

# LAND AND ITS RENT.



## CHAPTER I.

### THE ECONOMIC DOCTRINE OF RENT.

**T**HE immediate reason for the publication of this work is found in the course of economic discussion during the few months now passing. Altogether unexpectedly, and, so far as one can see, without any cause existing in the economic relations of society, the questions of the rightfulness and the expediency of private property in land, and of the influence of rent upon the distribution of wealth, have been precipitated upon us, almost as if they were new questions. Whatever may be true of France and Germany, it must be said that never in England has the discussion of the equities and the economics of landed property been so active and earnest as now; while in the United States, where practically the ques-

tion of the private ownership of the soil has not heretofore even been raised, we find popular attention bestowed in a remarkable degree upon a book, now perhaps in its hundredth edition, the fundamental proposition of which is that "the recognition of exclusive property in land is necessarily a denial of the right of property in the products of labor," and whose practical proposals embrace the virtual abolition of private property in land through the confiscation of rents by the State, — the author of this work appearing as a welcome contributor to influential journals and reviews, and receiving the greeting of crowded assemblies as the apostle of great sociological and economical reforms.

It will be said: "The publication of such a work is certainly a curious phenomenon of the times, and a very disagreeable phenomenon; but surely the work itself cannot call for any serious consideration. No intelligent person will read far in a book in which such gross incapacity for economical thinking is exhibited, in which a scheme so mad and anarchical is brought forward. Surely, society must long since have passed the point where it was necessary to discuss propositions like these, or to

refute a writer who gives such ample warning of the dangerous nature of his doctrines."

But I think we cannot deal quite in this spirit with Mr. Henry George's "Progress and Poverty." As the London Quarterly Review remarks: "False theories, when they bear directly upon action, do not claim our attention in proportion to the talent they are supported by, but in proportion to the extent to which action is likely to be influenced by them; and since action in modern politics so largely depends on the people, the wildest errors are grave, if they are only sufficiently popular. . . . How they strike the wise is a matter of small moment; the great question is how they will strike the ignorant. . . . For practical purposes no proposals are ridiculous unless they are ridiculous to the mass of those who may act upon them. In any question in which the people are powerful no fallacy is refuted if the people still believe in it."<sup>1</sup> Unfortunately there is too much evidence of a profound popular effect produced by this work upon the public mind of Great Britain, and, though more tardily, upon the public mind of the United States.

The work was, in fact, published in 1879;

<sup>1</sup> Quarterly Review, January, 1883.

but though it had a ready sale and attracted not a little attention, and even elicited some heedless commendation by reason of the eloquence and picturesqueness of its style, it created its first sensation when reprinted abroad. In Great Britain the success of this book has been truly remarkable.

“It is not the poor,” says the Review just cited, “it is not the seditious, only, who have been thus affected by Mr. George’s doctrines. They have received a welcome, which is even more singular, amongst certain sections of the really instructed classes. They have been gravely listened to by a conclave of English clergymen. Scotch ministers and non-conformist professors have done more than listen; they have received them with marked approval; they have even held meetings and given lectures to disseminate them. Finally, certain trained economic thinkers, or men who pass for such, in at least one of our universities, are reported to have said that they see no means of refuting them, and that they probably mark the beginning of a new political epoch.”

Such a reception could hardly be accorded an American book abroad, without awakening new interest and stimulating a wider demand

at home. It is said that "Progress and Poverty" has reached an enormous circulation. The author has certainly come to be one of the lions of the hour. There is no reason to suppose that his doctrines have yet deeply infected the public mind of this country; yet the ingenuity and eloquence of this writer must produce no inconsiderable effect upon any reader, however intelligent, and however fortified by economic study.

It is in view of this fresh discussion of the tenure of land and of rent in its relations to the distribution of wealth, that it has seemed best to take occasion to go over the field, step by step, through its whole extent. I shall therefore devote this the present chapter to an elementary statement of the economic law of rent. In the second chapter I shall discuss the attacks made by Messrs. Bastiat, Carey, and Leroy-Beaulieu upon that doctrine. In the third chapter I shall undertake to deal with attacks upon the individual ownership of land, as made, not by those who denounce all species of property, but by those who admit private property in the products of labor, of which they deem private property in land an invasion. In

this connection attention will be invited to the later essays and speeches of Mr. Mill and to Mr. Henry George's work. In the fourth and last chapter I shall present some considerations related to the question, What, conceding the individual ownership of land, is that use of the soil which is most conducive to social and industrial welfare ?

In pursuance of this scheme, let us now inquire into the origin of rent.

We will begin by assuming the existence of an isolated community occupying a territory of varying fertility. Let it, however, for simplicity of illustration, be conceded that, instead of an infinite diversity in this respect, each acre having its own rate of productiveness, the territory is divided into four tracts, each distinctly defined.

Thus, we might suppose that one tract would, with the application of a given amount of labor and capital, yield to the acre 24 bushels of wheat; the second, 22 bushels; the third, 20 bushels; the fourth, 18 bushels.

Such a supposition does not transcend the limits of a reasonable assumption for the purposes of argument. The differences of fertility existing among the cultivated lands of any con-

siderable district are not only as great as those indicated, but often very much greater. Thus, Mr. McCulloch, the author of the "Statistical Account of the British Empire," says: "A quarter of wheat may be raised in Kent, or Essex, or in the Carse of Gowrie, for a fourth or a fifth part, perhaps, of the expense necessary to raise it on the worst soils under cultivation." The range of productiveness among lands occupied for the purposes of pasturage is very much wider still. Thus Sir James Caird, in his admirable work, "The Landed Interest and the Supply of Food," says: "The maximum of fertility, in the natural state, is a rich pasture capable of fattening an ox and two sheep an acre. Such soils are exceptional, though in most counties they are to be met with. . . . The minimum of fertility may be exemplified by a bleak mountain pasture where ten acres will barely maintain a small sheep."

Now, in the case of the community under view, let us first take the stage where the population yet remains so small that it can be supplied with food by the cultivation of only a portion of the most fertile of the four tracts of land.

