

Rent

RENT. The word *rente* occurred in old French of the twelfth century, derived from the vulgar Latin *rendita*, from *reddita*, meaning return or yield. In the same century it occurred in English in the sense of an item of revenue or income (Oxford Dictionary). With varied spellings and shades of meaning it has been used in all the modern European languages ever since. Still today in the law "the word . . . may be generally defined as a compensation or return" (*Corpus juris*). In popular speech it is now, and possibly always has been, used generally as the sum paid for the hire of anything to be returned in the same physical form, as tools, machinery, houses and so forth. Both in economics and in law, however, the word has been most frequently associated with the payment for the use of land, especially of agricultural land; and Alfred Marshall's basic definition is representative of widespread economic usage: "the income derived from the ownership of land and other free gifts of nature is called rent." It is true that Marshall adds: "the economist must stretch it much further," leaving the reader in doubt as to his exact meaning. In law the technical sense of the word is said to be "the compensation received by a landlord for the use of land leased" (*Corpus juris*).

This association, both in economics and in law, of rent with income derived from land resulted from the shifting of a more generic meaning to a specific use which happened to be most frequent in practise. Throughout the Middle Ages the cases of fixed contractual income which most often came before the courts in such matters as settlement of estates, and in modern times those which have attracted the attention of economic students were derived from landed property. A similar result of

Reprinted from *Encyclopedia of the Social Sciences*, s.v. "Rent."

habit seems to account for the more recent peculiar use of *rentes* in French in the sense of incomes from investments in the consolidated governmental debt, *rentier* thus denoting a person who lives from the proceeds of coupons on public bonds. The use of rent in the special sense of an income derived from land while the more general meaning has persisted still contributes, no doubt, to the confusion of the whole concept.

English writers from the sixteenth to the eighteenth century used the word rent as meaning "interest" on a loan which is "only Rent for Stock," as Sir Dudley North said (*Discourses upon Trade*, London 1691), and also in the more special sense of an income from land. Repeatedly too they touched upon the relationship between commerce and land values and the rents of agricultural land. The history of the modern rent doctrine, however, as essentially connected with land may be said to begin midway in the eighteenth century. Although the French physiocrats centered their whole system of the *ordre naturel* about land and its peculiar powers, they preferred to call the yield, or the income, from land not rent but the *produit net*, the "disposable revenue" or "the current price of leases." But the physiocratic conceptions of the three main classes in the nation, of the supposed exclusive power of land to yield a surplus above labor costs and of the assumed non-shifting quality of taxes on cultivated land doubtless influenced English economic thought in the period of Ricardo and subsequently.

Adam Smith's views on rent were far less affected by his physiocratic contemporaries than were those of English economists a generation later, for Smith saw in the magic power of division of labor rather than in the powers of land the bountiful source of the wealth of nations. His preliminary analysis of the price of commodities into its "component parts" of wages of labor, profits of stock and rent of land was much in the spirit of the psychological school of a century later. His further treatment of rent nevertheless was the most confused and unsatisfactory part of his imperfect scheme of value and distribution. He groped for a "natural rate" of rent as well as of

wages and of profits but got no further than the suggestion that it is the "ordinary or average rate of rent, which is regulated . . . partly by the general circumstances of the society or neighborhood in which the land is situated, and partly by the natural or the improved fertility of the land"—a solution satisfying to the most eclectic mind. He then attempted to find a line of distinction between one class of "produce of land (food) which always affords and necessarily affords some rent to the landlord," and other sorts of produce which sometimes may and sometimes may not, according to circumstances (mentioning as examples fur, wool, stone, coal, wood and a variety of other natural materials). He glimpsed the modern conception of marginality in the latter case but ignored it in the former. The easy disproof of this hazy doctrine of the two classes of products helped to convince the Ricardians of their superiority over Smith and to confirm their belief in their own false views of land rent.

Adam Smith's inexact ideas of a bare subsistence as the natural wage and of the power of land ordinarily to "produce a greater quantity of food than what is sufficient to maintain all the labour necessary for bringing it to market" bloomed into the Malthusian principle of population near the close of the century (1798). The peculiar circumstances of the next two decades, with continued war, excessive taxation, curtailment of food imports, unprecedented prices for wheat in England and inflated agricultural rents, served to magnify to abnormal importance the subjects of population growth and land rents. The so-called Ricardian doctrine of rent was independently formulated by several other writers—West, Malthus, Torrens and others between 1813 and 1815—when wheat prices were at their peak. It was destined to play a dominant role in economic theory until after the middle of the nineteenth century and thereafter gradually to lose its prestige.

