THE UNIVERSITY OF WISCONSIN PRESS JOURNALS DIVISION

On Monopoly Rent

Author(s): Alan W. Evans

Source: *Land Economics*, Feb., 1991, Vol. 67, No. 1 (Feb., 1991), pp. 1-14
Published by: University of Wisconsin Press
Stable URL: https://www.jstor.org/stable/3146481

JSTOR is a not-for-profit service that helps scholars, researchers, and students discover, use, and build upon a wide range of content in a trusted digital archive. We use information technology and tools to increase productivity and facilitate new forms of scholarship. For more information about JSTOR, please contact support@jstor.org.

Your use of the JSTOR archive indicates your acceptance of the Terms & Conditions of Use, available at https://about.jstor.org/terms

University of Wisconsin Press is collaborating with JSTOR to digitize, preserve and extend access to *Land Economics*

JSTOR

This content downloaded from 149.10.125.20 on Thu, 03 Feb 2022 02:30:53 UTC
All use subject to https://about.jstor.org/terms

On Monopoly Rent

Alan W. Evans

As for monopoly rent, no-one, to our knowledge, has ever successfully stated the theory accurately enough—and the statement of the theory need not be that precise—for the theory of monopoly rent to be regarded as a genuine scientific doctrine. Instead the idea is met in comments scattered in the works of different authors. (Samsonoff 1912, 151–52, translation)

More than three quarters of a century later the situation has changed little, if at all; the concept of monopoly rent is still met in brief comments scattered in the works of many different authors. Moreover a thorough study of the literature suggests that there is little continuity and therefore little sense of cumulative progress. Every twenty years or so the idea of monopoly rent surfaces and is discussed by one or two authors, but these discussions are unrelated to earlier work of which the authors seem mostly to be unaware.

The aims of this paper are therefore twofold. The first is to provide a survey of the different ways in which economists have conceived and treated the idea of monopoly rent, and so to bring together and systematize the "scattered opinions" to which Samsonoff referred so long ago. The second is to present the kind of accurate and precise statement of the theory of monopoly rent for which Samsonoff asked in 1912, one which would allow monopoly rent to be regarded as a "genuine scientific doctrine."

It must be admitted, however, that the thorough study of the literature mentioned above leaves one with a pessimistic view of progress in economic science, with respect to monopoly rent at least. Given that the concept seems to be rediscovered every twenty or thirty years, and that the discoverers seem to refer very little, if at all, to previous literature, there seems no reason why the cycle of discovery and oblivion should not go on for another two hundred years. Despite the fact that the literature gives no grounds for any such expectation, it is still the author's faint hope that this paper may still assist the progress of economic thought.

Because the theory of monopoly rent has never been properly formalized, the concept remains shadowy and amorphous because different authors appear to have meant different things by it. Analysis of the writings of the various authors suggests three possible ways in which the term is intended to be understood. The first we call "Class Monopoly," after the usage by Harvey (1974). Here the class of land owners, by definition, own all the land and the rent of the land is monopoly rent. This usage seems to be frequent in the writings of the classical economists in the nineteenth century. The second we call "Site Monopoly," after the usage in a recent study by Dämpfling (1985). This is based upon the idea that the site owned by a land owner can be distinguished from all others. It follows that the owner monopolizes that site and derives a monopoly rent from it. In each of these cases it seems clear that monopoly rent is the same as what is usually called differential rent. Moreover land owners are not thought to behave "monopolistically" in the sense that they remain price takers rather than price makers and are not alleged to restrict the use of land in order to keep rents above the free market price.

The third usage of the concept originates with Marx and therefore could be described as "Marxian Monopoly Rent." Marx distinguishes Monopoly Rent from his other two rent categories—Differential Rent and Absolute Rent—and uses it to describe a situation in which the product of an area of

Professor of Environmental Economics, University of Reading, England.

I am indebted to the Nuffield Foundation for financial support, and to two anonymous referees for helpful comments on an earlier draft.

Land Economics • February 1991 • 67(1): 1–14

This content downloaded from
149.10.125.20 on Thu, 03 Feb 2022 02:30:53 UTC
All use subject to https://about.jstor.org/terms

land is specific to that land, for example a particular wine, and where the producers face a downward sloping demand curve for that product. Land owners can then act monopolistically by fixing rents and limiting the amount of wine that is produced, so ensuring higher rents.

A referee has argued that it is difficult to distinguish theoretically between monopoly rents and any other monopoly profit, and therefore that I am "using monopoly in general and calling it rent in the presence of land." There is an element of truth in this suggestion. Nevertheless it seems to me that if any rents can truly be described as monopoly rents then it must be those which occur when the profits attributable to monopolistic behavior are realized in the form of rents which are higher than would exist if there were no monopolistic behavior.

