

CHAPTER V

LAND-RENT—A GRATUITY

BEFORE entering upon a consideration of land-rent, a word will be in place in explanation of the separation of land-rent and interest. In practical business life no such separation is made. Why make it here? In our brief presentation of the sources of wealth we found that in all industrial operations there were always and everywhere three essential factors and only three, namely, nature's contribution in the form of material (and forces), the labor of man in making use of this material, and capital assisting labor. Here are three entirely distinct factors. Any profitable discussion of compensation received for the services performed by these three factors necessitates their separation in discussion as they are separated in fact. To ignore this separation would lead to confusion.

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Those who own natural resources and allow them to be used in the production of wealth, perform a service and receive compensation for this particular service. Likewise those who own capital and use it in production, or allow others to use it. The one receives land-rent, the other receives interest. The same man may own both and receive rent and interest, in which case his income is from two sources although he may not recognize this dual source.

Since of the three essential factors land is the most fundamental, compensation for its use will be considered first. This word rent is not used here in its ordinary sense to denote what is paid for the use of a house or other building, but rather to denote what is paid for the use of land, any natural agent or resource. Suppose I am living in another man's house and pay him \$30 a month for this privilege. I call him my land-lord. Why land-lord? Why not house-lord? We say we pay our land-lords for living in their houses. Strictly this is incorrect. The portion of the \$30 which would be considered fair compensation for the use of the ground on which the house

stands is rent, but the balance which is compensation for the use of the house is interest. The money paid for building the house is capital, or in other words the house represents capital, hence what is paid for the use of the house is interest. Whatever is paid for the use of improvements of any kind whatsoever upon land, such as houses, barns, fences, ditches, etc., is interest and not rent since all improvements represent capital. Rent may be tentatively defined here as that which is paid, or which one can afford to pay, for the use of natural agents of any kind whatsoever, whether it is farm land, city lots, water power, mines, forests, fisheries, or any other form of resource contributed by nature, in its natural condition without improvements of any kind. This distinction between rent and interest is important.

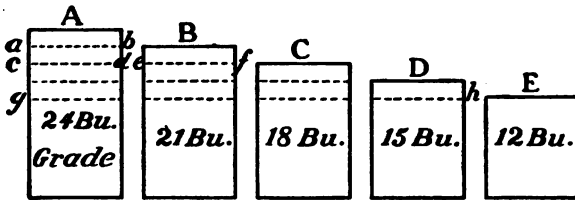
Our first effort in discussing rent will be to illustrate what it is, and at the same time to show how it comes into existence. The following series of parallelograms will assist in this illustration, which holds good in the case of all kinds of natural resources, although applied here to farm lands. The

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illustration will be adapted to a colony of a thousand people who go into a new territory with its varied resources, and large enough to support many thousands.

ILLUSTRATING RENT

Let the parallelogram marked A represent the product in the form of wheat from an acre of ground in this new territory after the expenditure of a given amount of labor and capital.



Let the parallelogram marked B represent the product of an acre of a somewhat poorer grade of land after the expenditure of the same amount of labor and capital. Parallelograms C, D, and E will represent the product of an acre of each of three other grades resulting from the same expenditure of labor and capital.

Suppose after the expenditure of the same

labor and capital, of this "unit of productive power," on an acre of each of these five grades of land, the product shall be 24, 21, 18, 15, and 12 bushels respectively. For wheat-raising purposes the colonists will of course from the first seek the best wheat lands. We will assume that they at first cultivate the best, that on which they can raise twenty-four bushels per acre in return for the unit of productive power. In a field of open competition such as generally exists in new territory the price of wheat will be fixed at the money cost of producing it, which we will interpret to embrace a fair compensation, both a fair return to the man who does the work whether he is the owner of the land or not, and a fair interest on any capital employed in its cultivation. If now the cost of cultivating an acre is \$24, the wheat raised on this best grade must be sold at \$1 per bushel, and this will be the price of wheat so long as all the wheat that is needed can be raised on this best grade. Assuming that all which is needed by our thousand colonists and no more, can be supplied from this one grade, we have a condition in which no rent appears, and

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which will serve as a starting point from which we may proceed to answer the questions, What is rent? and How does it come into existence?

This condition will remain the same so long as demand for wheat remains the same, and so long as the demand can be supplied from this one grade of land. But suppose the colonists increase to 1500. This means that demand has now increased so much that this one grade can not supply what is needed, hence the next best grade will be called into use. But it will not be cultivated while the price is \$1 per bushel. At that price only \$21 will be received for the labor and capital required for the cultivation of an acre, but we have assumed above that it costs \$24 to cultivate an acre. It is evident that the second grade will not be cultivated until \$24 can be received for the cultivation of each acre of this grade. This will be when twenty-one bushels can be sold for \$24, which means that the second grade will be cultivated when demand for wheat has driven its price up to \$1.14 per bushel. When this is the price it just pays a fair compensation for cultivating the second grade,

as it just paid to cultivate the first grade when the price was \$1.

