

CHAPTER VI

Land and Rent

AS POPULATION INCREASES, RECOURSE MUST BE HAD TO POORER LAND, BUT DIMINISHING RETURNS MAY BE OFFSET BY INCREASED EFFICIENCY OF GREATER NUMBERS.

The land question means hunger, thirst, nakedness, notice to quit, labor spent in vain, the toil of years seized upon, the breaking up of homes, the miseries, the sickness, deaths of parents, children, wives: the despair and wildness which spring up in the hearts of the poor when legal force, like a sharp harrow, goes over the most sensitive and vital right of mankind. All this is contained in the land question.

—CARDINAL MANNING

Wherever there are in any country uncultivated lands and unemployed poor, it is clear that the laws of property have been so far extended as to violate natural right. The earth is given as a common stock for men to labor and live on.

—BLACKSTONE

It is commonly supposed that land belongs to its owners in the same way as money or a watch. This is not the theory of English law . . . No absolute ownership of land is recognized in our law books, except in the Crown.

—SIR F. POLLOCK, K. C.
in *The Land Laws*

The people, in their right of sovereignty, are deemed to possess the original and ultimate property in and to all lands within the jurisdiction of the State.

—CONSTITUTION OF NEW YORK

WE HAVE left land as the last of the three factors in production to be considered because, although the most basic, man plays no part in its production, and it is governed by laws totally different from those which regulate labor and capital, both of which can be increased at will.

Go back to our primitive community and see what happens as time passes. When our colonists first arrived, there was room for all, and anyone could occupy whatever land he pleased, but this condition has changed. Babies are born, immigrants arrive, and soon the settlers are beginning to crowd one another. All the best land is claimed, and newcomers, whether brought by ships or by the stork, must move further and further back into the wilderness; contenting themselves with land inferior in location, in fertility, or for a host of reasons. Good land is in demand. Land now commands a price, and this illustrates the dif-

ference between usefulness and value, for the better land, once free for the taking, has acquired a price, although it will grow no better crops than before. Now land figures definitely in the economic picture, for the new arrival, if he is to have good land, must pay for it, and production will be divided, not into wages and interest as at first, but into three parts, for the landlord must have his rent.

As population grows, new colonists are driven to less and less desirable locations. They begin to cultivate what the economist calls marginal land, for its production is just on the margin of the recompense which labor must receive if the land is to be worked. Were it any less productive, it would be wiser to employ one's time elsewhere or at other labors. The law of diminishing returns begins to operate.

Suppose the best land, now all preempted, will yield two hundred bushels of potatoes an acre. With a growing population, this fertile land will no longer suffice to feed the colony, and recourse must be had to land which produces only a hundred bushels. It takes just as much labor to grow these hundred bushels on the poor land as to grow two hundred on the good. The potatoes are all alike and bring a dollar a bushel. Therefore, the farmer on the poor land gets only half as much for his crop as the man on the better land. Since the more fortunate farmer receives twice the income of his neighbor, we may thoughtlessly say that he is earning double the wage, but this is not true; for, although his income is twice as great, his advantage lies in the better land. He receives not higher wages but rent in addition to wages, and it is better land and not the labor that brings in this increased income. Without the superior land, his income will be cut in half.

For simplicity, we assume only two grades of land, the best twice as productive as the rest. Of course practically it never goes this way; and if we should grade our land according to its desirability, putting the first say at a hundred and then running it down by tens or fives, we would have a better picture of real conditions. We should see then that the effect of an increase of population, other things being equal, would be to drive down wages because landless men would have to work poorer and poorer land. Their production would be less, and production constitutes the natural wage of labor, as Adam Smith puts it. This would, however, be balanced by increasing rents for land; and the lucky ones, who got there early and got the best land, would be benefiting by ever-mounting rents although wages would fall.

This gives us a basis for arriving at a price of the land. If capital can normally earn five percent, the more fortunate farmer will not part with his land for less than \$2,000, or not for materially less, for there may be other considerations such as future prospects of the potato market, growth of population, and future demand for land which enters into consideration. Possibly he looks for an increase in population which will increase demand for potatoes, forcing cultivation to lands which will yield only fifty bushels, with prices mounting to two dollars a bushel. This would make his crop worth \$400; wages are unchanged, for the fifty-bushel land will give a wage of \$100; so the advantage of his far better land, reflected in rents, will be worth \$300 a year, and the price of the best land will soar to about \$6,000.

