

CHAPTER II

LAND VALUE

THE opening chapter has insisted—to the point perhaps of being rhetorical—that there is a special economic problem that comes under the label of “the land question.” It has hinted, furthermore, that there is something unique and different about this particular problem. That suggestion will be elaborated in these next two chapters. It is a suggestion that can be approached from two angles, that of economic value, and that of the significance of the capital concept. Both these approaches will be considered.

It is clearly recognized, to be sure, that the very mention of the word “value” provokes ancient and dangerous responses. No term in economic theory has stimulated more controversial discussion. And the proposition that is to be defended here has taken a leading rôle in the history of such controversies. The present argument will develop around the thesis that land value is different from other forms of economic value. It will point out, in fact, that at least two distinct classes of value must be con-

sidered in economics, that of reproducible human enterprise, and that of irreproducible nature, *i.e.*, land.

However, before that argument can be constructed some attention must be paid to a few of the conspicuous landmarks in the development of the economic concept of value. Such a digression is not simply to overcome a feeling of incompleteness in a discussion of value theory: it affords an opportunity, in addition, to propose a possible connection between some of the traditional disputes over the objective-subjective factors in value and this whole matter of reproducibility. This connection undoubtedly requires further articulation, but it may be proffered here as a suggestion for future work. In any event, the following pages are preparatory to an attempted distinction between the genus value and the species land value. Moreover, it may be mentioned at the very outset of this exposition that it really makes very little difference for the present treatment what theory of value is accepted. It is believed that any one of the conflicting approaches will still permit of an interpretation that isolates land value. (Finally, should the reader wish to omit this excursion into historical background and begin the argument directly, he can turn to page thirty-six.)

By way of introduction, it should be observed that economic value is a sub-class of the philosophical idea of general value. This recognition, while obvious enough, has too often been overlooked by

economic theorists, sometimes with unfortunate results. In fact, many of the classic controversies in ethics and esthetics over the objectivity or subjectivity of value, or over the precise status of human desire as a criterion, have found their close analogies in economics, with the economist apparently unaware that his own approach has had a long and familiar philosophic ancestry. This point is mentioned, not to anticipate the tracing of parallels between the histories of philosophic and economic value, but simply to indicate that here, as well as in other phases, economic theory has a larger background and a wider perspective than is sometimes realized.

A brief outline of the historical trends in value theory would probably mention first that the early concept of economic value, as in the ancient and medieval writers, looked upon it as an intrinsic part of the object. In general, the pre-"economic" and pre-money interpretation was that things contained value in their own right independent of any ulterior reference. Later it was held that, if not an intrinsic part of the object, value was at least objective to the degree that it depended upon cost, chiefly labor cost. Around this approach developed the classical labor theories of value. A still more modern stage turned from objectivity to subjectivity, from the physical to the psychological. Here flourished marginal utility and the Austrian school—and the flourishing continues in many of our quite recent amendments to the value concept. However, this must

not be interpreted to mean that modified objective approaches to value are not still an important element in economic theory.

In more abstract phrasing it may be argued that the history of value developed in terms of a series of contrasts between value as an ideal and value as a market-price.¹ Was value to be looked upon as a quantity, or as a ratio, a relation? Did value cause or was it the effect of exchange relations? That is to say, the objective approach to value could look upon it as a certain ideal or theoretical quality inherent in an object; the presence of such a quality caused the object to be wanted in exchange. It had in it a "quantity" of value already established. On the other hand, the subjective point of view could hold that the wanting of an object (plus, as shall be noted, the translation of that desire into effective demand and the economy of exchange) caused it to have value. Value, therefore, was not a set quantity, antecedently arrived at, but a relation established by means of demand pressure. This bare skeleton of an outline can perhaps be clothed a little.

It has just been mentioned that the classical labor theory of value, especially as it developed in England, represented a distinctly objective interpretation of value. This does not mean that there was any unanimity or even major harmony among the

¹This point is made very clearly in Benjamin Anderson's stimulating *Social Value* (New York, Houghton Mifflin, 1911). See especially his short chapter on the history of value theory.

beliefs attributed to the classical school, but there was this recurring note of labor as the touchstone of value.² These well-known sentences of Adam Smith³ set a *leitmotiv* for English value theory. Now, a labor theory of value can mean many things, and in these classic lines from Smith there seem to be present at least two connotations—labor as the *cause* and as the *measure* of value. Whether labor is the actual creator of value or whether it is a convenient yardstick for indicating present command over value is a problem that was really never answered, at any rate satisfactorily, by Smith, or, for that matter, by any of the traditional labor theorists. In fact, it is a difficulty that must depend for its solution upon the disposition of that much larger question, value as quantity or as relation.

² Indeed Petty and Locke may be added to the "classical school" if the labor theory of value is to be looked upon as a criterion.

³ ". . . The value of any commodity, therefore, to the person who possesses it, and who means not to use or consume it himself, but to exchange it for other commodities, is equal to the quantity of labour which it enables him to purchase or command. Labour, therefore, is the real measure of the exchangeable value of all commodities. The real price of everything, what everything really costs to the man who wants to acquire it, is the toil and trouble of acquiring it . . . It was not by gold or by silver, but by labour, that all the wealth of the world was originally purchased; and its value, to those who possess it, and who want to exchange it for some new productions, is precisely equal to the quantity of labour which it can enable them to purchase or command. . . . Labour, therefore, it appears evidently, is the only universal, as well as the only accurate, measure of value, or the only standard by which we can compare the values of different commodities at all times and at all places." (From the opening pages of Chap. V, Book I, *Wealth of Nations*.)

Of course, Smith did realize the ambiguities present in a labor theory. In no other way can we interpret his attempted compromise between what has been termed a "primitive" and an "empirical" account of value.⁴ The former operated within an ideal economy in which there were no "profits of stock or rent of land," and here labor did literally determine cost, *i.e.*, value was (labor) cost of production. Value was an expression of the productive power of human labor. But since that "natural" condition no longer existed, Smith, paying his respects to the "higgling of the market," looked more realistically upon labor as the measure of command over value. Here, labor was interpreted more as disutility in a psychological sense, and its function was reproductive rather than productive. This second exposition seems to loom larger as Smith constructs his system.

