

RENT AND PRICE

(In GJ No. 21, Autumn 1978, Steven Cord expressed views on inflation, money, rent, land values, etc. Following are some responses, mostly about rent and price.)

By BETTY NOBLE (Wellington, New Zealand)

Steven Cord says, "As we all very well know, rent does not figure into the price of goods..." Is this statement correct?

As I understand it, this is said because when goods are sold under competition, price is determined by the marginal producer. So if he can sell all his production at, say 15¢ per item, then all other producers who are more efficient, have better or cheaper capital, or better or cheaper land, will sell their product at 15¢ per item - although they could earn as much as the marginal producer by selling the product at 9¢ or 11¢ or 13¢ - depending upon their economic advantage.

So far so good. Certainly the rent a producer pays for land does not in this sense enter into price. But - when there is private appropriation of economic rent - some good land is always held out of use, and the marginal producer, through being forced to use very poor land, has higher costs than are necessary. This is the reason he has to sell his product for 15¢.

Now just suppose there was no private appropriation of economic rent and therefore no withholding of land from use in expectation of speculative gains. The marginal producer could then move on to better land and sell his product at, say, 11¢ without reducing his income. If he did this, then all those producers on land above the margin would have to sell their product for 11¢.

As I see it, this means that speculation in land by lowering the margin beyond the necessary limit, widens the gulf between the most fortunate producers. Thus if the "natural" price for this product is 11¢, every producer above the margin is gaining up to four extra cents from each sale and the consumer is losing the same amount. In this sense is it not true that rent does enter into price?