totalitarianism has not yet been demonstrated, and empiricism is wisely shunned by the proponents of planning. Conservatives may give planning sympathetic consideration as the nearest alternative to *status quo,* but the result is more likely to be *status ante*—almost antediluvian. The development of "statism" on the continent of Europe cannot be explained away on the hypothesis of "unfortunate accidents."

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## Economic Rent: In What Sense a Surplus?

Students of economics have long been handicapped by the fact that many of its terms are used, by various economists, in widely different senses. Even when a term seems to have acquired a clear and definite and generally accepted meaning in the craft of the economists, there is no guarantee that innovators will not adopt a new meaning for it and be extensively imitated.

It has been so with the word "rent" which, to the classical economists, meant rent of land but which, about the turn of the century, began to be applied to the yield of produced capital. As the then "modern" and "up-to-date" economists of about the year 1900 began to blur the distinction between land and produced capital and between the income from the one and from the other, and to follow the man in the street in using the term "rent" for both, it was still possible for those of us of a different point of view to make ourselves clear by referring to "economic rent." By using the modifying word "economic," we could still make clear that we were referring to the yield of land as such, *i.e.,* of land in the strict economic sense, exclusive of improvements made by an owner or tenant *in* it as well as *on* it.

But now it begins to look as if even this privilege is to be denied us and as if once more the very terms by which we have tried to emphasize a distinction we have considered important are to be appropriated and turned to other purposes by economists who have no sympathy with us. Indicative of this apparent trend is the recent book by Professor Kenneth E. Boulding of Colgate University, entitled *Economic Analysis.*[1] To Professor Boulding, economic rent is not just the yield of land ownership—indeed, he seems to feel that much of this yield is not even to be included in it—but rather is "any payment to a unit of a factor of production in an industry in equilibrium, which is in excess of the minimum amount necessary to keep that factor *in its present occupation.*"[2]

Professor Boulding makes it very clear that he regards wages as, in part, economic rent. Many workers would stay in the *particular line* of work they are in, even at appreciably lower wages than they now receive, and the excess over the amount necessary to keep them in that particular line is economic rent. Boulding illustrates by reference to the occupation of weaving, in which, at $20 a week, he supposes 1,000 willing to work, each extra dollar per week increasing by 100 the number of men "willing to work at weaving."[3] And, according to Professor Boulding: "The higher the wage, the greater will be the economic rent received by all those workers who would be willing to work at a lower wage, and the greater will be the economic rent received by all workers."[4]

[1] New York, Harper, 1941.
[2] *Economic Analysis,* p. 229. The italics are mine.
[3] *Ibid.,* p. 230.
[4] *Loc. cit.*

On the basis of such a presentation, a very large part of the rent of land would definitely *not* be "economic rent." And so the expression "economic rent" comes clearly to *exclude* a large part of what, originally, it was specifically chosen to mean! For whenever a piece of land can be used almost equally well to produce two or three different kinds of goods, any appreciably lower yield from that land in one use than in the other or others would cause the land to be withdrawn from such use. And so the owner of a piece of land in a centrally located business block of a large city who derives (say) $20,000 a year on the land from a tenant who uses it for a particular kind of merchandising, but who could derive $19,900 a year if the land were used for another kind of merchandising or for banking and finance, does not really have $20,000 of economic rent but only $100!

Any part of the price of a commodity which is necessary to keep the worker *or* the capital *or* the land in the business of producing *that particular commodity* for sale is *not* economic rent in the view of Professor Boulding.[5]

Yet on a later page of his book the author *includes* in "economic rent" a considerable part of what he has previously *excluded.* For on this later page he defines economic rent as "any payment to the owner of a factor of production in excess of what is required to keep that factor *in continuous service*."[6] Here he does *not* say "in its present occupation." And the context is consistent with the new definition. For, advising that the legislator should "wherever possible, attack economic rent,"[7] and expressing the opinion that "a properly constructed income tax falls to a very large extent on economic rents,"[8] he immediately goes on to say:[9] "In so far as it applies to all occupations it does not affect *relative* profitabilities, and so cannot be escaped by shifting occupation." By fairly clear implication, then, as well as by his second formal definition, it would seem that Professor Boulding considers that part of a taxpayer's income which can be thus successfully taxed away from him to be economic rent.