It is one of the commonplaces of economic theory that Ricardo adopted from Smith one of these two labor controls of value, that of cost, just as Malthus emphasized the command account. Ricardo is the (almost) unadulterated representative of the classical labor theory. This is because he tried desperately to hold fast to labor as the determiner of value not simply in a primitive or ideal state but throughout

⁴See A. C. Whitaker's *History and Criticism of the Labour Theory of Value in English Political Economy* (Columbia University Press, 1904). There will be no discussion here of Smith's important distinction between "use" and "exchange" value. For this point see the present writer's *The Philosophy of Henry George* (New York, Macmillan, 1933), pp. 89-92.

all the complexities of economic society. But the purity of his approach was tainted by several serious qualifications, *e.g.*, perfect competition and the reproducibility of goods (this last point introducing a possible dualism in terms of scarcity as a second determiner of value).⁵ Thus, Ricardo, as Marx later, was impressed by labor as the creator of value, but encountered the unfortunate phenomenon of market price as something seemingly quite distinct from labor expenditure.

These few sentences on the labor theory of value are not going to develop into an essay, but even the briefest mention of labor and value must include a reference to Karl Marx. For in his system the theory is presented with all its philosophic abstractness, and with its paradoxes recognized and yet unanswered. Value is determined by an abstract labor-time: it is "a mere congelation of homogeneous human labour." Labor creates all value, but, unfortunately, does not receive it; part of it is appropriated by the capitalist whose interest, rent, and profits are but forms of "surplus value." Does labor also *measure* value? As is well known to the readers of Marx, the first volume of *Das Kapital* recognizes clearly the contradiction between the actual conditions determining market price and ab-

⁵ Another dualistic aspect of Ricardo is found in his distinction between value and riches. (*Principles*, Chap. XX.) It is the distinction between "wealth" and "welfare" that is found explicit in Lauderdale and implicit in Smith. Ricardo also accepts Smith's distinction between use and exchange value, but, while holding utility absolutely essential to value, he does not see in it any measurer of value.

stract labor value, and there is promised a later solution, a promise which gave rise to what amounted to a prize-essay contest among both Marxian and non-Marxian economists. How would Marx answer his own question? The second volume did not reward the anxious, but the third and posthumous volume, edited by Engels, did. Whether the answer was successful must depend on one's reactions to Marx. The arguments used are ingenious: since market prices are both above and below legitimate labor value, they tend to cancel out; labor's government of prices requires movement over a period of time; labor value affects only certain primary stages in production; in general, value regulates price indirectly, as a last resort, and "other things being equal."⁶ Criticism of Marx's arguments is not the intent here. The point is simply to demonstrate that a labor theory of value inevitably collides with the discrepancy between its pure or abstract value and the prosaic but effective prices of the market. However captivating may be the argument employed to close this hiatus, the strictly objective approach to value has seemed unable to account for relativities in value.

But unfortunately the same kind of embarrassment has confronted the psychological theorists. That is to say, the subjectiveness of theories such

⁶ Perhaps the most incisive criticism of these arguments of Marx is found in that brilliant essay of Böhm-Bawerk, *Karl Marx and the Close of His System* (Macdonald trans., New York, Macmillan, 1893). His "cannon-ball" illustration (pp. 120-1) is particularly telling.

as marginal utility,⁷ ushered in as a reaction from the physical connotations of labor theories, appears unable to account for the *origin* of value, no matter how successful it may be in measuring it when found. Attempting another rash compression of a whole economic philosophy, it may be stated that supply and demand simply as objective criteria have little meaning for the exponent of marginal utility. Supply and demand explain nothing in themselves—they must be analyzed further in terms, largely, of psychological desire. Following Smart's little hand-book⁸ rather closely, it may be argued that value depends upon (a) some reference to life, (b) that which is desired, and (c) scarcity. Value arises out of the more general heading of utility only when limitation is put upon utility. In other words, all goods (by definition) have utility, but only economic, *i.e.*, scarcity, goods have value. "Value emerges when a good becomes the condition of a satisfaction."⁹ But, to come more quickly to the essence of the theory, value is measured—and its measurement is of utmost significance—in terms of varying satisfactions, more particularly in terms

⁷ While the marginal utility theory is usually credited to Menger, Jevons, Walras, and Gossen, Professor Seligman has pointed out that as early as 1833 Lloyd, also Longfield, anticipated it. See his familiar paper, "On Some Neglected British Economists," *The Economic Journal*, Vol. XIII, pp. 357-363.

⁸ William Smart, *An Introduction to the Theory of Value* (London, Macmillan, 1891; 1920 ed.).

⁹ Menger puts it: "Value [esteem value] is the significance (*Bedeutung*) concrete goods attain in our estimation when we realize that we are dependent upon them for the satisfaction of some want."

of decreasing satisfactions. Without introducing the familiar textbook illustrations, it may simply be said that the satisfaction afforded by each successive unit declines until we finally reach a last, or minimum, or marginal satisfaction. This supposedly determines (or, as some subjective theorists would prefer to say, measures) value. There is a hierarchy of wants—and so a least want. “The value of a good is measured by the importance of that concrete want which is least urgent among the wants satisfied.”¹⁰ Human want is the first consideration of a theory of value. Labor and cost of production enter only indirectly. Value is price, and price is a psychological variable.

It will be seen, it is hoped, even from such a cursory statement as this, that just as the *cause* of value is the dominant note in the objective labor theories, so the *measurement* of value directs the various subjective marginal utility schools.¹¹ And just as labor was found an insufficient measurer of value, so it may be said that marginal theories find difficulty in showing just what determines value. This last point may be discussed further.

To say that value is determined by marginal utility is to say no more than that value is a market price dependent upon exchange practices and directed by man's minimum wants. Perhaps that is

¹⁰ Smart, p. 32.

