

## COMMENTARY BY PROFESSOR CARL C. PLEHN, UNIVERSITY OF CALIFORNIA.

## THE NATURE OF GROUND RENT.

As the space allotted to each of the six critics of Dr. Bullock's paper is necessarily small, I feel that I must resist the temptation to give full expression to my admiration of the clearness and force, as well as the subtlety, with which he has presented his argument. Dr. Bullock correctly recognizes two opposing tendencies of thought in regard to the nature of ground rent. He has espoused the cause of one set of views, which he well calls the classical, and has defended it with all his customary vigor and ability.

Nevertheless that view, so frankly and clearly set forth, seems to me not only classical, but antiquated and I wish to speak for the opposing theory. Briefly stated, I hold that, to-day, in the United States, land when appropriated, and in use, is simply one form of capital; and ground rent, the regular and customary income from such land, is in every essential particular a form of interest, the general income from capital.

There is one misunderstanding against which we must be particularly on our guard, and that arises from the paucity of the English language which compels us to use "rent" in many distinct senses. What is sometimes called economic rent, pure and simple, sometimes "profits," "differential gains," "unearned increment," etc., *i.e.*, the increment in the value of a given piece of property during any interval of time, or what is correlative therewith, the increase, during such interval, in the revenue which such property may afford, is very different from the "ground rent" which we are discussing. These two conceptions are as distinct from one another as the increase in the speed of a falling body during a given interval of time is distinct from its speed at any instant during that interval. An "unimproved" or unused piece of land, even if appropriated and held for speculative purposes, will, so long as it remains unused and unimproved, yield no ground rent, although it may be gradually increasing in value, or accumulating economic rent.

There have been times and places,—there are still such places—where the laws and customs in relation to property in land were different from those in regard to property in other things and for these times and places a distinction might properly be drawn between ground rent and house rent or any other form of interest. But, in the United States, to-day, an owner's title to his land is as good, and is in every respect of the same character, as his title to anything else. He is as free to sell or lend his land as he is to sell or lend anything else. He does so in the same manner. Hence the classical distinction between ground rent and other forms of interest, which rested on the old laws and customs is antiquated and should be allowed to become obsolete.

Dr. Bullock correctly states that the best method of approach is to regard the problem as one in value. We take no exception to his statement of the demand side of the problem. There is, of course, nothing in the nature of the demand for land that differs in kind from the demand for any other sort of wealth.

We find, however, serious difficulties in his statement of the elements of the supply. In the first place his presentation of our position is inadequate. When we say that the supply of land is not limited in the economic sense, any more than the supply of other forms of capital may be, and of some forms is, limited, we do not refer merely to such things as "made land," not to acreage reclaimed from the sea or from swamps; nor to artificial terraces on the rocks as in Japan; nor to the multiplication of surfaces, one above the other;

nor to multiple cropping as practiced in China. Nor do we refer to the obvious fact that with every advance in the methods of utilizing land (improved cultivation, improved building) each unit of area serves more people or serves the same people better. These forms of actual or possible surface increase are more important than Dr. Bullock would have us believe; but it is not necessary to consider them in our analysis of the supply.

What we mean is this, that "land capital" is produced or fashioned by human labor out of land surface (and other things which nature affords) just in the same manner as other forms of capital are produced by human labor out of other materials nature affords. Land surface as such never enters the economic realm at all, never becomes wealth, nor yields an income, until appropriated and usually not until still further transformed by labor, drained, graded, fenced, artificially fertilized, etc.; and when the labor of maintaining possession ceases—or, in other words, when a farm, a building lot or a mine, is "abandoned"—it ceases to be wealth or capital and becomes once more mere land surface. The same thing is equally true of a lump of iron ore made into a tool. To paraphrase Dr. Bullock's statement concerning capital, if the sacrifices incurred in keeping land in the market are not suitably rewarded it will be withdrawn.

Dr. Bullock seems to us to identify, in this connection, a geographical conception with an economic one, land surface with land supply. Let us admit that the land surface of the earth may be but slightly increased; what then? The supply of land in the market is not thereby limited, at least not yet, nor will it be, so far as we can foresee, for some years to come. Is the time honored distinction between stock or store on hand and economic supply to be ignored for land and enforced for all other forms of capital? When has the fact that ten generations, or even one, hence, the stock of something now on earth may be exhausted, or entirely appropriated (whalebone, certain woods, coal, etc.) ever affected the value of any such commodity, or restrained men of any generation from using their present stock as freely as the cost of getting it in the market would permit? When the entire stock becomes supply, then, if ever, and not until then, will the geographical limitation of land have an economic significance.

Possibly the labor cost of keeping up the supply of land, once it is in the market, is slight as compared with that of keeping up some other forms of capital, but the difference is one of degree, not of kind. Possibly the extent to which the original qualities of the materials enter into the utility of a piece of appropriated, improved and used land is great, and the extent to which labor adds to those utilities is small by comparison, and possibly the reverse is true of other capital in certain forms. This, too, is all a question of degree and not of kind, and certainly does not permit us to say that "land is not a product of human labor," while capital is.

"Cost of production" rules here as elsewhere. Some pieces of land have qualities which can be duplicated in other pieces out of the present stock as readily as any tool; others, again, like some tools, have qualities that cannot be duplicated. Lucky is the owner of such a piece of land, and so is the owner of such a tool; both are the recipients of economic rent as well as of interest, and they should, perhaps, be willing to pay taxes in proportion to their exceptional good fortune.

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The main purpose of this discussion, I take it, is to secure from the participants expressions of agreement or disagreement with the statement of the value of economic rent formulated in Professor Bullock's introductory paper.