DISTRIBUTION BY A LAW OF RENT—DISCUSSION

ALVIN S. JOHNSON: It appears to me that a careful examination of the terms employed by Dr. Macfarlane and those used in the system which he declares to be antithetical to his own will disclose that the essential difference is not great. In this I may be led astray by my own desire to harmonize the substantial contributions of Dr. Macfarlane with the results of Professor Clark's analyses.

I can see no reason why a disciple of Professor Clark should deny that wages and interest are marginal and normal surpluses, as Dr. Macfarlane maintains, while still holding that from another point of view they are differential incomes. If all land were of like quality, but of limited quantity, and if we fixed our attention upon the relation of one piece of land to another, no differential income would appear. But if we apply labor and capital, dose by dose, the earlier doses will be more productive than the later, and the total return to land may be analyzed into differential surpluses connected with the earlier doses. Again land if alike after it is once brought under cultivation, has required different degrees of sacrifice in its appropriation, and is ultimately limited by the fact that at a certain point the return to land is a bare recompense for the sacrifices of appropriation. The rent of land is a normal surplus, in Dr. Macfarlane's terminology, as well as a marginal surplus; but it would still be a differential return from Professor Clark's point of view, and would be held to be such by all who accept as valid the intensive law of rent. Dr. Macfarlane would term rent any price-determined income; Professor Clark, any income which is differential in the sense that return to land, analyzed by the intensive law of rent, is differential. No one would claim that interest and wages are rents in Dr. Macfarlane's sense of the term.

By profits Professor Clark means an income originating in an excess of productivity of one unit of industrial agency over and above the productivity of a like unit which is in a position of average advantage. It is a transient income, and is price-determined. In Dr. Macfarlane's view profit may be shared by all units alike. If the return to capital is such that the marginal capitalist receives a reward more than sufficient to cover the disutility of abstinence, in this sense all capitalists receive a profit. It is a price-determining income, and cannot be taken away by competition. This income Professor Clark would call an integral part of interest.

It is true that the diagrams employed by Professor Clark represent a dynamic and not a static state. But that such a representation may *explain* a static state may be shown by the analogy already employed. Assuming that all units of land are alike in quality and situation and that all units of labor and capital are alike in their efficiency, a truly static description of income would show marginal incomes only. No differentials would appear. But if we desired to show how it is that land came to yield a rent, our method of procedure would be to assume that land was at first abundant, while labor and capital were relatively unlimited. We may then trace the effects of increase of labor and capital. At first the product attributed to labor and capital may be very great while that attributed to land is zero; but with each increase in the former agents, a part of their productivity is apparently transferred to land.

As to profits it is legitimate to assume that Dr. Macfarlane intends the term to convey the same significance that it bears in Professor Clark's analysis, since he uses it as a quotation. In this sense of the term, profits do not appear if all units of capital and labor are equally productive after the change as before it; and if competition of entrepreneurs is unrestricted, it is conceivable that labor may increase without creating any misadjustment in the relations of different units of labor and capital, as Dr. Macfarlane admits. It is surely no less conceivable that the new labor might be so distributed as to create no misadjustment which would result in pure profits. In reality it takes an appreciable time for competition to apportion new labor. After each increase in the supply of labor, then, a profit will appear. This, however, is just as true in the case of an increase in labor and capital upon land. When the marginal dose makes it possible to reduce the earnings of all earlier doses, it is the entrepreneur who first gets the product of which the earlier increments of labor and capital are deprived. Competition, however, soon conveys this product to the landlord. The differential income which makes up the rent of land represents a series of products which were first received by the laborer and capitalist, then by the entrepreneur, and finally by the landlord. When conditions of perfect competition are restored, however, that differential income contains no element of profits. In exactly the same way the differential income representing interest in Professor Clark's diagrams contains no element of profit, although profits arise with each successive increment of labor. This, it seems to me, is the obvious way of accounting for the absence of profits in the diagrams under consideration.