¹¹ It is pertinent to note that Jevons, Walras, and Gossen were all concerned with the mathematical and statistical implications of value.

to say enough. But all that it says is in the realm of psychology. That value is measured in some such way as this seems sufficiently plausible, but a *that* is not necessarily a *what* outside of the field of hypostasis. The critics of marginal utility, both old and new, point out that value is more than a quantity, it is a quality.¹² Before a ratio is possible, there are terms that must be related; if not, we are revolving in the usual vicious circle. Value must be distinguished from price. The familiar statement, for example, of Davenport (who, however, was hardly a representative of the marginal school) that "value is a ratio of exchange between two goods, quantitatively specified," seems to make value "swim in vacancy." The quantity of value, the "how much," may be established in the course of exchange, but this is far from fixing the nature of value itself or its cause. Perhaps speaking of value *an sich* savors too much of philosophic abstractness, yet some such designation must be employed if value is ever to be considered as more than a variant of human desires and emotions.¹³ This objective value may vary all the way from labor and cost of production to the "social value" of John Bates Clark and of Dr. Anderson—"a quantity of motivating force, power over the actions of a man, embodied

¹² Dr. Anderson's *Social Value*, referred to a few pages back, makes this point very well, pp. 18 ff. But he refers to earlier criticisms of the same type, e.g., Henry George's *Science of Political Economy*, Book II, Chap. XI.

¹³ Of course, whether value should be considered as anything more than such a psychological variant introduces the age-old philosophic problem of value as subjective or objective.

in an object.”¹⁴ In any case there has been the persistent feeling that although marginal utility has remedied major deficiencies in labor theories, it has proved incomplete as an explanation of the genesis of value.

It would be very appropriate to cap this commentary with a synthesis. Why, it might be asked, is not value *created* by labor—or whatever productive, objective force may be applicable—but *measured* by subjective factors like marginal utility? Why can't there be a fusion of the physical and the psychological?¹⁵ Is exchangeability the only significance of value, or is there not also something that gives goods exchangeability? An elaborate summary along such lines will not be attempted, but there may be essayed an outline of the direction such a synthesis might take.

The sketch would perhaps start with the recognition that since exchange value is clearly a social phenomenon, it must depend upon some method of comparing degrees of utility. (The word “comparing” is being used here in a very general sense. That is, the psychological problem of conscious comparison, plus all the familiar difficulties of a hedonistic economics, will be deliberately waived.)

¹⁴ Anderson, p. 106.

¹⁵ In this connection it may be pointed out “. . . that there has been a [contemporary] movement in economics to dispense with motivation altogether. . . . Efforts have been made, notably by Gustav Cassel, to build up a system of price theory without making use of utility or value theory in any form.” Professor F. H. Knight in the *Encyclopaedia of the Social Sciences*, Vol. XV, p. 220.

That successive units of articles or services have progressively lower degrees of utility, that diminishing returns do operate, and that the utility of the last, final, or marginal unit gives some approximation of value—all this seems a rather reasonable proceeding. However, this somewhat simple technique becomes complicated when it is transferred to a community of persons living in an industrial society.¹⁶ Perhaps the textbook Crusoe could carefully weigh utility against marginal disutility, *i.e.*, the discomfort or sacrifice of labor. But in a coöperative economy, demand alone can be of only one-sided help. "The problem of value in such a [coöperative] society is the problem of explaining what factors determine the ratios of exchange between different kinds of goods."¹⁷ Such ratios have demand simply as *one* of the terms, for effective demand is not brute and inarticulate desire. Psychological desires, in the sense of *wishes*, have, to be sure, no effect on exchange: they operate upon the market only as demands—but these demands in turn depend upon a strictly objective factor, *i.e.*, what the one having the desire can offer. And that rests upon his existing economic status. The demands of a millionaire and of a laborer depend upon what they possess and can give in exchange. They involve con-

¹⁶ This outline is making direct use of the significant work of Professor Harry Gunnison Brown as it appears especially in his *Economic Science and the Common Welfare* (Columbia, Mo., Lucas Bros., 6th ed., 1936); *The Economics of Taxation* (New York, Henry Holt, 1924); and *The Economic Basis of Tax Reform* (Lucas Bros., 1932).

¹⁷ Brown, *Economic Science and the Common Welfare*, p. 213.

sideration of economic *supply* as well as of demand. In other words, the ratios of exchange between different goods depend upon an implicit comparison between the alternative goods supplied. Demand (at least so far as ordinary commodities are concerned) is necessarily limited in the case of one good by the marginal sacrifice involved in the production of other goods. In a very real sense, demand involves "cost of production."

Now, how is "cost of production" being used in this connection? Professor Brown's definition is most pertinent: ". . . The cost of production [is] the amount of other goods, of one and another sort, which the same effort and self-denial would produce."¹⁸ This interpretation of cost clearly connects it with demand, for "the majority of people will not long pay for any good more than this cost, *i.e.*, more than the amount of other goods which the same effort, etc., would produce."¹⁹ Cost of production influences demand no less than it does supply. Its influence on supply is obvious: the production of a good will be supplied up to the point where the disutility of production is balanced by the utility of the goods received in exchange. Since everyone is both a buyer and a seller, demand and supply are both related to "cost."²⁰

The preceding argument is essentially a compromise, a very significant attempt to fuse classical

¹⁸ *Ibid.*, p. 248.

¹⁹ *Ibid.*, p. 245.

²⁰ See *ibid.*, pp. 246-251.

cost of production with marginal utility. But it is also felt that the direction taken by the argument might lead to a possible synthesis of the subjective and objective factors in value²¹ themselves. It has been suggested that demand and supply are mutual, but, as the marginalists first emphasized, demand and supply are concepts that require further analysis. When so analyzed, they are found to be neither purely subjective nor objective. Demand is not some mythical resident of the realm of psychology, and supply does not imply an extrinsic, completely "economic" category. Both, moreover, revolve around a concept of cost of production (as that phrase is understood here) that relates the two in terms of the availability of alternative goods. Between demand, supply, and cost of production there is mutual interaction.

No less mutual is the relation between these and value. Of course, that demand and value, and supply and value, interact is textbook material. But the relation between cost of production and value is handled in an ambiguous fashion. The economist of marginal utility backgrounds sees little or no connection between the two; the neo-classicist finds cost to be a main determiner of price. It is again the battle between the subjectivist and the objectivist.

