

A Rejoinder to Mr. McNally

By A COMMITTEE OF RICARDIANS

[This discussion on rent began in our May-June issue with an article by Mr. Raymond V. McNally on "Three Theories of Rent." This was criticized in the July-August issue by a Committee of Ricardians. Mr. McNally replied to the Committee in the September-October issue, and to his reply was appended an editorial note that the discussion would be terminated in the present (November-December) issue with a rejoinder by the Ricardians.]

Mr. McNally has requested us to correct two errors which appeared in his "Reply to the Ricardians." On page 166, second column, twenty-eighth line from the top, the sentence should read: "As the population consists of individuals, each one rendering a service of his own, etc." On the same page, second column, six lines from the bottom, the sentence should read: "The taxes on his land are involved in the cost of his own service just as other taxes are involved in the cost of private services."—Ed.]

IN his "Reply to the Ricardians" Mr. McNally complains that they "have evinced a curious tendency to introduce additional factors" into the island illustration. Such a complaint is itself curious. Since when has it been out of order to introduce new factors for the purpose of substantiating one's argument, especially when the "burden of going forward" is necessitated by the shortcomings of the adversary's case? Indeed, without them it is hard to see how any results at all might be reached from Mr. McNally's illustrations. Some of his own conclusions require him to covertly assume additional factors. He complains, for instance, that "these Ricardians have done some amazing things with my quiet little island. . . . They have populated it with 'thieves and murderers of all kinds,' but have succeeded only in making the policemen's job more difficult." Was it not Mr. McNally who first imported these minions of the law, for the *amazing* purpose of guarding the island's rent and then collecting all of it as their recompense?

On the same island, populated by A on superior land producing corn, and by B on inferior land, he says: "B would produce something besides corn—say potatoes. They sell them or part of them in the open market. The same amount of labor and skill has produced twice as much corn as potatoes. Thus B would receive in exchange twice as much wealth for a bushel of potatoes as A would receive for a bushel of corn. Ten bushels of corn would be equal in value to five bushels of potatoes, and as A would enjoy no excess, no rent would arise."

Mr. McNally has just specified that A and B sell their produce in the *open* market. Unless this is not an "additional factor" he is introducing, we assume he intends to broaden the scope of exchange to include a market outside the island exchange system of his two producers. If so, it is not true that in a general open market to which both A and B resorted with their produce, B would automatically receive twice as much for his bushel of potatoes as A for his bushel of corn, simply because B arrived on the scene with only half as much. If this were so, B need come to the market with only one bushel of potatoes, and rely on the magical effects of Mr. McNally's system of exchange to make his one bushel equal in value to A's ten!

Turning now to Mr. McNally's criticism of the Ricardian law of rent: If one is willing to understand that the laws of distribution formulate *tendencies* to account for effects that occur in the economic field, we will not be dismayed because Mr. McNally is able to discover or imagine cases involving production in which the *exact* import, agency and scope of the laws of distribution are not clear.

Let us take the case he gives: "Suppose B possesses more corn-raising ability than A," so that on inferior land his product will yet equal that of A working on superior land. What here, he asks, is the amount of rent, which is by definition the difference of productiveness between the inferior and superior land?

To discuss the foregoing, we must realize that the practical adjustment of the laws of distribution to any particular instance is a matter of many men successively and concurrently engaged in a process of trial and error. How the product is actually distributed in a single case depends on the results of bargaining among many persons who are laborers, capitalists and landowners. Bargaining always presupposes that the bargainers have a choice between alternatives. Bargaining power, insofar as it is strictly an economic phenomenon, depends on the value of the alternative as compared with the value of the specific offer. It is the power to refuse an exchange, backed by the opportunity for a different exchange of superior value. The laws of economics do not tell us that no exchange can possibly take place except at the value determined by the alternative opportunity; they assert merely that whatever exceptions there may be—whether exceptions of advantage to the buyer or to the seller—will tend to neutralize each other, so that the average of all cases will coincide with the law with reasonable exactness. The laws of distribution are formulae of the most general character. They tell us (as precisely as any consideration of the facts can tell us) what will be the alternatives to which the parties to a bargain will turn in deciding at what level of value to settle. The landlord need not take less than the best competing offer—the producer need not pay more than the cost of the best alternative opportunity. Somewhere between these points the decision will fall in all actual cases; in other words, the "bid and asked" amounts are but members of an aggregate whose average is true rent.