In this case, if the land in question be held by a number of competing owners, either no

rent at all will be paid, or else a rent so small that, for purposes of economic reasoning, we may treat it as no rent at all, the principle *de minimis non curatur* applying with not less force in economics than in law.

The above result will be reached by the simple and direct operation of the principle of self-interest among the owners of the land. Inasmuch as only a part of the land of that quality (the 24-bushel tract) is required for cultivation, each proprietor will, if only he can be assured against Waste, — of which element we shall speak hereafter,<sup>1</sup> — desire to have his own land occupied, even at the smallest rent, rather than derive no income whatever therefrom; and as, by the supposition, all the lots are not required for cultivation, the competition of owners will reduce the compensation for the use of land to that minimum which in economics we may disregard.

Let us next contemplate the community as increased in numbers until the entire tract of land of the first quality will no longer produce, under the traditional cultivation, — that is, with the farming methods employed, and with the amount of labor and capital heretofore applied

<sup>1</sup> See *post*, pp. 51-53.

to the soil, — enough wheat for the maintenance of the population.

In this state of things the question will arise, Shall the additional labor power, which is always presumed to exist when we speak of an increase of population, and upon which the additional members of the community must rely for their subsistence, — new hands to feed new mouths, — shall this additional labor power be applied to the soil heretofore under cultivation, or shall it be applied to a portion of the tract standing next in order of fertility and heretofore uncultivated, — that which we may call the 22-bushel tract?

The answer to this question will depend on the answer to the prior question: Has cultivation on the 24-bushel tract reached the point of diminishing returns, or not?

What do we mean by the point of “diminishing returns”? This should be fully and clearly explained before any further progress is attempted. The explanation is as follows. In the progressive cultivation of any considerable tract of land having any appreciable degree of fertility, a continually higher and higher degree of per capita production is attained, year by year, as the amount of labor applied to the

soil increases, until a certain limit is reached. Thus, in the cultivation of a square mile of arable land, two laborers will produce more than twice as much as one; four laborers will produce more than twice as much as two; eight laborers will produce more than twice as much as four. Perhaps the eight laborers last alluded to will produce twelve times as much as the first two, forty times as much as the first one.

Such increase in productive power is due, first, to the opportunity afforded for co-operation in labor, as, for instance, when two men do easily and rapidly something to which the strength of a single man would be utterly inadequate; and, secondly, to the division of labor and the organization of industry, which yield very great advantages as compared with an earlier industrial state.

Now, the condition of agricultural development, in the course of which, by virtue of the mechanical advantages adverted to, the per capita product becomes greater and greater through the addition of new laborers, may be called the condition of "increasing returns." Just as surely, however, as the earth revolves around the sun, if labor continue to be applied

in increasing amount to the cultivation of any piece of land, a point will be reached — sooner on this piece, later on that, but at some time for every piece, according to the character of the soil — after which more labor applied to the soil will, the art of agriculture and other conditions remaining constant, meet a less than proportional return.

Some return the new labor applied to the land will undoubtedly secure. We can hardly imagine a situation where more labor judiciously applied to any tract<sup>1</sup> would not increase the crop more or less. But, as has been said, the return declines proportionally. From that point forward, additional labor can only be employed in cultivation upon the condition of a smaller and still smaller per capita product.

The point we have indicated marks the stage of “diminishing returns” in agriculture. Where

<sup>1</sup> “It might be ploughed or harrowed twice instead of once, or three times instead of twice; it might be dug instead of being ploughed; after ploughing, it might be gone over with a hoe, instead of a harrow, and the soil more completely pulverized; it might be oftener and more thoroughly weeded; the implements used might be of a higher finish and more elaborate construction; a greater quantity or more expensive kinds of manure might be applied, or, when applied, they might be more carefully mixed and incorporated with the soil.” — *J. S. Mill*.

that point is, may not be easily ascertained for any single piece of land, probably never could be ascertained with absolute exactness by any series of experiments; yet we know that such a point is there, will be reached, will in time be passed, if the application of labor and capital continue. On one side the per capita product rises, rapidly or slowly, but surely and constantly, under the mechanical advantages of co-operation in productive effort, the division of employments, the organization of labor. On the other side, the per capita product falls off, slowly or rapidly, but just as surely and constantly, under the chemical disadvantages which attend the attempt to extort a greater and still greater crop from the soil. That it does rise on the one side, that it does fall away on the other, is so manifest that no man of sound mind can question the fact. That at some point the turning takes place, reason tells us, though we may not be able to identify that point with assurance.

Let us now return to the community whose experience with the land, under the condition of increasing population, we have been tracing. The whole extent of the 24-bushel tract having .

been occupied, and having proved, under the traditional cultivation, inadequate to the needs of subsistence, the question, we see, has arisen, whether the additional labor shall be expended upon that tract, or be carried over to the tract next in order of fertility, — the 22-bushel tract. The decision of that question depends, as has been said, on the decision of the prior question, whether the point of “diminishing returns” has been reached. If not, the additional labor will be applied to the familiar fields. If it have been reached, the additional labor will (subject to a slight hesitation due to that abrupt descent from one grade to another, which we assumed for convenience of illustration, the actual order of nature being an insensible gradation) be transferred to the 22-bushel tract, and thus, in the phrase of the economist, “cultivation will descend to inferior soils.”

That cultivation does so descend is a fact of familiar observation on every hand. There are few farms within which land is not cultivated which is poorer than the best, and it is so cultivated because the farmer knows that it is more profitable for him to plough and plant a less fertile field than to attempt to force the yield of the more fertile up beyond a certain limit.

Cultivation, then, descending to the 22-bushel tract, Rent emerges. Under what impulse? Why, by this simple operation of the principle of self-interest: inasmuch as some of the would-be cultivators must go upon the 22-bushel tract, every person now in occupation of a lot on the 24-bushel tract may just as well — may he not? — pay something for the privilege of remaining where he is, as take up a lot of the new land for nothing? If not, why not?