Yet there seems to be no valid reason why value must involve an "either-or" concept. Value may be set as price by psychological comparison between

²¹ Such a synthesis is not explicit in Professor Brown's work.

marginal satisfactions: its measurement is unquestionably subjective. On the other hand, value cannot possibly be exempt from cost, especially from an elastic and realistic concept of cost such as has been suggested in the preceding paragraphs. There may be serious objections to a labor cost theory (although the real essence of labor theories—an attempt to supply an ethical criterion for property—can never be overcome by “technical” difficulties), but those objections are scarcely applicable to an interpretation that defines cost in terms of the alternatives presented by other goods.²² In fine, *what* is measured by marginal utility—or any other psychological mechanism? *That* which is measured is not some subjective desire. It is an objective economic good, a good produced either by labor; or found, without labor, in nature; or, à la Veblen, “institutionalized” out of a community’s “intangible assets.” In any case, it is an *other* thing, residing outside the boundaries of psychology. The assessment and the generation of value seem to be two different things.

There was no intention here of participating in the metaphysics of value theory, and it is with some misgivings that one notes in the preceding pages the abstruseness and the uncertainty that are the ear-marks of many value theorists. After all, the present interest is not in value *qua* value. The purpose of this chapter is to show the unique-

²² Of course, this must not be interpreted as a denial of the contention that goods are produced by labor, by saving or waiting, and by land; and that each makes its marginal contribution.

ness of *land value*; and these opening remarks on economic value in general have been more or less a propitiating offering to the devotees of history-of-value-theories. But it may be observed, more or less as a passing comment, that the suggested synthesis of the past few pages shows a possible connection between the general problem of value and the specific one of land value. For instance, the point has been made that the strict marginal utility approach seems to miss the fact that subjective desires are not given ready-made; they depend upon the matter of future effort and, thus, future "cost." The very formation of the "subjective" and the estimation of its relative place hangs upon the command over means, *i.e.*, "supply." Well, that power of command is conditioned clearly by the nature of the supply, and so the very concept of value itself—even when handled in the dimension of psychology—involves the more specific problem of the value of objective means such, for example, as land.

In any event, whether or not this is a satisfactory transition to land value, the argument that is going to be proposed now is that within this field of supply values, there must be drawn a distinction between the value of the reproducible and of the irreproducible.²³ And it is sincerely felt that, with

²³ This whole point of the "irreproducibility" of land is handled in the next chapter, pages 69-79. To anticipate, it might be noted here that the contemporary "functional" arguments intimating that land is about as elastic as capital, at least as far as its dependence upon human effort is concerned, are just not being taken seriously.

the possible exception of the most orthodox of utility theories, any discussion of economic value will lend itself to an interpretation that does isolate the value of land.

For example, it is clear that the classical labor cost approach was forced to separate land value from that of produced goods. The value of land, just as the validity of landed property, could not be justified by a labor test; some other standard, if possible, had to be employed. Labor did not create land or land value. But even such a cost approach as that of Professor Brown, which involves utility and alternative choices rather than labor, must also see a logical and technical distinction between the value of reproducible and irreproducible goods. Value of land cannot be related to "cost of production," since such cost implies the availability of alternatives.²⁴ In other words, any value

²⁴To quote Professor Brown: "This point has importance in the distinction between goods which have and goods which have not any cost of production, *i.e.*, between goods which are reproducible and goods which are almost or absolutely fixed in quantity. Ordinary commodities are in the first class. Land space is in the second class. The demand for ordinary commodities depends not only upon their utility, but in part, as we have seen, upon their cost of production, for the majority of people will not long pay for any good more than this cost, *i.e.*, more than the amount of other goods which the same effort, etc., would produce. But the demand for land space depends (assuming any given prices) solely on its utility, for it has no cost of production. . . . On the supply side, as on the demand side, it is worth while emphasizing the distinction between goods producible in indefinite amounts, in relation to the world's need of them, such as wheat, corn, cotton, iron ore; and goods more or less fixed in quantity, such as original Greek statuary, the paintings of Michael Angelo, and, chief in importance, land. . . . The value of land . . . has little or no relation to cost of production. . . . The amount which

theory that includes supply in its considerations must inevitably draw a distinction within the realm of value. Unless it secludes itself in a retreat of pure psychology and eliminates all factors but subjective demand, a philosophy of economic value is always confronted by the incorrigible uniqueness of land.

But it is necessary here to turn rather abruptly from the intricacies of value theory to a more positive and, it is hoped, a more simple exposition of land value; an exposition that will try to demonstrate why land value is unique and why its non-conformity must be respected.

There are several possible introductions to such an attempt. Perhaps the most understandable is that which emphasizes the social nature of land value. The argument is no more than a repetition of what generations of land reformers have finally pounded into economic theory. Land has no intrinsic value. Its value in no way depends upon cost—and cost, it has been seen, does not have to be interpreted as labor cost. The value of land rests upon the presence of people. (All this is over-simplification but it may be excused as being by way of introduction.) Land varies from the worthless to the ridiculously precious in terms of

purchasers will pay for land is not, practically, limited by any alternative they may have of producing some of it themselves, nor is the amount that sellers will take at all determined by any corresponding consideration of other rewards which the labor of its production might have brought them, since there is, for land as such, no such labor of production." (*Op. cit.*, pp. 245-257.)

the absence or presence of population.²⁵ This connection is not at all a necessarily material one. In fact, what Professor John Dewey calls the "imponderable" elements²⁶ are perhaps most significant here. That is to say, it is to the widening of group life and to the resulting higher social values of an organized community that land owes its worth. These intangible factors of social life and activity really explain the phenomenal land values that are found at the heart of population. It is indeed no exaggeration to say that land value is a rough expression of the degree of social coöperation, a barometer of "social service." It measures society's presence, its needs, its achievements. Land value is social value.