When it just pays to cultivate the second grade it more than pays to cultivate the first. The amount of product above that which would just pay expenses on the first grade is indicated by the portion of the parallelogram marked A which is above the dotted line *a b*, which would be 3 bushels since 21 bushels will pay \$24. This surplus above cost of production expressed in terms of product is 3 bushels per acre, but expressed in terms of money it would be \$3.42, the value of the 3 bushels at \$1.14 per bushel. While wheat sold for \$1, and the return from an acre was only \$24, the owner himself must cultivate it, since no one not its owner could afford to pay anything for its use. But when the demand for wheat increases so as to raise its price to \$1.14, a man not its owner can afford to cultivate it and pay its owner the surplus above cost of production. We have seen that 21 bushels at \$1.14 will pay the man who cultivates it a fair compensation and he will have a surplus of 3 bushels or of \$3.42, which he can afford to return to

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the owner. On the other hand the owner can exact this surplus from a non-owner who may wish to work the ground for him. The word rent, which means a return, is applied to this surplus which is returned to the owner for the use of his land. Rent then may be defined in theory as that surplus portion of the product secured from any natural resource above the cost of cultivation or operation. In practice it may be defined as that which is paid for the use of any natural resource distinguished as above from any improvement on the same. In practice rent will always approximate the surplus above the cost of production.

Here then is the definition of rent, and the question How does rent come into existence? is answered. Before we comment on this last point let us go one more step in the development of our colony. Suppose the colonists have increased to 2500, that the second grade of land is exhausted, and the demand for wheat cannot be supplied by the first and second. When will the third or 18-bushel grade be cultivated? When it pays. When will it pay? When 18 bushels can be sold for \$24, because it costs \$24 to

cultivate an acre. Only then will a man get a fair living return. This will be when demand forces the price up to $\$1.33\frac{1}{3}$. When wheat comes to this price demand will be supplied by the use of the first three grades. But when this is the price it will more than pay to cultivate the second, or the 21-bushel grade. The surplus on this second grade expressed in product will be three bushels, the portion of parallelogram B above line *ef*. Expressed in money it will be three times $\$1.33\frac{1}{3}$, or $\$4.00$.

This surplus a man not the owner could pay the owner, and still make a living on this second grade of land. While this surplus of $\$4$ per acre above cost of cultivating the second grade is coming into existence, the surplus of the first or 24-bushel grade has increased from 3 to 6 bushels, indicated above the line *cd* in parallelogram A, which at the market price of $\$1.33\frac{1}{3}$ will sell for $\$8$. So the process will continue; as the demand for wheat increases more and more land will be cultivated for wheat-raising, which generally means that poorer and poorer grades will be used. Whenever a poorer grade comes into use for the first time, rent comes

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into existence on the next better grade, where it had not been before, and the rent on the still better grades is constantly increasing.

What is the cause of rent? The increase in the price of the product appears to cause it. But what causes the increase of price? The fact that the demand for the product increases faster than its supply. But what causes this faster increase of demand? The growth of the community. In the search for an economic cause we cannot go back of this. Then we conclude that rent is a direct result of the growth of the community. No man can by his own unassisted effort bring rent into existence, or increase the rent of his land. If he says he can make his ground produce more by fertilizing it, and hence rent it for more money, he is simply to be reminded of the distinction already made between rent and interest. The fertilizer is an "improvement," so that its cost and the cost of its application to the land represent capital. And any additional return that may seem to come in the form of rent from the land because of the fertilizer is in reality interest on capital. All return which comes from any sort of improvement is

interest, with which we are not now at all concerned. Any return for any deliberate outlay on the part of an individual to secure greater returns is interest or wages and not rent.

If private ownership is practised in our colony, as it is in the great nations of the world, when the land in the new territory has all been "taken up" it is all owned by individuals. The fact that there are several grades, and the fact that these grades are all owned by private individuals are matters of great importance.

It has been seen by aid of illustration that when the first grade is being used and that only, in a field of open competition the price of wheat will be just high enough to pay a fair compensation, a fair living return to the man who cultivates it and no more. Hence when this best grade only is used, no man who owns it could get another man to work it and pay him anything for its use, because there is no surplus which can be "turned back" to the owner. So the owner himself must cultivate it, if he gets any returns from it. But when one or more other grades are used, the owner of the best grade can find some other man, who has no

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land of his own, who will be willing to cultivate his land and pay him for its use, since now there will be a surplus above cost of cultivation. The non-owner for the sake of an opportunity to get a living will be willing to give this surplus to the owner. The owners of all grades that are demanded, except the poorest, can now demand a payment for the use of their land, because there is a surplus above cost of cultivation and they can always find non-owners who for the sake of a living are willing to pay them this surplus for the privilege of cultivating the lands. Hence the owners when they find they can secure a living without working their own land by their own hands will allow non-owners to work it, and thus secure from them the surplus in the form of rent. Suppose, when our colonists first occupied their new territory, a man becomes the owner of 150 acres of the best wheat lands. As soon as the demand calls into use that land which with the expenditure of the same labor and capital will raise three bushels less per acre than the best grade, there will be a "surplus" over cost of production of 450 bushels on the 150 acres. If now the price should be forced

up from \$1 to \$1.14, as we assumed in our illustration, the surplus in terms of money will be $450 \times \$1.14$, or \$513, a sum fully equivalent to the income of thousands of farmer families. If the acres should be doubled the surplus would be doubled. This surplus also increases as the poorer lands are cultivated more, and the number of grades increases. It is unnecessary to say that it makes no difference whether the product is wheat or corn, oats or beans, bananas or tobacco, or anything else whatsoever, whether the kinds of product are one or forty in number—the principle of the surplus on the better grades of land holds good.

