

A Needle in the Haystack

By **BOGGER ARMSTRONG**

Many present day economists and statisticians assert that rent is a negligible element in distribution, and accounts for only a small proportion of all wealth produced—say five per cent. If this is true, it calls into serious question many of the theories which connect depressions with land speculation. It seems worth while to trace this elusive five per cent to its lair, if we can, and get what information we can about it.

Just how much of the wealth produced actually goes to rent? This question is often asked by students at the Henry George School of Social Science, and in general no answer can be given, because the usual statistical reports pay no attention to the true economic categories of distribution. But the United States Department of Agriculture, in a bulletin on "Farm Business and Related Statistics" provides data which make possible an approximate evaluation of the proportion of four major farm crops taken by rent—cotton, oats, corn and wheat.

This bulletin gives "cost of production" for these crops during the year 1937. During that year two-thirds of all farms in the United States made a profit of less than \$1,000, and one-sixth operated at a loss. When we set against the "profit" the value of the labor of members of the family, the so-called profit vanishes and in its place we have a wretchedly low wage and interest return. It therefore does no violence to the facts if we assume,

within the admittedly wide errors inherent in the data themselves, that the cost of production represents approximately the value of the product. Actually, the product value was sometimes less than cost; in such cases the following analysis still holds, but the share of rent becomes somewhat larger.

Cost of production is analyzed by the Department of Agriculture under nine heads: (1) Prepare and Plant; (2) Cultivate and Hoe; (3) Harvest; (4) Freight; (5) Fertilizer and Manure; (6) Seed; (7) Ginning (cotton); (8) Miscellaneous, and (9) Land Rent. The "Miscellaneous" item includes charges for water and irrigation, twine and sacks, crop insurance, use of implements and storage buildings, overhead, a small amount of miscellaneous labor, and a charge incurred on acreage abandoned because of crop failure. Here are the figures, showing land rent and total cost per acre for the four crops studied; the figures represent dollars.

	Rent	Total
Cotton	4.88	31.26
Corn	4.46	20.15
Oats	4.09	15.27
Wheat	3.38	14.87



The cotton cost includes ginning, and the wheat and oats costs include threshing. Ginning gives rise to a valuable by-product, cotton seed; the other crops also yield by-products, less valuable than for cotton. The values are given in the Report, and if we credit cost-of-production with the value of by-products we obtain new figures:

	Rent	Total
Cotton	4.88	26.73
Corn	4.46	19.05
Oats	4.09	13.94
Wheat	3.38	14.15

The next step in analyzing these figures involves a recognition of the fact that mere replacement of capital is no part of distribution, because a process which merely replaces its own capital is not a productive process; it does not add to wealth. It is thus necessary to deduct from these costs that portion which can be identified as a replacement expense; in particular, expenditure for seed and fertilizer. Only that part of the product which remained over and above an amount equivalent in value to the seed and fertilizer used can be regarded as available for distribution in the three economic categories of rent, wages and interest. After we have made this deduction we have a new set of figures:

	Rent	Total
Cotton	4.88	23.64
Corn	4.46	16.72
Oats	4.09	11.72
Wheat	3.38	11.99

As yet we have made no deduction

for taxes. Now, such a deduction must fall to some extent upon the rent, for the owner must pay the land taxes—he cannot shift them—and therefore only the residue of his income after land taxes are paid can be properly called net rent. A workable approximation to such tax figures is available, but only an approximation. We shall not be far out if we allow 30c per acre for land taxation in the cotton states, and 60c in the corn-wheat belt.