Perhaps we should not be unduly critical of a careless slip into an inconsistent taxonomy. But it does seem unfortunate that the expression "economic rent" is now coming to be twisted, by some writers, out of all semblance to the meaning which has usually been given to it. Does not this inevitably tend to confuse students of economics? And does it not tend to turn their attention away from the problem of who should enjoy the rent of land?

When "economic rent" is taken to mean the rent of land exclusive of individually made improvements in or on the land, it is natural to ponder the question how such rent differs from income produced by work or income attributable ("imputable") to constructed capital. A considerable number of students of economics have come to the opinion that the rent of land (so understood) is properly to be regarded—with only insignificant qualifications—as an *unearned* income, an income not received in return for any service given to those from whom it is drawn. The wages of labor, on the other hand—although it is to be recognized that some labor is devoted to anti-social ends—and the yield on constructed capital are, in general, *earned* by equivalent service given.

But now we have our attention turned away from the contemplation of such distinctions as this into the question whether it would not be possible for the state to take a large part of the earnings of labor without thereby causing the

[5] *Op. cit.*, p. 232.
[6] *Ibid.*, p. 787. The italics are mine.
[7] *Loc. cit.*
[8] *Loc. cit.*
[9] *Loc. cit.*

workers to cease working. We no longer are urged to inquire—certainly such writers as Professor Boulding do not urge this—whether it is socially desirable that incomes enjoyed by the citizens of a country shall have any close relation to their productive contributions. Instead, the question is how much can we squeeze out of them, even of what they fairly earn, while yet not causing their labors—or their savings—to cease (wholly or in large part). What if a large group of men are completely enslaved, either by individual masters or by government, and so are forced to work by the lash or the knout? Is *everything they produce beyond enough to maintain their ability to work* to be regarded as "economic rent"?

One wonders if this recent concept of "economic rent" is in some sense—though, of course, not consciously—part of the current swing toward social control, toward regimentation, toward totalitarianism.

Is the expression "economic rent" now to do duty for every sense in which we may say that there is a "surplus"? If so, what can the economist who believes the distinction between income from land ownership and other income to be important do about the matter? Will he, for long, be permitted the use of *any* term to express his meaning?

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## Professor Whittaker on Indifference Curves: A Rejoinder

In the September, 1941, number of this *Review* (pp. 569-70), Mr. Arthur Kemp drew attention to the treatment given to indifference curves in my book, *A History of Economic Ideas,* raising the possibility that readers may conclude that the early curves of Alfred Marshall, in his work, entitled *The Pure Theory of Foreign Trade* and *The Pure Theory of Domestic Values,* are identical with those constructed more recently by members of the Paretian school, such as Hicks. Of course this would be incorrect and I am grateful to Mr. Kemp for mentioning the matter. The Pareto-Hicks indifference curve goes back to Edgeworth's *Mathematical Psychics* (1881), though Irving Fisher, in his *Mathematical Investigations in the Theory of Value and Prices* (1892), claimed independent discovery and took a position more nearly that of the Paretians than did Edgeworth. What I had in mind in arranging this section of my book was the elaboration of the Paretian indifference curve concept, applied in Marshall's problems of international trade, in Edgeworth's article on "The Pure Theory of International Values" (*Econ. Jour.,* 1894), and that by W. E. Johnson on "The Pure Theory of Utility Curves" (*Econ. Jour.,* 1913); but probably it would have been better to confine the name "indifference curve" to the Paretian line of equal utility and employ some other designation for Marshall's curve. However, there appear to be certain confusions in Mr. Kemp's statement which it may be well to clear up.

If the Marshallian graph reproduced in my book be compared with, let us say, Figure 1 of Hicks's *Value and Capital,*[1] it is evident that, superficially at all events, different topics are dealt with. Marshall was examining the market between two trading groups, Hicks the choice of an individual between two commodities. But, as each of Marshall's groups was supposed to enter the market possessing the entire supply of a single commodity and to endeavor to bargain

[1] *Value and Capital,* p. 15.