At the risk of breaking the argument, a digression may be inserted here. The digression is suggested by what purports to be a contemporary rebuttal of the above paragraph. Many present-day economists tell us: *All* value is social value. No value is intrinsic. Therefore land value is not unique. Value depends upon a social organization;

²⁵ There is, of course, no one-to-one correspondence between land value and population. For example, the effect of inflated land values and of land speculation in bringing about ultimately a collapse of "land value" even in the densest centers of population is a familiar economic phenomenon that must be handled elsewhere. In this connection note such recent books as: *The Great American Land Bubble*, A. M. Sakolski (New York, Harpers, 1932); *One Hundred Years of Land Values in Chicago*, Homer Hoyt (University of Chicago Press, 1933); and *The Golden Earth—a history of New York City's landed wealth*, Arthur Pound (New York, Macmillan, 1935).

²⁶ Preface to *Significant Paragraphs from Progress and Poverty* (New York, Doubleday Doran, 1928).

all the categories of production and income are social in character. Land is not peculiar as an example of the notorious "unearned increment." Such an increment—socially determined—is part of the very nature of value.

The digression can continue with an attempt to answer this criticism. To state that all value depends upon social forces is either a truism or a tautology; it is saying no more than that where there is society there is demand. But to say that without social demand there would be no value is not to say that demand is the sole determiner of value. Value is social, since indeed everything economic is social, but it is only Value as an abstract category that is thus given meaning. Specific values, variations of value within the general concept of Value, must depend upon such prosaic and technical factors as demand rate, cost of production, exhaustibility, and possibility of reproduction. These factors themselves are admittedly social, but that use of the word is so broad as to be meaningless in a discussion of how values are arrived at.

In other words, in the case of goods that are reproducible and in which alternative possibilities are present—goods that have a cost of production, both the goods and their values are social products. They are social as instruments and as value-possessing objects. Land value, too, is social value, *but land itself is not a social product*; it is not a product at all. All value but land value (and also, of course, the value of unique articles such as old paintings,

old wine, heirlooms, and the like, which, however, are economically insignificant) depends upon the fact that *supply* as well as demand is socially determined. Such values involve more than social demand; they depend, in addition, upon items like production difficulty and reproduction possibility. The difference between this type of value and that of land must be clear. Land value has no connections with production or reproduction; it is based solely upon social pressure as it expresses itself in the demand for land. Therefore, the phenomenon of the social aspect of value cannot be referred indiscriminately to both land and that which is not land,²⁷ since with one element, land, it is the sole controlling factor, while with the other it is only one of several operating forces.

This digression has tried to indicate that, despite characteristic contemporary objections, land value is social value, and uniquely so. As a corollary, it may be observed that land value is spontaneous and, as it were, casual. Man produces commodities because he needs them and wants them, or because others need and want them and are willing to exchange their products for them. Moreover, he produces goods (outside of the U.S.S.R.) for private profit. That is, he believes that his products will have an anticipated value. This value is a deliberate creation; the producer has it in mind when he makes his product. (He may, of course, be mis-

²⁷ It will be observed that the term "capital," which should be used here, is being studiously avoided. That term will be reserved for the next chapter.

taken about the demand for his product, in which case he changes his technique, or withdraws from business.)

Now, outside of schools for realtors (or, perhaps more euphemistically, institutes of land economics) land value operates in an entirely different fashion. While it is true that speculators may "anticipate" legitimate increases in land value and while they may, by means of publicity, inflate "value" to spurious proportions, nevertheless land value is normally the result of men forming themselves into communities, and it appears without man having any thought of it. It comes as a by-product of social life. In no significant way can man control such value. Unconsciously and gratuitously does society manufacture a special and supplementary surplus as it grows; this is what so impressed the classical writers as an unearned increment. It functions independently of man's conscious efforts as they are directed, for example, to the production of wealth. Man creates land value not by any deliberate effort, but only as he congregates in communities—this congregation being the result of psychological forces that operate almost automatically.

It seems, then, that two different types of economic value present themselves. One is the value of reproducible human efforts; the other is that of irreproducible nature. One is the result of man's predetermined and calculated achievements in the creation of wealth; the other is an indirect and

“accidental” by-product, dependent, it may be, on social laws of gregariousness, but certainly not on man’s will. (These two types of value, furthermore, seem roughly to vary inversely—although this relation cannot be pressed too strongly. That is, with the usual qualifying phrase of “other things being equal,” in large communities land value is high and the value of labor products correspondingly low, whereas the opposite appears to hold true for the less highly organized society.) An unambiguous distinction between these two different expressions of value would seem to be a necessary preface to any handling of land value. At least that is the contention here.

Some pages back it was suggested that an exposition of land’s socially determined value might properly introduce a more technical discussion of such value. In turning to that topic, another whole series of controversies is faced; in fact, any examination of land and land value is soon transformed into an argument—perhaps a stimulating but hardly a fruitful situation. For example, the problem of determining the specific value of land is tied up inextricably with the concept of land rent, and land rent, of course, cannot be dissociated from its historical connections with the name of Ricardo. Now, both these words—“rent” and “Ricardo”—provoke the most varying responses from economic theorists. To that group impressed by the work of Professor Fetter and the late Professor Cannan, the terms connote nothing more than archaic rem-

nants of a rather benighted era in economic science; they are now but vestigial reminders of a vanished day.²⁸ Rent has practically nothing to do with land; it is "the amount paid by contract for the use of durable (separable) uses [*sic*] of a more or less durable agent (use bearer), entrusted by an owner to a borrower for a limited period, to be returned in equally good condition except for ordinary wear and tear."²⁹ And Ricardo? Why, his "law of rent" has been exploded years ago. To other less vehement and less disparaging economists, the classical contributions, with perhaps the proper amendments and revisions, are still profound recognitions of well-established economic phenomena. However, the purpose here is neither to defend the choice of economic vocabulary, nor to apologize for any of the classical writers. We are trying to explain the operations of concrete land values, and in so doing are simply indicating awareness of the historical polemics involved.