Dr. Macfarlane has given us what he considers a more satisfactory way of accounting for this fact, alleging a confusion of capital and capital goods. If, as it appears, he wishes to account in this way for the existence of profits in Professor Clark's sense of the term, he must assume that after the change some capital goods will be more productive than others containing an equal amount of capital. At any rate the illustration by which he seeks to make clear the difference between capital and capital goods seems to imply that this is his position. Now it is obvious that the assumption of perfect competition precludes the possibility that some capital goods will be in a monopoly position, just as it precludes the possibility that some units of capital will be more productive than others.

SIMON N. PATTEN: The topic we have before us has been discussed in too complex a way. We have in reality two problems; one having to do with the facts of distribution, and the other with the principle or law of distribution which is said to be the law of rent. What do we mean when we say "distribution by a law of rent"? We must deal with the problem in a historical way, and must, therefore, take the terms as they have developed in our science. I differ from the preceding speaker when he said that if we know the terms of a particular writer we can determine whether he has been logical or not. That is not the question. The question is whether or not in a century's development there have been advancements made in economic theory, and if so in what particulars the rules of distribution are in advance of the rules of fifty or seventy-five years ago.

What was it that made the rule of distribution so important? In England seventy-five years ago there were three social classes; the landlords, the capitalists, and the laborers, and it was a practical question, one of real importance, to determine the income of any one of these three classes. We have, therefore, to decide whether or not this class or that class was justified in its income. The real point at issue was whether or not the income of landlords had the same justification as the income of the other classes. That was of tremendous importance, politically and socially, because at that time the whole political power of the English nation lay in the hands of the landlords. The result of the agitation was the reform bill of 1832. We have since then added something of importance to our knowledge, but in how far will it have a practical value in any of our social problems? How can we determine whether any one income is justifiable or not? There is but one practical conclusion, and that is that either all incomes are by the law of rent not justifiable or every income is equally justifiable. In either case we do not have a theory of distribution, as some classes must by it be placed in a better position than other classes. It seems to me that we do not get from the increased use of mathematics any benefit for economic theory, any basis on which increased knowledge can throw new light on the present distribution of income in our country.

MR. SWIFT: It seems to me that Professor Patten has given an interesting explanation of the economic problem. We have a law of rent which defends the landlord class, and it is the duty of the economist to work out an economic theory which will upset this state of affairs. It appears to me, therefore, that political economy up to that point does what the two classes in power desire it to do. Consequently at the present day if a new power can in any way be produced we shall have a new political economy. The power of the capitalist will not give us the change because the capitalists have large fortunes by manufacturing, etc. If any element whatever comes forward and pulls away the capitalist class as the socialists propose to do, the economist would be in duty bound to work out a theory of society which would justify this act. And moreover, because the competing power would be in the hands of a new class, they would do it as they have done it twice before.

CHARLES W. MACFARLANE: In reply I would say that this is not at all a question of terms or of the definition of terms. Define rent and profit as you please, the fact remains that throughout the discussion Professor Clark has characterized interest and wages as static incomes; and yet in the diagram of the earnings of a *dynamic* society he divides the entire return from production between these two *static* incomes. Any reasoning based upon this treatment of the diagram of a dynamic society must be in error, since such a diagram must somewhere contain those surpluses which are peculiar to a dynamic form of society—and this no matter how these latter surpluses may be named or defined. Nor can we escape the difficulty by admitting that this is the diagram of a dynamic society and by then holding that by an effort of the imagination we here employ it to illustrate static conditions. For by no legitimate exercise of the scientific imagination can we divide the total income of a dynamic society into interest and wages or into static incomes. It is this that must invalidate every attempt to show, by means of this diagram, that interest is a differential gain or rent.

Again, since the differential variation in the income depends, by confession, upon variations in the efficiency of the tools employed, there would seem to be good *ground for concluding that the triangle marked "interest"* really represents the dynamic income or the earnings of "capital goods" as distinguished from interest *per se* or the earnings of the permanent social fund of "capital."