

The Law of Rent

A COMMENT ON THE VIEWS OF
W. R. B. WILLCOX

THE rent of land is determined by the excess of its produce over that which the same application (of labor and capital) can secure from the least productive land in use.

The foregoing is known as Ricardo's law of rent. Henry George says of it—"Authority here coincides with common sense, and the accepted dictum of the current political economy has the self-evident character of a geometric axiom." This is not to say, however, that George was unaware of the exceptions which had been taken to it by some economists. For that matter, George himself, as a result of independent analysis, pointed out the error of Ricardo in limiting the application of the law to the extractive mode of production. He showed that it held as well in the case of industrial, commercial and residential sites as in the case of farming and mining lands. He also exposed the fallacy in the reasoning which supported the so-called derivative law of diminishing returns in agriculture. But the fundamental character of Ricardo's principle he deemed unchallengeable, "its mere statement having all the force of a self-evident proposition."

In an article appearing in the March-April issue of LAND AND FREEDOM, a correspondent, Mr. W. R. B. Willcox, offered what he believes constitutes a new refutation of Ricardo's law. He contends that it is based on a false assumption, viz., that "since the processes of nature are independent of human exertion, mankind acquires the results of these processes independent of human exertion." Mr. Willcox continues: "This of course is not true. Mankind's acquirement of these results 'costs' human exertion; and rent, which is compensation for the human exertion required to provide social and governmental advantages cannot be a free gift of nature." To quote him further—"Under a scientific economic system, rent would not be an 'unearned increment,' a 'free gift of nature,' either to individuals or to mankind. Rent would consist of compensatory payments made by individuals to society, through the latter's agent the government, for the advantages of social and governmental contributions to the utility of provisions of nature."

The writer has given Mr. Willcox's definition a careful study, but finds that at best it is no more than a restatement of the Ricardian version, containing nothing fundamentally new. My reaction was as follows:—Mr. Willcox speaks of *social* and *governmental* advantages (with seeming emphasis on the latter). I take it that by governmental advantages he means the result of those services which are administered by an organized political state, and by social advantages he means the benefits

which flow from the unconscious cooperation of the individuals comprising society.

If we examine the idea of *governmental* functions, it will be seen that they are but the result of a specialization or extension of the ordinary social services, being different only in degree and not in kind, and represent what might be termed a conscious cooperation of society. It would therefore seem that in the definition offered by Mr. Willcox, only the concept of "social advantages" is significant. As for "governmental advantages," i.e., such things as public schools, streets, fire, police, and sanitary departments, they merely derive from that economy which comes from the principle of cooperation and the division of labor. In truth, governmental advantages are included in the classification of social advantages.

It is perfectly possible to have rent in the absence of governmental services. I can easily imagine a time when all the individuals in society might engage private tutors, and singly or in neighborhood groups, lay their own streets and hire their own watchmen and fire brigades. Indeed, there is a growing body of opinion that in a better society many of our governmental functions would be replaced by private management, thus putting them in the category of social services, as distinguished from governmental services, if we use the terminology of Mr. Willcox. The essential thing to remember is that despite their desirability or undesirability, governmental services in the ways spoken of are not strictly necessary, and as a matter of fact there have been innumerable instances where a community started without them.

The presence or absence of *governmental* services, *per se*, have nothing to do with the concept of *rent*. In the settlement of the savannah, for instance, in "Progress and Poverty," there was *rent* just as soon as two immigrants looked longingly on the same piece of land, before government of any kind had been established. Whether a government is available to collect it in such cases is beside the point, for a philosophic conception of rent recognizes its existence irrespective of any agency for its collection. That is not to say, however, that no one would pay rent except under authority of the police power, inasmuch as ethics and justice would be available, even as now, to equalize the differences in natural opportunities. I merely wish to refute the logic of that part of Mr. Willcox's statement which supposes as necessary the existence of government in order to equalize the benefits of social and "governmental" advantages. The *agency* for allocating rent is purely adjective. It has no proper place in a substantive consideration of rent.

Rent is a social *product*, being the "excess of its produce, etc.," as per Ricardo's definition. Of course this social product is brought about by "the advantages of social and governmental contributions to the utility of pro-

visions of nature," as Mr. Willcox so effectively, even though unwittingly, paraphrases Ricardo's law.

