

Chapter 11

The Law Of Rent

RENT, IN THE ECONOMIC SENSE, is the part of the produce that accrues to the owners of land (or other natural capabilities) by virtue of ownership.

This differs from the everyday meaning in several respects. Common speech mixes payments for use of improvements with payments for use of bare land. When we speak of renting a house (or farm or factory), we combine the price for using land with the price for using buildings, machinery, fixtures, etc. But in the economic sense, rent means only what is paid for using land. We must exclude payments for the use of any product of human exertion. Anything paid for buildings or other improvements is compensation for the use of capital. This is properly called interest.

But the economic meaning is broader in a different sense. In common speech, we speak of rent only when the owner and the user are two different people. Yet in the economic sense, there is rent even when the same person is both. In this case, rent is what she might get if she rented the land to someone else. Or, to look at it another way, the return for her labor and capital (i.e., her wages and interest) is the part of her income equal to what she would make if she had to rent the land, instead of owning it.

Rent is also expressed in the selling price of land. This

price is payment for the right to perpetual use. In other words, it is rent capitalized. If I buy land and hold it until I can sell it for more, I will become rich—not from wages for my labor nor interest for my capital—but merely by rising rents.

Rent, in short, is the share of wealth given to land-owners because they have an exclusive right to the use of those natural capabilities.

Wherever land has an exchange value, there is rent in the economic meaning of the term. If in use, there is actual rent. If land is not in use but still has a value, there is potential rent. It is this capacity of yielding rent that gives land its value.

Until ownership confers some advantage, land has no value. Therefore, land value does not arise from its productiveness or usefulness. No matter what its capabilities, land has no value until some one is willing to pay for the privilege of using it.

Rent does not, in any way, represent any aid or advantage to production. Rent is simply the power to take part of the results of production.

Furthermore, the amount anyone will pay for land does not depend on its capacity. Rather, it depends on its capacity *compared* to land that is available for free. Even very good land has no value as long as other land, just as good, is available without cost. But as soon as this other land is appropriated—and the best land now available for nothing is inferior (either in fertility, location, or some other quality)—then my land will have value and will begin to yield rent. Now, suppose my land becomes less productive. The rent I can get might still increase! Rent will increase if the productiveness of land available without charge

decreases even more.

Rent, in short, is the price of monopoly. It arises from individual ownership of the natural elements—which human exertion can neither produce nor increase.

If one person owned all the land in a community, he or she could demand any price desired for its use. As long as that ownership was acknowledged, the others would have no alternative (except death or emigration). This, indeed, has been the case many times in the past.

In modern society, land is usually owned by too many different people for the price to be fixed by whim. While owners try to get all they can, there is a limit to what they can obtain. This market price (or market rent) varies with different lands and at different times.

The law of rent, then, will be the law or relation that determines what rent or price an owner can get under free competition. (To discover the principles of political economy, we must always assume free competition among all parties.)

Fortunately, economists agree on this point. It is an accepted dictum of political economy, with the self-evident character of a geometric axiom. Of course, in all the nonsense printed as economics in its present disjointed condition, it would be hard to find anything that has not been disputed. Yet all economic writers regarded as authorities endorse this law.

Often called Ricardo's law of rent,* it has been exhaustively explained by all leading economists after him. It applies not only to farmland, but to land used for other

* David Ricardo (1772-1823) English economist. Although not the first to state the law of rent, he brought it into prominence.

purposes, and to all natural agencies, such as mines, fisheries, etc. It says:

The rent of land is determined by the excess of its production over that which the same application can secure from the least productive land in use.

The effect of competition is to take the lowest reward for which labor and capital will engage in production and make that the highest they can claim. In other words, owners of more productive land are able to seize, in rent, everything above what labor and capital can obtain from the least productive land in use.

We can say the same thing in a slightly different form: Landowners can claim everything above what the same application of labor and capital could secure in the least productive occupation in which they can freely engage. Since any occupation requires the use of land, this amounts to precisely the same thing. Furthermore, all things considered, lands will be used until the poorest return equals the lowest compensation in other pursuits.

For instance, if farming paid more, clearly some labor and capital engaged in other pursuits would turn to agriculture. This will continue until the yield to labor and capital in both pursuits reaches the same level, all things considered. The process may be driven by extending cultivation to inferior land. Or the relative value of manufactured products may increase as production slows. In fact, both processes may be at work. Regardless, the final point at which manufacturing is still carried on will also be the point to which cultivation is extended.

The law of rent is, in fact, a deduction from the law of competition. In the final analysis, it rests on a principle as

fundamental to political economy as the law of gravity is to physics. Namely, that people seek to gratify their desires with the least exertion.

Ever since Ricardo, the basic law itself has been clearly understood and recognized— but its corollaries have not. Yet these are as plain as the simplest geometry. Wealth is divided among rent, wages, and interest. Therefore, the law of rent is necessarily the law of wages and interest taken together.

In algebraic form:

$$\textit{Production} = \textit{Rent} + \textit{Wages} + \textit{Interest}.$$

$$\textit{Production} - \textit{Rent} = \textit{Wages} + \textit{Interest}.$$

Thus, wages and interest do not depend on what labor and capital produce—they depend on what is left after rent is taken out. No matter how much they might actually produce, they receive only what they could get on land available without rent—on the least productive land in use. Landowners take everything else. Hence, no matter how much productive power increases, neither wages nor interest can rise if the increase in rent keeps pace with it.

Recognizing this simple relationship immediately illuminates what had seemed inexplicable. Increasing rent is the key that explains why wages and interest fail to increase with greater productivity.

The wealth produced in every community is divided into two parts by what may be called the rent line—that is, by the return that labor and capital could obtain from natural opportunities available without rent. Wages and interest are paid from below this line. Everything above it goes to rent.

Thus, where land values are low, wages and interest are high—even if relatively little wealth is produced. We see this in new countries. In older countries, a larger amount of wealth may be produced. Yet where the value of land is high, wages and interest are low.

Productive power is increasing in all developing countries—but wages and interest do not follow. Rather, they are controlled by how rent is affected. Wages and interest can increase only when land values do not increase as quickly as productivity.

All of this is demonstrated in actual fact.