How much shall he pay? Why, clearly, 2 bushels per acre, the difference between the yield of the two tracts, under the same application of labor and capital. The cultivator of the better land, raising 24 bushels per acre, and out of this paying 2 bushels for the privilege of cultivation, which we will call Rent, will have 22 bushels left, net, which is all he could, by the supposition, raise from the new land. More than this margin, 2 bushels, he will not pay, because, otherwise, he would do better to take up a lot of the new land.<sup>1</sup> All of this margin he will pay, because, otherwise, some would-be cultivator

<sup>1</sup> The effects of the indisposition of the cultivator to change his place of labor and residence will be subsequently allowed for. See *post*, pp. 42-51.

will offer to pay that rent, and thus cut him out of the occupancy.

And this rental of 2 bushels per acre will apply to all the land in the 24-bushel tract, and not to a part of it only. As yet, however, no rent whatever is paid for any part of the 22-bushel tract, not even for that part which is cultivated, since, inasmuch as only a portion of it is required, competition among proprietors within this tract will prevent rent rising above that minimum which we treat as *nil*.

If, now, we suppose that, in the progress of population, the numbers of the community increase to the point where subsistence up to the traditional standard of living cannot, by the traditional methods of cultivation, be provided from the 24- and the 22-bushel tracts together, recourse will be had to the third grade of soils, comprised within the 20-bushel tract. What will then happen in the matter of rents? Why, this: the lands of the 20-bushel tract will bear no rent, for the reason which we contemplated in connection with the 22-bushel tract, when that comprised the lowest grade of soils under cultivation; but rent will now emerge from the land just above it on the scale of fertility, and that rent will measure the

excess of productiveness, as in the former case. Any actual cultivator of the 22-bushel tract may just as well pay 2 bushels rent, where he is, as go upon the new land, for nothing; any would-be cultivator may just as well settle here, paying this rent, as take up a free tract of the poorer land.

And now, if we look back to the 24-bushel tract, we note a remarkable phenomenon. The soil here is no better than it was; nothing has been done to increase its productiveness; yet suddenly and peremptorily proprietors within this tract demand and receive 4 bushels per acre. Why is this? Again the result is due to the simple and direct operation of the principle of self-interest in dealing with the land. Any person, actual cultivator or would-be cultivator, may just as well — may he not? — pay 4 bushels here, as go upon the 22-bushel tract and pay 2 bushels rent, or “squat” upon the 20-bushel tract, paying nothing for the privilege.

And if the increase of the numbers of the community requires cultivation (which, as we have seen, is always and everywhere subject to the law of “diminishing returns”) again to descend, and the soil within the 18-bushel tract

is taken up, we shall find, according to the principle already abundantly illustrated, that this land itself will bear no rent, but that the 20-bushel tract will now bear a rent of 2 bushels per acre, while the rent of the 22-bushel tract will advance to 4 bushels and that of the 24-bushel tract to 6 bushels.

*We state, then, the normal operation of the principle of self-interest in dealing with the land (that is, the Law of Rent), as follows:—*

*Rent arises from the fact of varying degrees of productiveness in the lands actually contributing to the supply of the same market, the least productive land paying no rent, or a rent so small that it may be treated as none. The rent of all the higher grades of land is measured upwards from this line, the rent of each piece absorbing all the excess of produce above that of the no-rent land.*

Thus far we have, for simplicity of illustration, spoken of fertility and productiveness indistinguishably, as if differences in productiveness were due solely to differences in the chemical constituents of the land, the depth of soil, its friability, etc., or to differences in climate, all of which are included in our conception of comparative fertility.

But we have now to note that the net productiveness of a tract of land may be reduced, in comparison with another tract of equal fertility, by either or both of two considerable causes : —

1. The mechanical difficulties of cultivation, *e. g.* irregularity of surface. This consideration has been almost wholly neglected by writers on rent, and naturally enough in the past, when land was cultivated mainly with hand tools, — the hoe, the spade, the scythe, the sickle. But the rapid introduction of horse and even steam power into agricultural operations, since 1850, has made the character of the surface an important, though not the most important, element in the problem of rent. The land in a New England side-hill farm may be as fertile as that of an Illinois prairie farm, but the cost of cultivation may in the former case be enhanced thirty or fifty per cent through roughness of surface.

2. A much more important cause in the reduction of the net productiveness of land, for the purposes of rent, is found in distance from market. By distance, in this connection, we should understand, not absolute distance, as measured on a great circle of the earth, but resistance to transportation.

To illustrate the operation of this cause, let us return to our four tracts of arable land, supplying a certain market, and yielding, respectively, 24, 22, 20, and 18 bushels of wheat per acre, with the application of a certain amount of labor and capital. These have been assumed to be all equally near to the market in which their produce is to be sold.

Now, let us suppose that some enterprising cultivators undertake to open up a large tract of very fertile land situated at a considerable distance. The productiveness of this tract might even reach 30 bushels, as compared with the four tracts described; yet it might be found that, after the grain were harvested, the cattle and the men engaged in hauling the crop to market would eat up, on the round trip, not less than 12 bushels out of the produce of each acre,—in which case this tract would stand, for the purposes of rent, not on a level with the more fertile home tracts, but exactly in the position ( $30 - 12 = 18$ ) of the 18-bushel tract; and until this last-named were all taken up, the more distant lands would either not be cultivated at all, or would be cultivated without paying rent.

But should some improvement in the means

of transportation reduce the amount of the deduction to be made from the gross produce, on that account, very important effects might be wrought, not only as influencing the occupation and cultivation of this tract, but also as controlling the rent of the home tracts. Let us, first, suppose one bushel saved from the maw of the cattle and men engaged in transporting the crop to market. The net productiveness of the tract (30 — 11) would then be 19. Immediately the 18-bushel home tract would be thrown out of cultivation, as the labor and capital previously employed thereon could be more advantageously transferred to the new territory. And now a readjustment of rents must take place. The 19-bushel land will bear no rent. The highest grade of soils will bear a rent (24 — 19) of only 5 bushels; the second grade, of only 3; the third grade, of only 1. If we assume the tracts to be of equal size, the aggregate amount of rents now received by the owners of land will be but 9 as against 12, a reduction of one fourth. Their land is just as good as it was before, yields just as much grain of unimpaired quality; but their rents have fallen, simply because the 18-bushel tract has been thrown out of cultivation, and the

19-bushel tract substituted as furnishing the poorest grade of soils contributing to the supply of the market.

