RENT AND LAND USE

Most history deals with man living in a simpler economy than our own. So, the emphasis which earlier economists gave to the use of land in farming was understandable. Until the industrial revolution was well under way, agriculture was the most important activity and employed most of the labor force. In the United States, it was the late 19th Century before more than half the work force were non-farm.

So, in earlier times, the costs and benefits of using land in agriculture were particularly important. Now, there is new reason for studying land economics: growing metropolitan areas, depending on industrial technology, make heavier and more varied demands on water, agricultural and forest resources.

Farm land supply and demand varies tremendously between old settled regions and undeveloped regions. Low-cost public land led early American settlers to migrate westward despite the cost of transporting a farm family, its household effects, tools and supplies from the more settled East.

But the arable land near present population centers, or connected with them by low cost transportation, is much more limited. As a result, such land has usually commanded good resale prices and high rentals, subject to changes in demand for, and supply of, farm commodities.

The principal causes of high rentals are *advantages of location* and *differences in soil fertility.*

The first of these involves differences in costs of transporting the produce to market from farms that range from the most accessible to the least accessible serving a market. Such *locational rent-value* is strongly affected by whatever factors tend either to cheapen transportation or to make it more expensive. This influence is most important in nonagricultural uses of land.

The second cause, involving differences in soil fertility, is better known, probably because of the emphasis given it by the classical economists, especially David Ricardo.[8] They expressed rent-value as the market value of differences in yield of appropriate crops in soils of different fertility. The rent of the most fertile land amounts to the *difference in the value of its yield over the least fertile* that it is profitable to cultivate, using a given amount of capital and labor.

The need to resort to successively less fertile land led to discovery of the principle of diminishing returns (a link to the Malthusian Law of Population). Ricardo saw that *if technology is unchanged,* rising demand for food causes producers to add more labor and capital, of the same quality as before, to the most fertile land. Added amounts of labor and capital result in *less added produce* than if applied to the next best land. (Total production still increases—but at a *lower rate.*)

Ricardo excluded from agricultural "rent" the value of man-made improvements such as buildings or commercial fertilizers. This was traditional among earlier economists, especially of the British classical school, who lived on a

[8] A valuable short summary of Ricardo's ideas on rent, taken from his "Principles of Political Economy and Taxation," 1817; reprinted in Everyman's Library Edition, 1962, may be found in C. Lowell Harriss, "Selected Readings in Economics," Prentice Hall, Englewood Cliffs, New Jersey, 1958, p. 170.

small island where land was widely cultivated. To them, arable land was in fixed supply. But food production can be increased, by new methods of production which require technical know-how and capital, even if no more land is cultivated.

QUASI-RENT AND TECHNOLOGY

The returns on durable productive improvements like machinery are called "*quasi-rents*" because they somewhat (quasi) resemble land rents. These improvements are in *nearly fixed supply* for short periods. If no new invention makes an improvement obsolete, the profitability of its use will depend mainly on the demand for the product.

The resemblance of land fertility to machinery improvements becomes closer, as modern technology allows chemical and biological characteristics of soils to be altered in new ways. "Fertility," like machinery, is now subject to technical improvement.

Also, as economies and their agricultural needs expand, greater soil variety and growing conditions are nowadays required. So the economic usefulness (and rent-values) of land depend increasingly on technology. In their modern role, land rents more nearly resemble quasi-rents on machinery than ever before. Whenever competition is substantial high rents allocate land to its highest income uses. In a similar way, high (or low) quasi-rents allocate durable items, like specialized machinery, in temporarily fixed supply, to highest income uses.

URBAN RENT

Urban land use and rents get more important as population grows and clusters in a widening network of metropolitan areas. Offices, stores, and factories, seeking access to

workers and markets, have intensified demand for space. At the same time, metropolitan jobs and jobholders have multiplied.

Urban rents, as do agricultural rents, also reflect the advantages of location and productivity. But the interplay of forces producing these benefits is more complex. Also, it affects enterprises differently. Factories requiring or producing heavy equipment generally need good access to rail or water transportation—or both. Many stores want the best available access to pedestrian movement or commuter transportation. Office activities (and buildings) likewise benefit by access to mass transportation systems.

Levels of urban land and building rents reflect the benefits to their users. When demand is strong, competition for desirable sites places each in the business or consumer use most productive of revenue. Their rents approximate their value to the persons using them.

Urban land is limited in supply at any given time, but can be increased by capital investment in expensive community facilities (streets, bridges, utilities, etc.) over considerable time-periods. This complicates the problem of urban rents as transportation to the suburbs opens up urban uses for what was farmland, and so raises suburban land rents relative to central city rents.

Central city landowners and developers can respond to the challenge of suburban development by seeking to intensify land use in central cities, through capital improvements. In doing so they confront difficult problems of land assembly, building-code and land-use restrictions, rising tax burdens, new public facility financing, and the like. These problems in turn, require local initiative and community action, whose ultimate basis is effective citizenship. The economy and the citizen are interdependent.