We have seen in the illustration of the fisherman, whose wages are increased by the use of capital in the form of boats, that the effect of capital is to increase wages. Similarly, from the story of irrigation in Egypt, we have seen that high wages make the use of capital profitable, increasing the interest which it earns. We see that wage levels and interest rates are very closely associated and tend to rise and fall together, broadly speaking, in the long run. When wages go up, we can pay well for the use of capital because it saves high-priced labor; and conversely, when wages fall, there may be a tendency to avoid the use of expensive capital, and interest rates will tend to drop. Therefore, in our illustration, as we lower the marginal cultivation of land, we will increase rents and reduce both wage levels and interest rates. This is not true in each detailed case, or immediately, but it is a general tendency over the run of time. The reader will remember that land is not capital, and, while interest rates may go down, rents will go up. There is therefore a tendency with the advance of society to increase rents and land values, decreasing interest and tending more and more to encourage the investment of funds in land speculation rather than in the production of capital. This is borne out by experience, for rising land values are often the first sign of an improved economy, and frequently a decline is the forerunner of "bad times." On these questions we only touch here. They will be discussed more fully a little later.

We have assumed that other factors remain the same, but they seldom do. Our settler may look for an increase in population which will not only force recourse to poorer land but increase demand for potatoes, thus justifying the cultivation of lands in

future which it is not profitable to work today. Furthermore, discovery, invention, new methods, and all the benefits of specialization and mass production have the same effect on rents as has growth of population.

For example, a power tractor or a potato digger can be used profitably on good land but may be totally useless on poorer land, hilly and rocky, so the invention of such machinery tends to increase the differential between good lands and bad even more widely. Again, the good land, being nearer to the market and owned by the more prosperous, benefits by improved roads, making motor transport possible and profitable, while on the barren hillside farms they must still drive old Dobbin through seas of mud or deserts of sand. Telephone and power lines will reach the backward districts only after long delay if at all, so every advance tends to accentuate the contrast between good lands and bad, for the well-located farmer can keep in touch with markets and sell to better advantage. The elevator, and greater density of population, will enable small holdings in central locations to house and to serve many people, but often such advances do nothing for isolated back-washes of civilization, and may even draw off population, or the more ambitious and progressive members, to more thriving centers. Such conditions often account for heavy loss of population, and a consequent slump in land values even in prosperous states, as, for example, in some rural counties in New York.

As such developments occur, the differential in land values becomes more accentuated. Three hundred years ago the land on Manhattan Island was but little more desirable than was much of the land in New Jersey; but, as civilization advances, bringing with it all the advantages of social life, these benefits center increasingly in growing communities, and New York City becomes more and more the focus of all our interest, industrial, financial, social, and cultural. The mere fact that a city starts to grow gives its growth an impetus and a momentum; and, as time goes on, the landlords in a metropolis harvest far more of the benefits than those in less strategic spots.

Consider how advances even in pure science conspire to raise land values in a great city. Had it not been for progress in invention, in engineering, in railroading, in the electrical arts, such a city as New York would today be impossible, for the city simply could not live. These advances make possible the concentration of our life and interests in great centers, and a constant increase in land values. Often such changes go far to

counterbalance what might be expected to result from the operation of diminishing returns and raise rents, which advance because of increased production in favored places. *From this it follows that what we call progress may generally benefit the landowner more than anyone else, sometimes to the positive injury of the landless man.*

Failure to grasp the principle of diminishing returns has driven many an enterprise onto the rocks. It is assumed that, because we can make a hundred watches and sell them at a profit, if we make a hundred thousand, we shall make a thousand times as much money, but it seldom works that way, for an increase in production may not be balanced by proportionate demand. It may be necessary to cut prices to dispose of the larger output or to engage in costly high-pressure selling and advertising. Sometimes the market at established prices—or even at any price—is limited in a way that is almost absolute. Because one bridge collects a toll from a thousand carowners, it does not follow that two bridges can collect toll from two thousand, for there may be only a thousand who wish to cross the river on any terms.

Important as this principle of diminishing returns is, it is perhaps as often exaggerated as forgotten, for sometimes factors of increasing production and increased efficiency come in, with all the benefits of mass production and the manifold advantages of what we call the capitalist system. A genius like Henry Ford, with vision and faith, by large-scale operations, effected such economies that he could constantly improve his product at the same time reducing costs and prices, so that the market, instead of shrinking, constantly expanded.

The specialization of workers and the greater efficiency of combined effort must be reckoned with. A million men engaged in railroad construction and operation can furnish transportation to the nation far more economically per worker than can a hundred, and large-scale operation brings great gains in distribution, transportation, and balancing of demand and supply. Merely to have goods where they are wanted when they are wanted means larger markets; the very fact that newspapers are on sale everywhere increases their sale, and the consumption of many articles is increased by the readiness with which they may be had.

In agriculture, the law of diminishing returns sometimes operates strikingly. If a farmer can grow a bushel of wheat with what we call, arbitrarily, one unit of labor, he may, with

two units, treble his crop. An increase of only one tenth of the labor spent in watering your garden, may more than double your crop, but it does not follow that spending twice as much time with the hose will bring a proportionate increase. It may work out this way:

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|---------|--------------------|------------|
| 1 unit | of labor will grow | 1 bushel |
| 2 units | of labor will grow | 3 bushels |
| 3 units | of labor will grow | 5 bushels |
| 4 units | of labor will grow | 6 bushels |
| 5 units | of labor will grow | 6½ bushels |

So we find that labor gives the largest returns, or "the optimum"—one-and-two-thirds bushels—when we employ three units of labor to grow five bushels, and it may pay better to resort to lands nearer the marginal point than to labor more intensively.