Let us further suppose that some improvement in carts, or the substitution of draught-horses for oxen, shortens the time taken for the transport of the grain, so that only nine bushels have to be deducted from the produce of an acre; what will be the effect on the cultivation of the several tracts, and on the amounts of rent yielded by them respectively? The net produce of the distant tract (30—9) has now risen to 21 bushels. The 20-bushel tract must be abandoned. No one can cultivate it and get his outlay back, so long as there is a limitless extent of free land on which wheat can be raised with a smaller expenditure of labor and capital. The highest grade of land now yields a rent of but 3 bushels an acre (24—21); the second of but 1 bushel. The aggregate amount received by the owners of land, in rents, sinks from 9 to 4, as the consequence of the last step taken, namely, the throwing out of certain soils, the uplifting of *the lower limit of cultivation*.

Give the name America to the remote tract in this illustration, and you have a fair explana-

tion of the tremendous effects produced, during the past few years, upon English and Irish rents, by the increasing severity of competition from this side the Atlantic, following the reduction in the cost of transportation.

We now reach the second stage of our inquiry. If rent arises solely as we have described, and if the amount of rent is measured by the rule that has been laid down, what is the influence of rent upon the distribution of wealth? Who is richer and who is poorer by reason of it? In particular, how are the laborers, on the one side, and the consumers of agricultural produce, on the other, affected thereby?

To get the clearest possible conception of the relations of the parties in interest, we will assume the English threefold organization for the purposes of agricultural production, — the landlord owning the land and leasing it to tenant farmers, who, on their part, hire those who perform the labor of cultivation, devoting their own time to the buying of tools, supplies, and work animals, to selling the produce, to superintending the progress of each part, by turns, of the work of the farm, while exercising a

general administration of the whole and assuming all the responsibilities of production.

Under such an organization as is here described, the question of rent is wholly a question between landlord and tenant. It does not concern the laborer at all. It does not go further, and touch the interest of the consumer of agricultural produce.<sup>1</sup> The laborer, on his part, gets no less wages because rent is paid; the loaf of bread would cost the consumer just as much, were all rents remitted.

This is "a hard saying," and on its first statement appears incredible, but it is as surely demonstrable as any theorem in geometry. Let us see.

The normal price of any commodity is fixed by the cost of the production of that part of the supply which is produced under the most disadvantageous conditions. The cost of that portion, whatever that cost may be, will determine the price of all other portions, no matter how much more favorable the conditions under which these may be produced.

<sup>1</sup> It was one of the greatest of the mistakes of Adam Smith that he believed rent to enter into the price of agricultural produce. "Rent," he says, "enters into the composition of the price of commodities in a different way from wages and profits." The fact is, it does not enter at all.

Applying this principle to a single agricultural crop, *e. g.* wheat, we say that the normal price of wheat will be fixed by the cost of raising it upon the least productive soils which are actually cultivated for the supply of the market. This cost must be covered by the price, or else wheat will not continue to be grown on those soils, while yet the fact that it is grown there now proves that this wheat constitutes a necessary part of the supply of the market.

Whatever be the price of the wheat grown on the least productive soils, that price will—quality being assumed constant, or allowance being made for differences in quality—be paid for the wheat grown on more productive soils. This is clear, since, if dealers are to attempt to exact a higher price for one lot of wheat than for others, simply because it was raised at a greater cost, no one would buy from that lot.

But if the price of the whole crop of wheat is to be fixed by the cost of raising it on the least productive soils actually cultivated, then rent is not a part of the price of agricultural produce, since the least productive soils pay no rent; and therefore rent cannot be a part of the price of the wheat raised there-

from; and if not of this wheat, then of no wheat,<sup>1</sup> since, as we have seen, the price of the whole crop is fixed by the cost of that portion which is raised on the no-rent land.

Let us look at it from another point of view. Suppose a landlord to hold the opinion that rent somehow, after all, in spite of all your fine-spun theories, must swell the price of the baker's loaf, and, in consequence of this conviction, to remit, in an access of philanthropy, all his rents for the year. What will be the effect on the price of wheat? I answer, None; the tenants raising the wheat at the same cost, otherwise, as before, and selling it at a price determined by the cost of raising wheat on lands which pay no rent, would simply pocket the sums they would have paid in rent but for the landlord's bad political economy.

But, it may be asked, will not the farmers, thus enriched, pay higher wages to their laborers? No. Why should they? They have been paying wages at the usual rates, — rates determined by the demand for and the supply of labor. Nothing has happened to affect that demand or that supply. Moreover, why, even in equity, should

<sup>1</sup> "Corn is not high because a rent is paid; but a rent is paid because corn is high." — *Ricardo*.

they pay higher wages? They have been paying the same wages as the farmers who cultivate the no-rent lands. Why should laborers working on rich fields receive more than those whose lot it is to work on poor fields? Where would be the justice of that? The one set of laborers work as industriously and as efficiently as the other. In the matter of desert they are equal; what should make discrimination between them in the matter of wages?

But even though there were the strongest reason, in equity, why tenant farmers should hand over to their laborers the whole or a part of the rents remitted by the landlord, it will be seen that we have no assurance, human nature being what it is, that they would do so. They would pay wages at the old rates, sell their wheat at the old price, and put the difference into their own pockets. No economic force can be invoked which would carry the remitted rents, or any part of them, past the tenant farmer's door. The landlord would be poorer for his mistake, the farmer richer; but neither the agricultural laborer nor the consumer of agricultural produce would profit by it in the smallest degree.

We conclude then that, the price of agricul-

tural produce being fixed by the cost of raising it on the least productive soils actually contributing to the supply of the market, *there remains, on all more productive fields, an excess of value above the cost of production, a surplus*, which, so far as the normal operation of the principle of self-interest is concerned, must become the property of the owner of the soil. The owner can give it away, as he can give away anything else that is his, or it can be taken from him by violence, as anything else may be taken; but no economic force can enter to carry rent to any point where it will either raise the price of labor or lower the price of produce.

