in *The Distribution of Wealth* (1893), pp. 27-41.

72. See above, pp. 321-326.

73. It need hardly be said that a notable essay in the direction here indicated is the concept presented by Professor J. B. Clark.