The relation between land rent and land value appears to be a causal one. To start with a definite proposition: the value of land is determined by discounting its future rent (the discounting, of course, being in terms of some specified rate of interest). "Thus, a piece of land which would yield \$5,000 per year net rent (above taxes, wages of labor em-

²⁸ Perhaps the most extreme example of this attitude is Professor Fetter's article on rent in the supposedly authentic *Encyclopaedia of the Social Sciences*, Vol. XIII, pp. 289-292. Of course, he has expressed himself similarly on many other occasions; see *infra*, pp. 61-2.

²⁹ *Op. cit.*, pp. 291-2.

ployed, interest on the capital invested in buildings and other improvements, and insurance) would be worth, if interest were 5 per cent, \$100,000. Were the current rate 10 per cent, such a piece of land would be worth but \$50,000."³⁰ This observation should provoke neither surprise nor criticism; it is not simply acceptable economic theory, it is real estate practice. However, controversy of a very serious nature is introduced when this technique of ascertaining land value is contrasted with the method of determining the worth of producible and reproducible goods. According to the arguments proposed in the preceding pages, it must be clear that the value of economic goods other than land refers in some rather direct way to cost of production. To quote again from Professor Brown:

Buildings of a type costing \$5,000 each will hardly be put up to sell for much less, as a rule, by the builders. Nor, so long as the alternative is open to him of supervising the construction of a similar building, will a possible buyer care to pay a great deal more. The value of a building is determined then, in large part, by the expenses, such as wages, of producing the materials, and of putting it up; and these wages are determined, in the last analysis, by the existence of alternative lines of activity open to the wage-earners, while the other costs are determined by the alternative uses to which the *land* or *capital* which must be used in producing the materials might be put.³¹

³⁰ Brown, *op. cit.*, pp. 383-4.

³¹ *Ibid.*

Criticism of this position is a corollary of the thesis that all value is social value, land being in no way exceptional. The value of all goods is thus a matter of discounting; all value is connected with prospective income.³² Moreover, no goods are *instantly* reproducible, and therefore, at least in the short run, value cannot depend upon alternative opportunities.³³ These objections, however, to the theory of land value's unique income status are obviously part of the more general attack upon cost of production as a criterion of value, and they are strong or weak to the degree that the major proposition claims our indorsement.

But the interest here is not to prolong the cost-of-production dispute. It is to investigate further the nature of land rent, for if land value is held to depend upon the discounting of future rents it follows that the next problem is to establish how rent is determined. (Despite the almost savage objections of Professor Fetter,³⁴ the term "rent" will

³² For an interesting controversy on this particular point, see the articles by Professor Brown and Professor Hewett in the *American Economic Review* for September, and December, 1929. The argument is continued in the March, and June, 1930, issues with Professors Fetter, Cannan, and others as additional contributors.

³³ A direct reply to this latter argument, a reply which emphasizes that demand as well as supply is affected by opportunity costs, is made by Professor Brown in the *Review* for June, 1930, pp. 250-1.

³⁴ For example, Professor Fetter writes that "modern theoretical criticism has not only quite effectually invalidated the crude tripartite division of the economic factors (based on the labor theory of value) which linked rent with land but also in varying degrees has exploded all of the other supposed peculiarities of land and of land rent." (From the *Encyclopaedia*

still be understood as the return to land; the return to any improvements upon land is considered as interest.) Now, any discussion of the famous (or notorious) "law of rent" must include the name of Ricardo,³⁵ and, even if it is overly-familiar material it may bear repetition—not necessarily because of historical interest in Ricardian or neo-Ricardian economics, but rather for the reason that the functioning of rent played so prominent a rôle in Ricardo's system as to monopolize a position in the spotlight that has never been recaptured.

This classic approach to rent emphasized, above all, that rent was determined by comparison with a marginal element. That is, the rent of land was a surplus. It was the excess of any land's produce over that which was secured from the least productive land in use. The rent of land did not de-

article mentioned above, p. 291.) Of course, John Bates Clark was outstanding in this type of criticism: his definition of rent was "the aggregate of the lump sums earned by capital goods." Rent was thus the product earned by concrete instruments of production.

³⁵ Ricardo formulated but did not "discover" the law of rent. The credit for that is usually assigned to James Anderson in his 1777 inquiry into the nature of the corn laws. (See McCulloch's edition of Smith's *Wealth of Nations*, p. 453.) In addition, there was a group of economic writers in England who definitely anticipated the statement of the Ricardian theory of rent, men like Rooke, Torrens, West, Malthus himself, and several others who, particularly in the years 1814-15, were interested in this phase of economic speculation. (For these anticipators of Ricardo see the important paper of Professor Seligman, previously mentioned, on "Some Neglected British Economists," *The Economic Journal*, Vol. XIII.) The first statement by Ricardo of his law of rent was in the 1817 essay, "On the Influence of a Low Price of Corn on the Profits of Stock." His complete formulation of the law is found in Chapter II of the *Principles of Political Economy and Taxation*.

pend on the implicit productiveness or utility of land; land had rent only in terms of comparison. Good land had no rent, were equally attractive land available. Poor land had rent, if poorer land were forced into use. Rent was the price of competition for the better grades of land. It varied inversely with marginal production.

In slightly more professional language (or rather the language of the textbook), suppose all the best land³⁶ to be occupied, a situation that forces into cultivation second grade land. It is clear that those in possession of the first grade land have an advantage. But how much of an advantage? Well, the second grade land must pay the returns of the invested labor and capital, or it would not be cultivated. The first grade land can do this and still have something left over. That surplus is rent. Should now third grade land be forced into operation, the second grade land will begin to pay a rent which will be the excess of its return over that of the inferior land, and the first grade land rent-surplus will widen proportionately. Or, in the words of Ricardo: "With every step in the progress of population, which shall oblige a country to have recourse to land of a worse quality, to enable it to raise its supply of food, rent on all the more fertile land will rise."³⁷ Ricardian rent thus embraced a resort to inferior soils and an extensive

³⁶ Although Ricardo's examples of "best land" are practically all agricultural, and although he has been accused of neglecting other aspects of land, yet he does mention several times in his chapter on rent the situation value of land.