Such, in its simplest elements, is the normal operation of the principle of self-interest in dealing with the land. As formulated by Ricardo, this is known as the Economic, or Ricardian, doctrine of rent. Surely, no one who has followed me with care will hesitate to say that the doctrine, upon its assumptions, is incontestably true, and that whoever denies it puts himself on the level of the man who denies that things which are equal to the same thing are equal to each other.

I spoke of the doctrine as formulated by Ricardo. That illustrious economist was not, indeed, the first to announce the law of rent, which had been correctly and clearly stated by Andersen, a Scotch writer, in 1777. As by him declared, however, the doctrine failed to attract attention. Forty years later, it was, according to the usual statement, "simultaneously rediscovered," in the early part of this century, by Mr. Malthus, Sir Edward West, and Mr. Ricardo. The cogency with which the arguments of the last-named writer were put, the stringency with which the principle involved was applied in stating the theory of value and in tracing the effects of taxation upon the distribution of wealth, have served to affix his name permanently to the doctrine, alike in England, in America, and on the continent of Europe.

We now come to a distinction which is most important in the theory of our subject. The principles thus far laid down relate only to *the natural advantages* of the land, productively, being such as are derived from fertility, from accessibility for the purposes of cultivation, or from nearness to the market where the produce

is to be sold. From this point of view land is contemplated as unimproved. The return that shall be made to *productive advantages acquired by the land through the applications of capital*, in the nature of permanent improvements, whether above or beneath the surface, is governed by a law altogether different from that which we have thus far discovered.

The law of capital differs from the law of rent in this: there is not theoretically any no-interest capital. We have seen that the existence of a body of no-rent lands is essentially involved in the theory of rent. There is nothing corresponding to this in the law of capital. Practically it is doubtless true that some capital bears a high interest; other portions, a low interest; still other portions bring no returns to their owners, while, in cases not infrequent, the capital sum invested may even be itself lost, in whole or in part. But this is not at all involved in the nature of capital. Such a result would be due to the greater or less wisdom displayed by investors in dealing with the portions of capital placed in their hands. In regard to land, on the contrary, the securing of rent by the owner does not depend on the greater or less wisdom of the proprietor, but is

determined by the conditions of the land itself. There is a reason, in the nature of the case, why one piece of land should bring a high rent, another a low rent, a third no rent at all. But in regard to two portions of capital, as yet uninvested, there is no reason why one should bear a higher rate of interest than the other. And so, in theory, not only is there no no-interest capital, but all portions of capital bear an equal rate of interest, the divergences of actual from theoretical interest being due to mistakes of calculation, to misadventures beyond the power of the investor to foresee, to fraud, or other cause altogether outside the nature of the capital itself.

The applications of capital to land are determined by the same force which directs capital to other uses, namely, the expectation of a profit to the investor. If capital be applied to land, it is because the owner looks, wisely or weakly, to obtain, on the whole and in the long run, a return equal (the degree of security being taken fairly into account) to that which could be obtained through its application to any of the various purposes of manufacture, transportation, or commerce.

The main difference between capital invested in agriculture and that invested in other depart-

ments of productive effort is found in the immovability of such property. This is, however, a difference not of kind, but of degree only, since capital invested in many other ways becomes immovable, or movable only upon the condition of a heavy charge for transportation, or a great loss of value in adapting it to other uses.

We note, then, that what shall be paid for the use of land may consist of two parts, — rent proper, the remuneration for what Ricardo called the original and indestructible powers of the soil; and fictitious rent, which is, in truth, nothing but interest upon capital invested. It is only to the former that the economic doctrine of rent applies. When I speak of rent, without qualification, I beg to be understood to mean rent proper; though I shall sometimes express the adjective at critical points, as a fresh assurance against misconception.

It has been said that capital would not be invested in agricultural improvements but for the expectation of a return equal to that derived from investments in other directions. But agricultural investments, being in a very high degree immovable, are, of course, subject

to great or even total loss in case the operation prove to have been made ill-advisedly.

Now let us further note here, that, in such a case as that just indicated, the loss is not borne in any degree by the proprietor of the soil, as such, be he, in fact, also the owner of the capital invested in the soil, or not, but by the owner of the capital, as such. The loss arising from the failure of capital invested in agricultural improvements is not divided between the rent proper and the interest which together make up what is popularly called rent. Such loss falls wholly upon the interest part of this composite payment. Rent proper takes care of itself. Under the normal operation of the principle of self-interest, rent gets its own invariably, indefeasibly.

Let us illustrate. Suppose a field of which the economic rent, meaning thereby the productive advantages of that field over the poorest or most distant field under cultivation for the supply of the market, is 50 bushels of wheat a year. Now let an investment of capital take place, in the form of trenches, fences, buildings, or what not, of which the proper annual returns, according to the usual rate of interest, would be 50 bushels.

Were the produce of the field to be so increased thereby that, after repaying the cost of cultivation, a surplus of 120 bushels should remain, the economist does not contemplate this amount as divided equally between rent proper and interest, each receiving 60 bushels. On the contrary, the economist regards the rent of the land as still 50 bushels only, the remainder, 70 bushels, being interest on the investment. But if, in the opposite case, the produce remaining, after repaying the cost of cultivation, should be but 80 bushels, the economist would regard not 40, but only 30, bushels as compensation for the sum invested in improvements, the amount of rent remaining, in any philosophical view, unaffected by the partial failure of that investment.

The distinction to which attention is here invited is not a mere matter of finesse. It is of vital and vast importance in dealing with the question of the value of land, whether for rental or for sale, as we shall see<sup>1</sup> when we come to consider the attacks made upon the doctrine of rent by Mr. Carey and others.

It has been said that, upon its assumptions,

*See post*, pp. 76-85, 111, 112.

that doctrine must be admitted by every person who is capable of understanding the terms in which it is stated.