It would appear, however, that our friend does not recognize any such thing as a "social product." That is unfortunate. To me, society means something more than a mere arithmetical summing up of men, women and children. For it is not just aggregation, but *integration*, that breathes life into its body. As a separate existence, society has its own peculiar attributes, duties and rewards, notwithstanding its only claim to existence is the greater welfare of the citizens who comprise it. Nor should it be difficult to imagine society as one of the parties to production. This concept once grasped, it follows that society actually adds to the production of the wealth of its individual members. To hold otherwise is to fuse two separate existences into one. The idea of an identity, however, connotes a failure of perception to recognize things as they are.

If then, society and social advantages are the important concept, nothing essentially new has been added by Mr. Willcox to Henry George's treatment of Ricardo's law of rent. George repeatedly points out in "Progress and Poverty" that it is the amount and quality of social activities that make valuable the land to which they come, giving rise to the differential or "excess of produce," which we denominate rent. This differential is the *resultant* of the social activities.

Nor can rent be kept apart from the various sites to which it attaches. I mention this latter phase for the reason that some Georgeists insist that land has nothing to do with rent. But the moment we try to keep rent apart as a thing unto itself, the thought arises, "Rent of what?" and of course the answer must be, the rent of land.

Is rent a gift of nature? This is a matter of words. I am inclined to agree with Mr. Willcox that, from a strictly scientific viewpoint, the expression is an unhappy one. To the writer, however, there should be no objection to its employment in an allegorical sense. I can see no purpose in laboring this trivial point.

Is rent unearned? When retained by the individual, it most certainly is. Unearned increment, if an ethical view may be imported, is the immoral gain resulting from the pocketing of society's rent by individuals. Henry George made it clear that rent is a social product and belongs therefore to the social body whose activities produce it. If perchance he failed to add that society *earns* its rent, we can cheerfully supply the omission.

I am not overlooking the basic production of the individuals comprising society. And with respect to the individual's own labor, I allow that he is entitled to the maximum return made possible by the increased knowledge or power which comes to him by reason of a progressive civilization. But over and above the wages of the individual (leaving aside capital and interest), he receives, when above "marginal" land, an additional

return depending on the social advantages brought to his location. The sum total of the returns to the factors in the production of wealth will ordinarily be collected, for the moment at least, by the wage earner. But so much as is due to the advantages of the site, he is obligated to return to the social body which created them, i.e., he must return so much of the *social product* as was delivered to his land. The amount to be thus returned will be determined by the intensity of the demand for the various sites. In that way will the inequalities of opportunity for production be ironed out, and each wage earner in addition to his own production, will receive, in common with the rest, his just share of the social product, rent. For of course society, as such, has no interest in or enjoyment of the rent save as it is employed for the betterment of the members composing the social body.

Mr. Willcox states that under the existing economic system rent "would be an unearned increment to society if the latter did not compensate those whose individual labors are expended in making the social and governmental contributions." There is no quarrel with that. It accords with the thesis of George, that in producing and exchanging their goods and services, the individuals so engaged receive a gross income consisting of a return to their own labor and to the social advantages at their several locations. Continuing, Mr. Willcox says—"However, under a scientific system, rent would not be an unearned increment . . . to any one, either to individuals or to mankind." This statement itself lacks scientific accuracy. For rent is rent, whether manifested under a "scientific" system or not, now or in the future.

In speaking of what would happen under a scientific system, however, it is well to point out that "potential" rent would tend to disappear. The collection by the community of the entire annual land value would soon force the holders of idle land to relinquish or use it. In the latter case, true economic rent would be earned by society to the extent of its contribution to the total production thereon. In the former case, if the land were relinquished and remained out of use because no one was willing to pay society for its use, it would fall into the category of marginal land. "Potential" rent is a pathological symptom of present day society. Under normal conditions it would disappear.

In conclusion, let it not be thought I am criticising any rephrasing of the law of rent if by so doing we can expedite the acceptance of our philosophy. There is no doubt that some people can be more easily reached by presenting it in a different dress here and there. Mr. Willcox is probably doing very effective work with his method of approach. His and our version of the law of rent is the difference between tweedledee and tweedledum. To my mind "Progress and Poverty" still provides the perfect formula for the cure of the problem we are most interested in; the abolition of poverty.

C. J. SMITH.