CHAPTER I

THE LANDOWNER'S SHARE OF THE NATIONAL PRODUCT

THAT part of the national product which represents land, and is attributed specifically to land, goes to the landowner. It is called economic rent, or simply rent. We say that rent "is attributed specifically to land," rather than "is produced specifically by land," because we do not know what proportion of the joint product of the different factors of production exactly reflects the productive contribution of any factor. Economic rent represents the productivity of land in so far as it indicates what men are willing to pay for land-use in the productive process. In any particular case rent comes into existence because the land makes a commercially valuable contribution to the product; and it goes to the landowner because this is one of the powers or rights included in the institution of private ownership. And the landowner's share is received by him precisely in his capacity as landowner, and not because he may happen to be laborer, farmer, or proprietor of agricultural capital.

It is perhaps superfluous to observe that not all land produces rent. While almost all land is useful and productive, at least potentially, there is in almost every locality some land which in present conditions does not warrant men in paying a price for its use. If the crop raised on very sandy soil is so small as to cover merely the outlay for labor and capital, men will not pay rent for the use of that soil. Yet the land has contributed something to the product. Herein we have another indication that rent is not an adequate measure of land productivity. It represents land value.

Economic Rent Always Goes to the Landowner

All land that is in use and for the use of which men are willing to pay a price yields rent, whether it is used by a tenant or by the owner. In the latter case the owner may not call the rent that he receives by that name; he may not distinguish between it and the other portions of the product that he gets from the land; he may call the entire product profits, or wages. Nevertheless the rent exists as a surplus over that part of the product that he can regard as the proper return for his labor, and for the use of his capital-instruments, such as, horses, buildings, and machinery. If a farmer employs the same amount and kind of labor and capital in the cultivation of two pieces of land, one of which he owns, the other being hired from some one else; if his net product is the same in both cases, say 1,000 dollars; and if he must pay 200 dollars to the owner of the hired land, then, 200 of the 1,000 dollars that he receives from his own land is likewise to be attributed specifically to his land rather than to his capital or labor. It is rent. While the whole product is due in some degree to the productive power of land, 200 dollars of it represents land value in the process of production, and goes to him solely in his capacity as landowner. The rent that arises on land used for building sites is of the same general character, and goes likewise to the owner of the land. The owner of the site upon which a factory is located may hire it to another for a certain sum annually, or he may operate the factory himself. In either case he receives rent, the amount that the land itself is worth for use, independently of the return that he obtains for his expenditure of capital and labor. Even when a person uses his land as a site for a dwelling which he himself occupies, the land still brings him economic rent, since it affords him something for which he would be obliged to pay if his house were located on land of the same kind owned by some one else.

Economic Rent and Commercial Rent

It will be observed that the landowner's share of the product, or economic rent, is not identical with commercial rent. The latter is a payment for land and capital, or land and improvements combined. When a man pays nine hundred dollars for the use of a house and lot for a year, this sum contains two elements, economic rent for the lot and interest on the money invested in the house. Assuming that the house is worth ten thousand dollars, and that the usual return on such investments is eight per cent, we see that eight hundred dollars goes to the owner as interest on his capital, and only one hundred dollars as rent for his land. Similarly the price paid by a tenant for the use of an improved farm is partly interest on the value of the improvements, and partly economic rent. In both cases the owner may reckon the land as so much capital value, and the economic rent as interest thereon, just as the commercial rent for the buildings and other improvements is interest on their capital value; but the economist distinguishes between them because he knows that they are determined by different forces, and that the distinction is of importance. He knows, for example, that the supply of land is fixed, while the supply of capital is capable of indefinite increase. In many situations, therefore, rent increases, but interest remains stationary or declines. Sometimes, though more rarely, the reverse occurs. As we shall see later, this and some other specific characteristics of land and rent have important moral aspects; consequently the moralist cannot afford to confuse rent with interest.

The Cause of Economic Rent

The cause of economic rent is the fact that land is limited relatively to the demand for it. If land were as plentiful as air mere ownership of some portion of it would not enable the owner to collect rent. As landowner he would receive no income. If he cultivated his land himself the return therefrom would not exceed normal compensation for his labor, and normal interest on his capital. Since no one would be compelled to pay for the use of land, competition among the different cultivators would keep the price of their product so low that it would merely reimburse them for their expenditures of capital and labor. In similar conditions no rent would arise on building sites. The cause of the *amount* of rent may also be stated in terms of scarcity. At any given time and place, the rent of a piece of land will be determined by the supply of that kind of land relatively to the demand for it. However, the demand itself will be regulated by the fertility or by the location of the land in question. Two pieces of agricultural land equally distant from a city, but of varying fertility, will yield different rents because of this difference in natural productiveness. Two pieces of ground of equal natural adaptability for building sites, but at unequal distances from the center of a city, will produce different rents on account of their difference of location. The absolute scarcity of land is, of course, fixed by nature; its relative scarcity is the result of human activities and desires.

The definition of rent adopted in these pages, "what men are willing to pay for the use of land," or, "what land is worth for use," is simpler and more concrete, though possibly less scientific, than those ordinarily found in manuals of economics, namely: "that portion of the product that remains after all the usual expenditures for labor, capital, and directive ability have been deducted;" or, "the surplus which any piece of land yields over the poorest land devoted to the same use, when the return from the latter is only sufficient to cover the usual expenses of production."

The statement that all rent goes to the landowner supposes that, in the case of hired land, the tenant pays the full amount that would result from competitive bidding. Evidently this was not the case under the feudal system, when rents were fixed by custom and remained stationary for centuries. Even to-day, competition is not perfect, and men often obtain the use of land for less than they or others might have been willing to give. But the statement in question does describe what tends to happen in a system of competitive rents.