It has, however, frequently been alleged that those assumptions are so wide of the facts of human society, that the so-called economic law of rent is of no practical importance in the theory of the distribution of wealth.

Let us, then, carefully consider the several successive assumptions which underlie this doctrine.

1. The doctrine assumes the private ownership of land, with real and active competition among proprietors, as contrasted with monopoly secured by a combination of proprietors, or by a single proprietor; for instance, the State.

Thus, to return to the illustration which we pursued so much at length, we said that when the community was yet so small that all the members could be maintained by the cultivation of a portion only of the tract having the highest degree of productiveness, no rent whatsoever would be paid for any portion of that tract, even the portion actually cultivated, or, in any event, only a rent so small that, for purposes of economic reasoning, it could safely be disregarded.

But if we suppose that all the proprietors of this tract firmly unite to demand a rent, what will be the result? Competition being destroyed, a rent may conceivably be exacted. How large a rent? What will be its upward limit? I answer, Two bushels an acre for the whole amount actually cultivated. More than this cannot be secured by any combination among the proprietors within this tract, since, if a higher rent were demanded, it would become the interest of every cultivator to resort to lands of the next grade of productiveness, namely, those within the 22-bushel tract, which could be had without rent.

This rent of two bushels will not, it should be observed, be paid for all the land (say  $a$  acres) within the first-described tract, but only for so much of it as is actually required for cultivation (say  $x$  acres) to meet the existing demand for wheat. All the persons in the combination, those whose lands are cultivated and those whose lands are not, will have to divide among themselves the aggregate sum ( $2x$  bushels) so obtained, no single proprietor securing so much as two bushels an acre for all of his individual estate. Each individual proprietor will then receive for each acre of his

land the following rent:  $\frac{2x \text{ bushels}}{a}$ . Should one owner try to overreach the others by renting his own land privately, in contravention of the agreement, the combination would at once be broken, competition would set in, and rents would fall to the minimum.

Such a combination is, of course, conceivable; yet it would be wholly impracticable if any considerable number of proprietors were concerned. That the combination should be extended downwards, to include not only the proprietors of the next grade of land, the 22-bushel tract, but also those of the 20-bushel tract, and even of the lowest grade, the 18-bushel tract, for which otherwise no rent would be paid, but which, in the attempt to escape competition, would have to be brought within the combination, their owners becoming entitled to a share of the profits, and that thus a monopoly should be established governing the price of wheat, would manifestly involve a thousand-fold the difficulties which would attend the formation of a combination to control the rent of lands all of the same grade. I am not aware that in the history of mankind such a combination has ever anywhere been made and maintained; and

there seems little reason for apprehending such a combination in the future.

But what individual owners could not do, Government may. There are instances of rents paid in new countries, as in Australia, while yet all even of the best lands were not taken up. This phenomenon, which several writers have mistakenly adduced as if it were in contradiction of Ricardo's law of rent, has been due to the fact that all available lands were held by the Government, which was thus able to fix a monopoly price.

Now, under monopoly, price is wholly cut away from cost of production. It becomes purely a question of demand. What price shall be paid, — for wheat, for example, — whether one dollar, or five, or fifty, will depend on how much consumers, who must get it, have with which to purchase it. Up to the limit of the absolute exhaustion of the resources of purchasers, price may be carried by the force of monopoly, and into that price, as Professor Cairnes has so well shown,<sup>1</sup> rent *does* enter.

<sup>1</sup> "In the ordinary case of agricultural rent, the relation of rent to price is not that of cause to effect, but of effect to cause ; rent, that is to say, is the consequence, not the cause, of the high price of agricultural products. . . . On the other

Such would be the effect upon rent, and upon the price of produce, of universal land monopoly. The matter is not, however, of great practical interest, inasmuch as a monopoly of land, in any proper sense of the term, rarely exists over any considerable territory; and were it to be established, even over large regions, its effects would be kept down within narrow limits unless the importation of food were forbidden.

2. The doctrine of rent, as we have stated it, assumes not only an active competition among land-owners, but also an active competition between land owners and cultivators as classes, and, still further, an active competition throughout the cultivating class itself, each cultivator seeking his own interests as against those of any and every other.

It is implied that the landlord, on his part, will unflinchingly demand all the rent which the excess of produce over that of the no-rent lands will allow the cultivators to pay; and that he will exact this, if need be, at the cost hand, in the special cases of rent referred to, in the case, *e. g.*, of the unoccupied lands of a colony, — rent is, not the effect, but the cause of price.

“The price of corn rises here because the Government demands a rent. In the ordinary case the landlord demands a rent because the price of corn is high.”

of driving old tenants from the soil, not even giving favor to age, infirmity, or affliction.

On the part of the cultivator, it is implied that he will pursue his interest with unflinching intelligence and unflagging zeal, hesitating not to raise the rent upon his fellows by overbidding them; hesitating not to crowd himself into the place of any other cultivator, should a gain appear therein; hesitating not, for any sentimental reason, to abandon his own farm, his own home, his native country even, and seek his interest elsewhere, with absolute indifference to everything but an economic benefit.

The barest statement of these conditions shows that Ricardo's law does not furnish a formula by which the compensation to be paid for the cultivation of any given piece of land can be determined in advance. The law is only true hypothetically, and the conditions taken for the purpose nowhere exist, in their theoretical completeness. The United States and Ireland are probably the only two considerable countries in which rents closely approximating true competitive rents have been habitually paid. This fact does not deprive the economic law of rent of its significance and value. . No projectile describes a perfect

parabola; yet the artillerist never fails to have reference to the law of the projectile, while pointing his piece.

