On Monopoly Rent: Comment

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In his article "On Monopoly Rent," Alan Evans (1991) states that there are three ways to understand the meaning of "monopoly rent." First, it has been characterized, especially by classical-school economists, as a class monopoly, the landowners being the class that has title to all the land and therefore owns the associated land rent. Secondly, rent can be thought of as due to a "site monopoly," since any site can be distinguished from others in location if not with regards to other qualities. Third, there is Marxian monopoly rent for sites on which products are produced specific to those locations, the classic example being vineyards and a modern example being sites within a shopping center.

This comment concerns the non-Marxian use of the term "monopoly rent." Evans states that the concepts of class and site monopoly are subsumed by economic rent and differential rent, hence the use of the term "monopoly" is misleading. There is, however, another type of monopoly (or another usage of the term) which makes the term "monopoly rent" meaningful.

As noted by Persky and White (1988), the term "monopoly" is used in contrast to "competition." From the neoclassical perspective, a land monopoly "can by restricting supply obtain total rents in excess of those otherwise to be achieved in a competitive market" (p. 196). A competitive market is characterized by free entry, i.e., the unrestricted ability of new firms to enter the industry and expand its output, resulting in an outward shift in the industry supply curve (for any given price, a greater quantity of the product is produced).

The land market does not have such free entry. In any given local market, such as a metropolitan area or farm region, the acreage is fixed in size. New land, i.e., acreage, can neither be manufactured nor imported. Of course there is entry to landownership; one may become a landowner, but only by obtaining title from a previous owner. This is different from the entry of land itself. There can also be an upward diagonally-sloping supply curve for a particular usage of land, such as for residences; one may bid land away from agricultural use. But the market for land itself, for all uses, contains a fixed supply of site area. As Joseph Schumpeter ([1954] 1986, 672] remarked, in the classical view, land monopoly did not exist because of any cartel among landowners, but because a costless thing exists "in definitely limited quantities."

The land market is analogous to the market for taxi permits or medallions when a city has a fixed ceiling on the number of medallions issued at any given time. Typically, the number of persons wishing to have a medallion exceeds the number of medallions, resulting in a price premium for their possession. If the medallions may trade at market prices, then in effect there is an auction market for the medallions. As pointed out by Gallick and Sisk (1987), a medallion does not constitute a perfect property right to enter the taxi market, being part of a contract with the regulatory authority. It is nevertheless a price of entry into the taxi business. The taxi market can be considered a monopoly due to the absence of free entry, i.e., in contrast to the

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situation in which there is no such legal price barrier.

The medallion holders can still be price takers and have no control over the medallion supply, hence their monopoly is not one of behavior (i.e., restricting taxi rides) but of the sheer inability of potential entrants to change the supply of taxis. The monopoly which the medallion holders have is not a "site" monopoly, and it is not meaningful to designate the holders as a "class," since anyone may enter the "class" by obtaining the medallion from a previous owner. But it is meaningful to call it a monopoly due to a legal barrier to entry, the barrier being the price of the medallion, which would be zero in the absence of the barrier. The price of a medallion is a monopoly price. If a medallion is rented out, then the periodic rental charge is a monopoly rent.

Another example of this type of monopoly is the market for rare collectibles. A rare coin of which there are only 100 specimens in existence has a scarcity price due to the impossibility of creating any more genuine copies. The monopoly is not one of the class of coin owners per se, since one may enter the class by obtaining a coin, but of the absence of entry in terms of expanding the number of such coins. The quantity of the coins is fixed due to historic circumstances.

The land market has a natural rather than a legal or historical quantity constraint, namely the fixed area of land in any given local market. The fixed acreage has the same effect as the fixed number of medallions. Suppose we divide the land area into one-acre lots. If the number of persons wishing to have a land title to an acre exceeds the number of acres, the result is a price premium for the possession of a title. If there were an infinite number of acres (analogous to unlimited taxi medallions at zero price), land titles would have a zero price, and land rent would also be zero. The positive land price and land rent are therefore the results of the land "monopoly" due to the impossibility of manufacturing or importing new land into the local market, which would reduce the land price and rent. Just as one could not enter the taxi market with an additional medallion, one cannot enter the land market to supply additional acreage.

The concept of land monopoly as due to a barrier to entry is compatible with, but is not derived from, the concept of differential rent. A differential rent exists when there is land of different qualities. But suppose land of any quality could be imported or manufactured. Then the supply of such acreage would increase until it hit the demand curve at the cost of production. If the cost of production of virgin land were zero, land would have a price of zero. Hence, differential rents exist only because land of a given quality is finite within a given local market. Monopoly rent as a barrier to entry is not subsumed by differential rent; rather, differential rent itself depends on such monopoly.

The concept of monopoly as due to a limited (at the limit, one) number of firms is also related to barriers to entry, since if entry were possible or less costly, the number of firms in such a market would be greater. Hence, the concept of monopoly as arising from barriers to entry is basic to the various conceptions of monopoly, including monopoly rent. This concept also encompasses class and site monopoly; it is not the class of persons that is fixed, but the land it owns, and sites are unique only because locations cannot be duplicated.

Aside from the Marxian meaning of monopoly land rent, it is possible to interpret all land rent as a monopoly rent due to the fixity of land within some meaningful economic region. This is evident when one imagines the colonization of the moon. Suppose one-acre lots on the moon may be claimed at no cost, and all sites were of equal utility. Land rent would be zero until the entire surface of the moon were claimed, after which, if demand continued, the moon lots would have a positive land rent. But if the moon were of infinite size, or if one could costlessly expand the moon like a balloon, land rent on the moon would forever be zero. Since such expansion is impossible, the monopoly rent would be due to the fixed number of one-acre moon lots, the natural barrier to the entry of new lots, just as the taxi market is monopolized when there is a fixed number of medallions.

References

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