If the owner himself shall continue to cultivate his own land, he gets this surplus in addition to the fair living wage which is the reward for the labor required. It is none the less a surplus because he tills his own ground, a surplus above the cost of production, hence a profit. It is appropriately called "rent," which he pays to himself instead of allowing another man to pay it to him for the use of his land. He goes on cultivating his ground just as he did before he received this surplus. His life is the

same, the amount of labor he performs is the same, but his returns have been increased through increased demand for wheat. Most men, when they come to the point where this surplus will support them without labor on their part, will let another fellow do the work and return to them the surplus. So as our colony increases in number and extends itself over its territory the process of "renting" lands will go on until there come to be a landlord class and a tenant class. This is the history of every new country where private ownership of natural resources prevails. The rule of free land may prevail in our colony, and probably will prevail, until the surplus on the better grades is so great that it will pay to buy them for the sake of having possession of them.

In addition to answering the questions What is rent? and What produces it? what has been said answers three other important questions, namely, Who get rent? Through what means do they get it? and What do they do for it? The owners of all lands needed for supplying the market, except the poorest, get the rent. They get it through private ownership of land. They

do absolutely nothing for it. It is to be noted that the agent through whom this surplus is paid to the owner is always the man who toils. In case the owner cultivates his own ground, he himself is the toiler. In case another man cultivates it for him as tenant, this man is the toiler through whom the owner secures the surplus. In every case where rent is secured because of individual effort, it is received by the owner through the man who toils, but in no case is it earned. We have assumed all through the discussion that the men who cultivate the poorest grade which is needed for the supply of the market secure fair compensation. But the men cultivating the better grades, performing the same amount of labor, deserve no higher compensation. If, however, they secure the surplus while they themselves cultivate their own lands, society through private ownership gives them higher compensation, or rather a bonus in addition to compensation. But if they secure the surplus in the form of rent paid by tenants, and in sufficient quantities to support them without work, then society through the agency of private ownership is giving them a living. All those who live on what

they secure as return paid for use of natural agents, form a class of social parasites.

This law of surplus holds just as true of all other forms of natural agents as it does of farm lands. We have been discussing the surplus commonly called rent in connection with farm lands, even at the risk of giving the impression that it is a matter that concerns farm lands only, and that the farmers are the only class who are securing a surplus from natural resources. But the truth is a long way from that. Owners of the better grades of coal mines, of gold mines, of iron ore mines, of any other kind of mines, owners of more valuable water-powers, forests, fisheries, or of the more valuable land franchises, owners of town and city lots, owners of the higher grades, hence of the more valuable natural agents, of every and all kinds, are the recipients of this surplus caused by the growth of a community. All these are the recipients of this surplus just as truly as are the owners of farm lands. It is impossible to say just when in our history the landlord and tenant classes came into being, but the growth of the classes has gone on until in 1900 there were in the United

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States 2,026,286 farms operated by tenants, while the total number of farms in the country was 5,739,657. This means that at that time 35.3 per cent. of all farms were worked by tenants. In 1880 the number of tenant farms was 25.5 per cent. of the total number. This means that the farms operated by tenants in this country increased in twenty years more than 38 per cent. upon the number in 1880, or more than 24 per cent. upon the number in 1890.

If now the number has increased since the last census was taken at the same rate at which it increased during the decade before it was taken, the number of farms at present operated by tenants is about 2,300,000. The meaning of this is that the surplus on this number of farms is large enough to enable the men who work them to pay the owners rent for their use, and that approximately this number of owners, and in most cases their families, are being supported in part or in whole by farm rent. But this does not tell the whole story of rent from farm lands alone. The rent which owners are paying to themselves by continuing to cultivate their own farms, on

which there is a surplus above cost of production, must be counted in. Again, all the surplus arising from the great tracts of land owned by the capitalistic classes who never handled a plow or drove a farm horse, but who pay superintendents for overseeing the cultivation of these immense farms, all this surplus must be counted in the enormous total rent which the farm lands of this country produce, which the toilers pay, and which the owners get as a bonus from society through the institution of private ownership of natural resources.

It is to be regretted that we have not some equally suggestive data for the other departments of industry which are extracting some advantage directly from nature and hence provide a surplus according to the law of rent explained above. It is also to be seriously regretted that we have not some means of estimating this surplus, so we could get a fairly definite conception of its amount. However, the data we have concerning farm lands are very suggestive and give us some notion of the part that rent plays in distributing the products of industry.