I have said that the United States and Ireland are probably the only considerable countries<sup>1</sup> in which true competitive rents have been habitually paid. The similarity of action, in this respect, in these two countries, has been due to altogether different causes, and has, through affecting widely different material in the two cases, produced altogether different results. In the United States, the mobility of the population, their quick intelligence, their almost Ishmaelitic proclivity to change of place; the utter absence of popular notions regarding favors to be given in trade, or concessions to be made to classes supposed to be helpless and dependent; the cheapness of lands within the area of settlement, and the standing offer, by the Government, of boundless tracts of good land along the frontier, free of charge,

<sup>1</sup> Professor de Laveleye speaks of the rents exacted by the small owners of land in certain districts of Belgium from those who are so unfortunate as to become their tenants, as true "rack rents," characterized by a severity of extortion rarely known elsewhere. But the area to which this state of things applies does not require a qualification of the already guarded statement in the text.

upon the sole condition of actual personal occupation and cultivation; and, lastly, the traditional character of American agriculture, which up to this point in our history has been of a very superficial character,<sup>1</sup> involving comparatively

<sup>1</sup> In an article in the "Princeton Review" of 1882, I ventured on the following vindication of that system of cultivation which has elicited so many expressions of disapproval from European tourists in America, and even from the self-constituted guardians of our agricultural interests at home. "The American people, finding themselves on a continent containing an almost limitless breadth of arable land, of fair average fertility, having little accumulated capital and many urgent occasions for every unit of labor power they could exert, have elected — and in doing so they are, I make bold to say, fully justified, on sound economical principles — to regard the land as practically of no value, and labor as of high value; have, in pursuance of this theory of the case, systematically cropped their fields on the principle of obtaining the largest crops with the least expenditure of labor, limiting their improvements to what was required for the immediate purpose specified, and caring little about returning to the soil any equivalent for the properties taken from it by the crops of each successive year. What has been returned has been only the manure generated incidentally to the support of the live stock needed to work the farm. In that which is for the time the great wheat and corn region of the United States, the fields are, as a rule, cropped continuously, without fertilization, year after year, decade after decade, until their fertility sensibly declines.

"Decline under this regimen it must, sooner or later, later or sooner, according to the crop and according to the degree

little expenditure for the benefit of the soil beyond the requirements of the annual crop,

of original strength in the soil. Resort must then be had to new fields of virgin freshness, which, with us in the United States, has always meant 'The West.' When Professor Johnston published his 'Notes on North America,' in 1851, the granary of the continent had already moved from the flats of the lower St. Lawrence to the Mississippi Valley, the north and south line which divided the wheat product of the United States into two equal parts being approximately the line of the 82d meridian. In 1860, it was the 85th; in 1870, the 88th; in 1880, the 89th.

"Meanwhile, what becomes of the regions over which this shadow of partial exhaustion passes, like an eclipse, in its westward movement? The answer is to be read in the condition of New England to-day. A part of the agricultural population is maintained in raising upon limited soils the smaller crops, garden vegetables and orchard fruits, and producing butter, milk, poultry, and eggs for the supply of the cities and manufacturing towns which had their origin in the flourishing days of agriculture, which have grown with the age of the communities in which they were planted, and which, having been well founded when the decadence of agriculture begins, flourish the more on this account, inasmuch as a second part of the agricultural population, not choosing to follow the westward movement of the grain culture, are ready with their rising sons and daughters to enter the mill and factory. Still another part of the agricultural population gradually becomes occupied in the higher and more careful culture of the cereal crops on the better portion of the former breadth of arable land, the less eligible fields being allowed to spring up in brush and woods; deeper ploughing and better drainage are resorted to; fertilizers are

except as to expenditures of a constructive or mechanical nature, thus leaving the question of "unexhausted improvements," between tenant and landlord, a very simple one, — all these causes have combined in the United States to bring actual and theoretical rent close together.

No landlord here would hesitate to demand the utmost rent which he thought the tenant would pay; nor would any degree of popular odium attend a change of tenants, made solely on the ground that the new-comer offered more for the privilege of cultivation. It would be held that it was the landlord's right to get the full value of his land and to do whatever should be necessary to that end; while in a country where nine and a half millions of the native population live in other States than those in which they were born, any effort to

now employed to bring up and to keep up the pristine fertility of the soil. And thus begins the systematic agriculture of an old State. . . .

"It is in the way described that Americans have dealt with the soil opened to them by treaty or by purchase. And I have no hesitation in saying that posterity will decide, first, that it was both economically justifiable and politically fortunate that this should be done; and, secondly, that what has been done was accomplished with singular enterprise, prudence, patience, intelligence, and skill."

arouse indignation, or even pity, at the spectacle of an evicted family would be ludicrously futile. Here, then, we have competitive rents nearly in their fulness, the normal operation of the principle of self-interest being only restrained by that degree of ignorance and inertia which may be found among the most enlightened and enterprising peoples.

In England, however, the very country of Ricardo, competitive rents have never been generally exacted. Here we find sentiments of mutual obligation between landlord and tenant, sentiments having a political or a social origin, entering to modify profoundly the operation of purely economic forces. "The rent of agricultural land," says Professor Thorold Rogers, "is seldom the maximum annual value of the occupancy; in many cases, is considerably below such an amount." Not only are the landlord's own instincts of acquisition in general tempered by personal good-will between himself and his tenant, but an imperious public sentiment would protect the tenant against an unduly exacting landlord, to the extent of the social proscription of the offending party. No English gentleman could crowd an industrious tenant, who had been long upon the estate, out

of his holding, to admit a stranger, without having the whole parish or the whole county crying shame upon him.

By the force of sentiments like these, the normal operation of the principle of self-interest in dealing with the land is, in England, so far restrained that no inconsiderable part of what might, by Ricardo's law, be exacted in rent, remains unclaimed in the hands of the occupier, the tenant farmer. Upon the Continent of Europe, competitive rents are not even the rule, to which exception is made by virtue of such causes as have been indicated. In general, custom determines the amount of rent; and while custom has always a certain reference to the comparative productive advantages of land, it is the universal admission of all writers, whether liberal or conservative, upon this subject, that it has the effect, supported, as it is, by feelings of personal good-will and by a public sentiment which recognizes and is prepared to enforce the obligation of the noble and wealthy classes to be considerate and merciful in dealing with the peasantry, to cause a divergence, often a very wide divergence, from competitive rents, always in favor of the cultivator. So strong is custom, in controlling the

actions of men in dealing with the land, that over large portions of Continental Europe, the rents, consisting generally of a share of the produce, are not changed<sup>1</sup> from generation to generation, notwithstanding the growth of population, sending cultivation down to soils of lower and still lower fertility. It is true that the landlord gains through the enhanced value of his share of the produce; but it is also true that the cultivator realizes a large gain (of which by the Ricardian law he would have been deprived) through the enhanced value of so much of the produce as remains to himself.