³⁷ For this particular discussion see the *Principles*, pp. 47-55.

margin, plus a law of diminishing returns leading to an intensive margin.³⁸

Several assumptions stand out clearly in analyzing this Ricardian approach to rent.³⁹ All of them have been subject to severe criticism—some being attacked even by the staunchest of Ricardians; others seem as sound and significant as when first made. Perhaps the strongest assumptions are those that imply that land is a separate and an unproducible economic element. Less vital are the implications that land is durable, *i.e.*, its fertility changes can be disregarded, and that there is “no-rent” land. Indirect inferences are that land taxes cannot be shifted, and that land rent is a surplus above and does not enter into cost. And the most severely criticized assumptions are that diminishing returns apply peculiarly to land, and that rent is the only differential return in economics.

This last point introduces, of course, a mention of John Bates Clark, whose work was of definitive importance in the attempted repudiation of the Ricardian concept of rent.⁴⁰ Clark's goal of synthesizing the laws of distribution included a widening

³⁸ Note Haney's *History of Economic Thought* (New York, Macmillan, 1922), pp. 260-1.

³⁹ Cf. Professor Fetter's *Encyclopaedia* article, *op. cit.*

⁴⁰ Clark also criticized Ricardo for his failure to realize that there was a distinction between the “statics” and “dynamics” of rent. For example, the residual income of rent-producing land over marginal land depends on the assumption of “no-rent” land, which assumption Ricardo made; but that assumption, as applying to the dynamic functioning of land, may be challenged, since the uses of land can vary. However, Clark's criticism was not that Ricardian rent was static, but that Ricardo failed to realize that it was. Clark himself made the distinction between static and dynamic a decisive one, and then proceeded to handle quite freely the entire concept of diminishing returns as a static one.

of the doctrine of diminishing returns and surplus values. This doctrine was not to be applied only to land. All value, all "rent," depended upon a similar principle. Marginal capital and marginal labor could function in the same way as marginal land. There was a precise formula to be worked out; it was to result in a theory of general diminishing returns, or rather of diminishing productivity applicable to all economic factors. A functional law of marginal distribution was what Clark sought. For him, diminishing returns constituted a "general" and not a "special" theory of relativity. Thus, the Ricardian assumption that land rent was unique in being differential income was unfounded.⁴¹

Now, although the present discussion of value and rent seems already to have all the polemical appearances of a debating school in economic theory, the *pro* and *con* character of the exposition must be continued if for no other reason than that the uniqueness of rent's differential aspect is simply one more corollary of the controversial proposition that land is unique. And it is not difficult to note that that proposition is a key one in this whole work. Clark's criticism of Ricardo was, to a degree, anticipated and—if that is chronologically possible—

⁴¹ Clark was by no means the first to make criticism of this type. Nearly all of the post-Ricardian writers suggested contributions that hinted at further development along the road that Clark took. For example, John Stuart Mill, and later, of course, Marshall, talked about "quasi-rents," or the less permanent differentials yielded by superior productivity of units of capital and labor.

partially answered by a thinker who, according to Clark's own acknowledgement, stimulated his search for a general law of diminishing returns: that was Henry George.⁴² George's philosophy was one that made the most of Ricardianism, and yet the American economist realized that diminishing returns could not be confined to land. He saw that the presence of a marginal factor was indeed the determining element in setting the amount available for all the different shares of production, but in his logical attempts to reduce divergent concepts to the expression of one fundamental principle, George postulated the phenomenon of diminishing returns in land as the constant to which the other factors approached. The concept of diminishing returns itself could not act as a common denominator, since land was a separate economic element; land's differential was peculiar only because land itself was peculiar. This was an almost metaphysical idea, for the broadest interpretation of the law of diminishing returns was simply the realization that earth space was finite, and that all matter—all production of

⁴² Clark wrote that "it was the claim advanced by Mr. Henry George that wages are fixed by the product which a man can create by tilling rentless land, that first led me to seek a method by which the product of labor everywhere may be disentangled from the product of cooperating agents and separately identified; and it was this quest which led to the attainment of the law that is here presented, according to which the wages of all labor tend, under perfectly free competition, to equal the product that is separately attributable to the labor." (*The Distribution of Wealth*, New York, Macmillan, 1899: Preface, p. viii.) George's argument may be found in *Progress and Poverty*, Book III, especially Chap. II; and also in *The Science of Political Economy*, Book III, Chaps. IV-VIII.

wealth—approached a limiting constant. So, despite the criticisms of Clark and the many other writers, it is felt that Ricardo's assumptions that diminishing returns apply particularly to land are still valid. At least, they are valid to the degree that land itself is considered as a separate and peculiar factor in economic production.

This is not an essay on Ricardo. The present interest has been in land rent because, to repeat, land value is inextricably connected with land's income. Contributions of men like Ricardo and Clark must be mentioned in any such discussion, even if their work is so largely a matter of controversy.⁴³ The interpretation of rent that is being accepted here is still Ricardian to the degree, at least, that rent is looked upon as a surplus. It is an interpretation that coincides with the handling of value throughout this chapter. In fine, rent is being regarded as the amount determined by the excess over production on the intensive or extensive margin. It determines value of land, but itself is not affected by that value. To be more specific, this rather long quotation from the writing of Professor Brown may be permitted:⁴⁴

⁴³ For example, while Professor Fetter can write (*op. cit.*) that "recent criticism has pretty effectually disposed of the fallacious idea of a certain marginal unit fixing the price of the whole or of the other units in the marketing of any sort of goods or uses," Professor Haney (*op. cit.*, p. 266) can still hold that "the rent theory proper [of Ricardo] stands to this day, the result of nearly a century of criticism having been a more careful and limited formulation and a less absolute statement of its unique character."

⁴⁴ *The Economic Basis of Tax Reform*, pp. 151-153.