It is not possible accurately to compress into a single proposition the whole Ricardian rent doctrine for in it several criteria of rent were combined and confused. Even the following analysis does not exhaust the minor details and differences. In the first place, the source of rent was deemed to be distinctly and

peculiarly land, used as a mere geographic or geological term. Along with labor and capital land was one of the three factors of production, paralleled by the three incomes—rent, profits (including interest) and wages—and by the three classes of income receivers—landlords, capitalists and laborers. This tripartite arrangement corresponded fairly well with the main divisions in politics and in English society at that time. Secondly, land was regarded as unproduced, it being conceived as essentially a natural not an artificial agent, having therefore originally no psychic cost, in contrast with the psychic sacrifice involved in making, improving and modifying other things, which were thought to be ruled by the labor theory of value. Again land, even agricultural land, was considered as durable by its very nature, and its useful and fertile qualities were taken to be permanent. As a corollary the rent income was assumed to continue without limit and without impairment of its source, in contrast with physical capital. Land was looked upon as peculiar in that it alone among economic agents was subject to the law of diminishing returns, a doctrine which confused the idea of proportionality between two or more complementary agents with the idea of a historical trend toward less productive land and land uses. Further, land rent was assumed to be of a peculiar residual, or differential, nature, in contrast to wages, profits and interest, in which no differential quality was seen at that time. Closely related was the idea that land rent was peculiarly a surplus above cost (practical business cost), and moreover the one income that “formed no part of price.” This was a mere play on words and was not meant to deny that the actual prices of all products where scarce land was used contained rents as well as wages and profits, or that rent formed part of the necessary competitive expenses of the enterpriser. The phrase involved a garbled marginality theory, which amended the words “formed no part of price” by the addition: of that portion of the supply which fixes (or determines) the price of the whole. Recent criticism has pretty effectually disposed of the fallacious idea of a certain marginal unit fixing the price of the whole or of the other units in the marketing of any sort of goods or uses.

Land rent in the Ricardian doctrine was further regarded as peculiar in that taxes on land, agricultural as well as other, were not shiftable. Land being deemed to be not only unproducible but indestructible, it was concluded that the quantity of usable land and the mode of its use could not and would not be altered in any degree through the taxpayers' choice as a result of changes in land taxes. Finally, all land values and all rents were held to be of a monopolistic nature, no matter how widely distributed landownership might be; this was palpably a confusion of the idea of "natural" scarcity and that of monopoly in its proper sense as control and artificial manipulation of supply and of prices through unified ownership or by agreement.

The subsequent history of the rent doctrine is largely a record of hostile criticism of these inconsistencies in the Ricardian theory and of the attempts of Ricardian apologists, such as J. S. Mill, J. E. Cairnes and others of the neoclassical school, to qualify, reconcile and evade its logical consequences. Most ingenious and elusive of the attempts of this sort were those of Alfred Marshall. He conceded that the distinction between land (natural) and other wealth must be abandoned from the point of view of the individual investor (the original problem) but suggested retaining it from the point of view of society. He then hopefully set forth still another property of land as "the ultimate cause of the distinction . . . between land and other things"; that is, the attribute of extension, or its geometric relations. Not satisfied with this, he further suggested making the distinction between rent and interest (and between land and capital) turn "on the length of the period which we have in view."

Since the word rent etymologically means any income or yield from an economic agent, its limitation to a more special sense involves something of the arbitrary. This can be justified ultimately only by a general consensus of opinion and usage. Modern theoretical criticism has not only quite effectually invalidated the crude tripartite division of the economic factors (based on the labor theory of value) which linked rent with land but has also in varying degrees exploded all of the other supposed peculiarities of land and of land rent. Proportionality, for

example, varying on either side of an optimum, is seen as a universal phenomenon in the use of all kinds of goods, whereas a historical law of diminishing returns finds no support in actual conditions or in statistical trends in any of the advanced countries.

To the writer it seems that the most useful and tenable definition of the word rent today must turn upon the one economico-legal criterion of the nature of the contract by which the uses of any more or less durable agent of production may be bought or sold. The content of such a concept would include nearly all of the cases which in practice have ever been included under rent, but the concept would be essentially different. Capital in the financial sense and its yield—profits and interest—are fully within the price system, both the principal sum and the amount of the income being expressed in monetary terms; rent is ordinarily only half way within the price system, that is, in respect to the periodic payment; whereas the borrowed agent is returnable in kind or as nearly as may be in identical form (i.e. the criterion is physical or technological rather than financial). Indeed some cases of rent contracts, as, for instance, renting on shares, retain the still more primitive form of contract in which both the borrowing and lending and the payment are “in kind”; that is, not expressed in monetary terms. Rent would thus be defined as: the amount paid by contract for the use of the durative (separable) uses of a more or less durable agent (use bearer), entrusted by an owner to a borrower for a limited period, to be returned in equally good condition except for ordinary wear and tear.

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