About the time of the founding of our Republic, an English clergyman named Malthus published his *Essay on the Principles of Population*. He argued that population increases faster than does production and the means of subsistence, and that therefore some must always be at the borderline of starvation. He figured that population doubles every twenty-five years while production increases only in arithmetical ratio. The fallacy lay in both premises and deductions. Sometimes, especially in new countries, population does increase as he imagined, but this ratio is seldom long sustained, nor does the principle of diminishing returns operate in the inflexible way which he took for granted. Population and production tend to keep in adjustment with one another; and, in all probability, there are biological forces of which we know but little, that keep population in control.

In Revolutionary days, when his book was written, the population of what is now New York City was about fifty thousand and today it is about eight million. Doubtless, had this growth occurred over night, famine would have happened, but many things have happened besides the growth of numbers. Railroads have brought land a hundred or even a thousand miles away practically nearer to the great city than were once the marginal lands of New Jersey, the Hudson Valley, or New England. The automobile has played its part with modern roads, ferries, bridges, and tubes; and discoveries and inventions in refrigeration, storing, packing and preserving foods have been important elements. The discoveries of Pasteur have helped enormously to feed the people, for without his labors it would today be impossible to provide the babies of the great city with safe milk—an illustra-

tion of the important part played by scientific research in actual production. New York City today receives milk from a dozen states, butter from thousands of miles away, fruit and vegetables from Florida and California, meat from the Argentine and Uruguay, and many of its foodstuffs from the very ends of the earth.

So, although food production from the lands in the immediate vicinity upon which the city once depended has fallen to practically nil, this has been offset by advantages of greater population, diversification, specialization, invention, and scientific research. Probably as time goes on we shall continue to meet our needs, not by resorting to resources now sub-marginal but by progress in research, scientific processes, and better organization.

We frequently hear talk of over-population, of congestion, and need for expansion; but, real as these problems sometimes are, they may be easily overrated. Not only could the population of the earth be greatly increased without seriously taxing our resources, but many a thickly settled country could support a far larger number than it does today, were it not for our own stupidity. Were the entire population of the world, whatever its race, creed or color, to remove to Texas, each individual could build his habitation and hoe his garden on a lot about fifty-five feet square. Were they to spread over the Whole United States, occupying only farmlands and reserving mountains, forests and deserts for common play-grounds, each family of five could have nearly two and a half acres. And they could all go swimming at once in Lake Superior where each one would have his own pool about twenty feet square!

The modern farmer, with better seed, better livestock, and better machinery, applying the findings of science, can grow far larger crops than could his grandfather, and there is no reason why this advance may not be long continued. A simple invention like the Babcock test, which shows which cows are truly profitable, enables the dairyman to breed up his herd and to double milk production from the same number of cows. Specialization has freed him and his family from many time-consuming tasks such as spinning, weaving, threshing, grinding, cutting wood, and making candles to light his home. Today these tasks are done for him by others and they are done better and more cheaply. The public-service company lights his house and barn, turns his machinery, pumps his water, ices his product, milks his cows, and incubates the eggs, leaving the hens free to

do something more profitable than to sit on a nest. Other workers meet many of his wants far more cheaply than he can satisfy them by his own labor, and a hundred and sixty million of us cooperating, and trading freely with one another, leave each free to devote his labor to whatever occupation is most remunerative, to the benefit of all.

We cannot dismiss this subject without a word on its international aspects. These questions are discussed in the chapter on tariff; so now we only call attention to the possibility of greatly increasing production of man's needs by extension of these principles of large-scale production, diversification, specialization, and exchange through all the world, by free trade, not restricted by tariffs and similar schemes, profiting by the production of each commodity where it can be produced most cheaply, and broadening export markets in every country for goods which they turn out to best advantage.

QUESTIONS

Is what is paid for the use of a typewriter or a rowboat true rent or is it interest on capital?

Is what is paid for the use of a house, rent or it is interest?

Is ground rent the only true rent?

Does population increase affect land values?

Does growing population force recourse to poorer lands? What effect does this have on wages and on rent?

Is rent determined by a differential in land values? What other factors have the same effect on land values as population increase?

Is diminishing return sometimes offset by division of labor?

Do wise services of government tend to increase land values?

Does the value of what man makes often increase beyond reproduction cost?

Who made the land? Is land wealth? Is a building wealth?

Are land values the result of social forces rather than of individual labor?

Is the rent of land *earned* by the owner?

Is rent different in nature from wages and interest? If so, in what respects?

What is the first necessity of life—necessary even before we are born?

Who made the land? Was it made for the benefit of one class to the exclusion of others?

Is there a difference in the factors which give value to land and value to the house on it?