In order to make clear the nature of land rent, let us suppose the existence of a piece of land on which the labor of five men working with the aid of improvements and equipment worth \$10,000 produces a yearly output above repair and depreciation costs, of \$4400. Of this \$4400, wages constitutes \$3,000, interest, at 8 per cent, is \$800, and \$600 a year remains as rent. This \$600 measures, roughly, the amount of rent the owner could secure from a tenant. It is the surplus produced on the land, above the remuneration of the labor and capital used. But the interest on capital depends on the service of capital in the productive process. Capital is worth to the borrower, in interest, no more than it will yield, and the forces of demand and supply tend to fix the interest rate on the basis of the prospective net yield of capital. In the same way, the wages of labor are fixed by the effectiveness or productivity of labor. Wages below what labor is worth to employers stimulate demand for labor, and competition among employers then tends to bring wages up. Wages above what labor is worth decrease demand, bring about unemployment and competition among wage earners for jobs, and wages then tend downward. To say, therefore, that a piece of land yields per year a surplus of \$600 above interest for capital and wages of labor is to say that it yields a surplus of \$600 above the product of such capital and labor. Let us suppose this particular piece of land to be non-existent. Then the labor and capital applied upon it must needs be applied on poorer or less well situated land not previously used, or this labor and capital must be applied to using more intensively land already in use. Applied in either of these ways, such labor and capital would produce \$600 less than could be produced if the labor and capital were applied to the \$4400 yielding land. In other words, the \$600 is the product of this particular piece of land *in the sense* that the existence and use of this piece of land make it pos-

sible for a product \$600 larger to be secured with no more labor and capital, simply because the land resources to which the labor and capital are applied are that much better than those to which the labor and capital in question must otherwise be applied. But although \$600 may thus be regarded as a contribution of the land to production (in technical economic language its *marginal* contribution), it is not on that account to be regarded as a contribution of the land-owner to production.

The concluding words of this passage are clearly a key to the argument of the present chapter. Rent, according to the above quantitative analysis, is not simply a surplus—it is an unearned surplus. It is, once more, the unearned increment that bulked so large in the classical writings. Such a doctrine of rent harmonizes very neatly with the interpretation of land value as a social—and therefore individually unearned—product; although the two approaches are essentially independent analyses, they really disclose themselves as joint contributors to what seems to be a profoundly significant economic phenomenon. These two points may warrant further elaboration.

It has been pointed out that rent has no direct connection with the productivity or utility of land. Just as with land value, rent arises gratuitously when demand forces into use marginal land or necessitates more intensive cultivation of superior land. Rent is determined by a process of relationship, and by nothing intrinsic such as cost of production.⁴⁵

⁴⁵ Although demand and relativity also affect other incomes, such as interest, the argument has been that rent, like land, is unique because it involves an unproducible economic element. This point is handled at length in the following chapter.

It is a passive and not an active factor in the mechanics of distribution. In different language, rent may be said to result not from actually producing, but from giving leave to produce. Thus, land rent is unearned because it is an income for which no service is contributed. The producers of goods render service by the very fact of the goods having been produced:⁴⁶ that is, the community would have to produce the goods should they be needed. In the case of land, income is paid to individuals or corporations for benefits that no individual or corporation is responsible for. Rent, in this sense, is an income from obligation, not from production.

This unearned character of land rent may be pressed still further. It is a not unfamiliar deduction from Ricardo's law to describe rent as a vampire preying upon the other elements of production; such an interpretation, of course, featured the work of Henry George. According to this approach, the return to land must come out of the incomes accruing to labor and capital. Since rent depends upon no authentic contribution to production, the creators of tangible wealth must defray out of their product the amount going to the owner of land. (Of course, the phrase "no authentic contribution to production" must be understood in the light of

⁴⁶It may be in place to mention here that the recent suggestions of men like Professors Fairchild, Berle, and Means that "ownership" is a peculiar and rather indefensible unearned income, seem to be very important. However, this type of criticism applies only to our very recent "corporation" economy. The unearned character of rent depends upon no particular system of industry; it appears to be an integral part of the whole distributive process.

the foregoing sentences. *Land* is obviously basic in the production of wealth, but land *rent*, like land *value*, depends on extraneous factors such as power of demand and monopolistic control, and not upon the intrinsic productive power of land.) The private retention, then, of land rent is not simply an unearned privilege; it is, at the same time, opposed to the legitimate interests of the producers of wealth. This has been the paradox observed by generations of land reformers, and, for that matter, by generations of economic theorists: given our present system of distribution, the production of wealth also creates the unearned tribute that must be paid by labor and capital for the mere privilege of producing.

If land rent is a privately unearned surplus, then land value, which is determined by a discounting of future rents, reappears with its social character doubled in strength. It was argued some pages back that land value differed from the value of reproducible goods because it resulted spontaneously and automatically from the socio-psychological forces of human gregariousness. The increased articulation of the social order meant the increased growth of the value of land. Such value was therefore dependent upon no individual; as a private possession it was distinctly unearned. This was an argument that might be labelled as psychological or sociological. But now the discussion of rent adds economic reënforcement. Land rent is an unearned surplus because (1) demand for land by the producers of wealth, and (2) competition between those

producers for a limited (in space) and privately controlled element are its parents. Rent is thus set by marginal possibilities, and not by the contributions of those who receive it. These two approaches, the social and the economic, indicate that land value is a distinct and peculiar economic phenomenon. It is unique and should be treated so.

The present chapter has attempted to do no more than suggest why land value is different from other expressions of economic value. An opening review of the historical theories of value was simply introductory, but it disclosed that the confusion between value as cause and value as measurement underlay the conflict between, for example, the traditional labor and marginal utility schools. A possible synthesis between the objective and subjective approaches, illustrated by a recent interpretation of the cost of production concept, was added parenthetically. It was then noted that any theory of value that included supply as one of its components must inevitably isolate land value as something separate.

But that type of historical material is only background. The argument of this chapter is not historical but theoretical. It is an effort to show that at least two classes of value must be considered in economics, that of reproducible human enterprise and that of irreproducible nature. This is a functional and not simply a logical or an ethical proposition. Moreover, it is a conviction that can

pass very easily from the realm of theory to that of operation. These points remain to be discussed.

Perhaps the first item introduced by such a discussion would be a demand for the further elaboration of a term that has been used frequently in the preceding pages—*reproducible*. And that demand pushes forward a concept that has been deliberately avoided up to now—*capital*. An investigation of these terms will provide a transition from land value back to land, and may help to present the land question in its full significance.