Bearing this in mind, let us return to our islanders. Because we cannot predict with certainty what rent B would offer in order to get A's superior land, this seems to Mr. McNally an objection to the existence of a differential product as such. As he says in one place in his article, "Rent might be anything from one bushel to five bushels, but this would be inconsistent with the original Ricardian assumption that rent is the excess product." Not so. So little is determined about the objective conditions of isolated examples that, of course, we cannot know from them exactly how much rent would be paid. The final result would be determined by the bargaining power of the parties. Thus the product may be so divided between the bargaining parties as to lose the quality of mathematical determinability, without in any way invalidating the Ricardian principle.*

Mr. McNally further argues that the admission that differences of ability exist among producers makes a shambles of the Ricardian law, because this introduces a third variable into a situation which comes under a rule he formulates thus: "The relation between two variables may be computed, provided it is not obscured by a third variable." (The variables referred to are respectively the marginal land, the superior land, and the ability of the producers.) But, as we have said before, the variable abilities of producers in no way vitiate the Ricardian principle. Different quality lands will offer the same relative advantage to all producers, regardless of their abilities.

* Prof. Lionel Robbins, in his "Essay on the Nature and Significance of Economic Science," has the following to say: "Scientific generalizations, if they are to pretend to the status of laws, must be capable of being stated exactly. This does not mean . . . that they must be capable of quantitative exactitude. We do not need to give numerical values to the law of demand to be in a position to use it for deducing important consequences. But we do need to state it in such a way as to make it relate to formal relations which are capable of being conceived exactly."

Certainly, Ricardo (and we ask leave to include ourselves) did not assume that any two men in this entire teeming world possessed identical abilities. Even if it were possible to find two or any number of men with identical capacities for labor, the Ricardian law would not take such a phenomenon into consideration. To repeat: It is the subjective demand, as expressed in the market, that finally objectifies the various values in the field of political economy, including rent. The market place performs the function (maybe with that fourth dimensional consciousness which Mr. McNally derides) of clarifying whatever may have been originally obscure in the minds of the various and variable individuals who seek to know what things are worth.

Mr. McNally would have us suppose that since a question about the mathematical computation of rent is apparently meaningless, therefore rent itself, or the law of rent, is a logically inadmissible entity. But this is not true. The law of rent explains the distribution of production between landowners and producers. It is merely a basis for calculation.**

Mr. McNally so sincerely believes he has annihilated the Committee with a question he poses (in the third paragraph, page 166), that we feel constrained to give him the benefit of our views. He asks, "What ingenious device would the Committee employ then in this case to determine what part of A's ten bushels is due to the superior qualities of the land?" We do not pretend that the device we are about to offer is ingenious. Whether it is or not, we would merely try the experiment, as Mr. McNally has done with B, of also placing A on the marginal land and measuring his production thereon. Subtracting the latter from his production on the superior land would give the answer desired by Mr. McNally, namely, that part of A's ten bushels due to the superior land. Of course, we think no good purpose has been served by the explanation, but we have only tried to be obliging. We regret we had to fall back on common-sense rather than meet the challenge by recourse to a higher logic.

The truth, as we see it, is, that an "exchange" economy in a world populated by only two persons is a fantastic proposition. As suggested heretofore, our worthy opponent has undertaken with an eye more to logic, than to economics, the thankless task of pointing out the theoretical difficulty of deciphering the effects of three variables in his island of two men, where one had more productive ability than the other. Mr. McNally introduced the A and B economy as the favorite example of the Ricardians. Speaking for ourselves, we do not believe it constitutes a rational argument to limit a demonstration of Ricardo's law to such an A and B economy.

We conclude with a quotation from Henry George (Book III, Chapter II):

"I do not mean to say that the accepted law of rent has never been disputed. In all the nonsense that in the present disjointed condition of the science has been printed as political economy, it would be hard to find anything that has not been disputed. But I mean to say that

it has the sanction of all economic writers who are really to be regarded as authority. As John Stuart Mill says (Book II, Chapter XVI), 'there are few persons who have refused their assent to it, except from not having thoroughly understood it. The loose and inaccurate way in which it is often apprehended by those who affect to refute it is very remarkable.' An observation which has received many later exemplifications."

** That public improvements make particular land more desirable, which in turn attracts more people, augments their productive power and thus increases rent, is an observable fact, but the cost of such improvements is not the measure of the increase in the value or rent of the land. The rule or law by which the rent may be determined or calculated remains as before—not by the intrinsic value of the land itself, but by its relative capability as compared with the least productive land in use. Any attempt to discredit Ricardo's law of rent is as ridiculous as would be an attempt to upset Newton's law of gravity, because of the fact that water in some places, as in the so-called inverted siphons under the Hudson River, runs uphill. [This is an extract from a contribution to the Ricardian debate sent in by Mr. Walter Fairchild.—Ed.]