The other taxes cannot be estimated with anything like as good precision. We know that taxation falls to a large extent upon labor products. We know that its economic effect is as if the boll-weevil or the corn-borer had destroyed a portion of the crop. We know that much of our taxation is regressive—that is, it bears more heavily upon the poor than upon the rich. And we know that in 1937 taxes consumed approximately one-sixth of the national income. These considerations give us little choice but to deduct one-sixth from each of the product figures. If we make all these deductions for taxes, we obtain:

	Rent	Total
Cotton	4.58	19.70
Corn	3.86	13.93
Oats	3.49	9.77
Wheat	2.78	9.99

On the basis of these results we may strike a preliminary average. We find that for the four crops studied, rent appears as a percentage of the total as follows:

Cotton	23.3%
Corn	27.7%
Oats	35.7%
Wheat	27.8%
Average*	28.6%

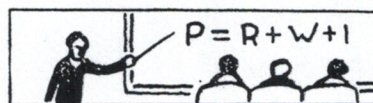
Considering the questionable significance of the data and the doubtful nature of the necessary assumptions, these figures agree surprisingly well. But we are not yet finished. The payment of rent is not finished when mere farm acreage has been provided. From every dollar of so-called wages there is a rent deduction, and in each item of so-called capital expense there is

*Unweighted

concealed a rent charge. If we assume that this charge is of the same magnitude as the other rent charge we must deduct a proportionate share from the laborer's wage and the capitalist's interest. Even here we are not yet done, for every transaction involving either the crop itself or the ordinary activities of the producers and those who minister to their wants contains an element of rent. If we sum the geometric series with a rate of .286 we obtain almost exactly 40 per cent. This is our final estimate of the proportion of the product on farms in the categories studied which goes ultimately to the owners of land.

This estimate agrees fairly well with another estimate arrived at in a totally different way. We know (PROGRESS AND POVERTY, Book 6, Chapter 1) that economy in government or reduced taxes would not better the condition of the poor, because the saving would all go to increase rent. Now, we already take some economic rent; an estimate of one-third is sometimes made, but this is probably very high if we take the United States as a whole. It is important to remember, however, that when wages and interest are marginal, an increase of taxes must ultimately operate to diminish rent, just as a decrease in taxes must operate to increase rent. It thus becomes evident that even when taxes are not levied directly against rent, they nevertheless operate to reduce rent by reducing the fund from which rent is paid. Our national tax bill in 1937 was about 12 billion dollars, against a total production of about 70 billions. If we assume that the economic rent actually received by landowners was two-thirds of the potential rent in a tax-free economy on the same production basis, we arrive at an estimate of 24 billion dollars actual economic rent for 1937. This is 34 per cent of 70 billions, a tolerably close check with our other estimate of 40 per cent.

It is of interest to note that in a



tax-free economy, in which the 12 billions collected in taxes would have gone instead to landlords, economic rent would have accounted for just about half of the total product. And this answers another question often asked: would the collection of economic rent raise enough revenue? In 1937, assuming the margin to have remained where it was, it would have yielded something like 30 to 40 billion dollars.

For the sake of scientific honesty, it may be as well to repeat the caution already given, that the precision of these estimates is not very good. When statistics are used to arrive at approximations of unknown parameters, the variance of the statistics themselves is a matter of great importance. When the original figures have a great dispersion, or when, in common parlance, they are more or less "all over the lot," there is a loss of value in the conclusions. But to say that the conclusions are weakened is not to say that none can be drawn. The figures adduced here are intended to suggest, not exact amounts, but orders of magnitude. Readers who use them will do well to remember their limitations. When, as and if it becomes customary to recognize in accounting practice the three fundamental avenues in which wealth is distributed, then a better estimate will become possible, and the present figures will cease to have any usefulness. In the meantime, they will do until we can get something better.

The Freeman

A Monthly Critical Journal of Social and Economic Affairs

Editor: FRANK CHODOROV

Assistant Editor: PAUL PEACH

Associate Editors

C. O. Steele John Lawrence Monroe
 Harry Gunnison Brown Virginia M. Lewis
 Hubbell McBride Ami Mali Hicks

George Bringmann

The Freeman does not necessarily endorse opinions expressed in signed or initialed contributions or statements in news reports, assuring the widest freedom of expression to its writers. Contributions consistent with the policy of The Freeman are welcomed; no payment is made, for the writers contribute their services as a living endowment to the cause for which The Freeman stands.