It is not necessary at this time to enter, merely for illustration of our principle, upon so large and so difficult a question as that of rents in Ireland. Here in the past have been seen the full effects of competition, — competition, not, as in the United States, between classes substantially equal in intelligence and freedom of

<sup>1</sup> Indeed, it is, as Sir Henry Maine remarks, "all but certain that the idea of taking the highest obtainable rent for land is relatively of very modern origin. The rent of land corresponds to the price of goods; but doubtless was infinitely slower in corresponding to economical law, since the impression of a brotherhood in the ownership of land still survived, when goods had long since become the subject of individual property." — *Village Communities*, p. 198.

movement; competition, not, as in England, restrained by kindly sentiments and conservative usages;<sup>1</sup> but a competition between a landlord class, few in numbers, rich in accumulated means, thoroughly united among themselves as the result of generations of suppressed warfare, and cherishing towards the peasantry, not the feelings natural to the lord of the soil, but the fears, the jealousies, the hatreds, that are born of race and religious antagonisms, and, on the other part, a tenant class, whose numbers were largely in excess of the capabilities of the land to support, and who were, in character, ignorant, superstitious, and improvident, their very virtues of generosity and hopefulness contributing to further disqualify them for the competition which they were compelled to enter upon for the occupation of the soil.

Two minor assumptions, involved in Ricardo's law, are: (1.) The indifference of the landlord to the possibility of waste being committed by the tenant, and (2.) The indifference of the

<sup>1</sup> "The three rents are: Rack-rent from a person of a strange tribe; a fair rent, from one of the tribe; and the stipulated rent, which is paid equally by the tribe and the strange tribe." — *Senchus Mor*, quoted by Maine, *Village Communities*, p. 187.

tenant towards the value of the improvements he may have incorporated with the soil. Of course, neither of these assumptions is even supposed to correspond to the facts. They are made merely for convenience of reasoning and simplicity of illustration.

Inasmuch as wanton malice, greed, or mere neglect, on the part of the tenant may impair, in a greater or smaller degree and more or less permanently, the fertility of land, it might readily happen that, contrary to the supposition made, the proprietor of land of the highest grade would prefer to have his land remain unoccupied rather than admit a distrusted tenant on a minimum rent. In this way the actual operation of the principle of self-interest might be made to differ in some degree from what we have described as the normal operation of that principle. Lands of this class might be held out of cultivation until the accumulating stress of the principle of "diminishing returns" upon the cultivators of the higher-grade lands led to the offer of a rent for these lands which, though low, could not yet properly be called a minimum rent (to be treated as *nil*), being substantial enough to constitute a sort of guarantee to the proprietor, or, to put it in another form,

being so far considerable as to make him think it worth while to take some risk regarding waste.

On the other hand, the tenant is never likely to be so free to move to other land as is assumed in the economic doctrine of rent, inasmuch as the existence of "unexhausted improvements" wrought by him in the soil is likely to hold him in his place, with a greater or less degree of tenacity, inducing him to remain where he is, even though obtaining somewhat less annually by present exertions than he might in another locality, rather than permanently sacrifice the benefit of his improvements by a removal.

I do not know that any other qualification of the Ricardian doctrine of rent, arising from the nature of the assumptions which underlie it, needs to be expressed in order to place us in a position to examine the views of recent writers regarding the actual influence of rent on the distribution of wealth.

It will be observed that the degree of this influence must depend, primarily, on the lower limit of cultivation, what economists commonly call *the margin of cultivation*. If the range of

net productiveness between the soils actually under cultivation at the same time, for the supply of the same market, be narrow, no matter how great the average productiveness of the whole body of lands, the amount paid in rent will be small. As that range increases, even though the average net productiveness should decline, and decline greatly, the amount paid in rents would increase.

Suppose six lots of land, of 1,000 acres each, supplying a given market, to produce, severally, 40, 39, 38, 37, 36, and 35 bushels per acre, the amount of rent realized therefrom, according to the formula of Ricardo, will be 15,000 bushels, out of a total production of 225,000 bushels, or  $\frac{1}{15}$ .

Now suppose that the same lots produce, severally, but 30, 28, 26, 24, 22, and 20 bushels. Here we should have an aggregate production of but 150,000 bushels, and yet the amount of rent would rise to 30,000 bushels, reaching  $\frac{1}{5}$  of the produce. If, again, we were to assume that the lots produced, severally, 30, 27, 24, 21, 18, and 15 bushels, we should find the aggregate product sinking to 135,000 bushels; but of this not less than 45,000 bushels, or  $\frac{1}{3}$  the crop, would go as rent.

“Rent is always,” said Mr. Ricardo, “the difference between the produce obtained by the employment of two equal quantities of capital and labor. . . .”

“Whatever diminishes the inequality of produce obtained from successive portions of capital employed on the same or on new land, tends to lower rent; and whatever increases that inequality necessarily produces an opposite effect and tends to raise it.”

*The range between the higher and the lower limit of cultivation* we see, therefore, is of prime importance in the discussion of the influence of rent upon the distribution of wealth, as it determines the actual amount of the produce which, under the Ricardian formula, will go into the hands of the landlord simply for the privilege of applying labor and capital to the land.

Upon what we shall ascertain as to the existing facts and the manifest tendencies of economical forces in this matter of the margin of cultivation, so called, will depend our decision whether M. Leroy-Beaulieu is right in declaring that rent has ceased to be of any importance in the distribution of wealth; or Mr. George is right in declaring that rent is a deadly evil,

which is every day drawing nearer and nearer to the vital organs of the State; or, thirdly, whether both these gentlemen are not wrong, the one in unduly disparaging, the other in unduly magnifying, the importance of rent in the distribution of wealth, under modern economic conditions.