A problem with the kind of survey and systematization which is attempted in this paper, as a referee has also pointed out, is that the concept of monopoly rent is used by the various authors within the context of their several different scientific paradigms. The process of survey necessarily takes the concept out of these different contexts and the process of systematization fits them all within one particular scientific paradigm, in this case the Procrustean bed of orthodox static (neoclassical) microeconomic analysis. Necessarily this may fail to do complete justice to the original authors' ideas, but one hopes that this is compensated by a gain in understanding.

I. CLASS MONOPOLY

The idea that the return to land as a whole is a return to monopoly seems to occur at various times in the writings of the classical economists. It appears, for example, in *The Wealth of Nations* early in Adam Smith's long, discursive, chapter "On Rent."

> The rent of land, therefore, considered as the price paid for the use of the land, is naturally a monopoly price. It is not at all proportioned to what the landlord may have laid out upon the improvement of the land, or to what he can afford to take; but to what the farmer can afford to give. (Smith [1776] 1910, 131)

The idea occurs again a few years later in the work of J. B. Say, who remarks in his *Traité d'Economie Politique* that

> the owners of land, at least in countries which have been settled and cultivated for a long time, exert a kind of monopoly over the farmers. Their demand for their share of the product, that is the share due to the land, can be extended without limit, but the amount which they get can only be extended up to a certain point. (Say 1861, 407)

And again, emphasized with block capitals, it appears in the work of Nassau Senior where he refers to the class of monopolies which

> *exists where production must be assisted by natural agents, limited in number, and varying in power, and repaying with less and less relative assistance every increase in the amount of the labour and absistence bestowed on them.* It is under these circumstances that the greater part of the raw produce, whatever it be, which is the staple food of the inhabitants in every Country, potatoes in Ireland, wheat in England, or rice in India, is produced. It is, in fact, THE GREAT MONOPOLY OF LAND. (Senior [1872] 1938, 105)

The classical economists' reiteration of the idea that the rent of land arises from a monopoly seems to based on the view that the price of a good should be equal to its cost of production. Differences might occur in the short run but in the longer run this would be true, except, of course, where a monopolist was able to charge a higher price through restricting the supply of the good. In the case of land the cost of production is zero, but still a rent is charged. It seemed to follow, even if only by analogy, that rent was therefore a result of monopoly.

Smith, for example, notes that "the landlord demands a rent even for unimproved land" and that although the amount of the rent may be increased because improvements have been made, these im-

This content downloaded from
149.10.125.20 on Thu, 03 Feb 2022 02:30:53 UTC
All use subject to https://about.jstor.org/terms

provements may be made by either the landlord or the tenant.

> When the lease comes to be renewed, however, the landlord commonly demands the same augmentation of rent as if they had all been made by [himself]. (Smith [1776] 1910, 131)

His justification for the view that rent "is naturally a monopoly price" is then that rent, as stated in the quotation above, is not proportional to any capital that the landlord may have invested in the land, but is determined by what the farmer can afford to pay.

In the middle of the nineteenth century John Stuart Mill seems to be making virtually the same point, though at greater length.

> It is at once evident that rent is the effect of a monopoly; though the monopoly is a natural one . . . . The reason why landowners are able to require rent for their land, is that it is a commodity which many want, and which no one can obtain but from them. . . .
>
> A thing which is limited in quantity, even though its possessors do not act in concert, is still a monopolized article. But even when monopolized, a thing which is the gift of nature, and requires no labour or outlay as the condition of its existence, will, if there be competition among the holders of it, command a price, only if it exists in less quantity than the demand. (Mill [1871] 1924, 423)

The classical economists could perceive that land would supply its services whether or not a rent was paid and that the "cost of production" of land was zero. The payment of rent seemed to them therefore to be similar in character to the payment to a monopolist of a price which exceeded the "true" cost of production or price of a monopolized good.

This line of thought is clearly evident in the work of the early American economist Jacob Newton Cardozo.

> How then, it may be asked, can that increase in the price of raw produce which obviously goes to augment rent be accounted for? The excess of the price of the products of the land caused by monopoly, above that price for which they might be obtained if the monopoly did not exist, is the source of the increase of rent. (Cardozo [1826] 1960, 25)

With the advent of neoclassical economics, with its generalization of the theory of price and distribution and its lack of differentiation in the treatment of the different factors of production, the view that the rent of all land is a return to monopoly virtually disappears. Ironically what would appear to have killed off the idea is Marshall's generalization of the concept of land rent in introducing the term economic rent to describe a payment over and above its transfer earnings to any factor, not merely land. For this recognizes what the classical economists seemed also to recognize with their use of the term monopoly. They were importing into the theory of land rent a term which they thought threw light on the peculiar position of land, namely that it would yield its services even if no payment for those services were made.

Marshall, on the other hand, took the term "rent," as originally applied to land and property, and applied it, as "economic rent" to all situations in which the reward paid, whether for labor or any other factor of production, was higher than necessary to induce the factor to provide its services. With this change in terminology, dare one say with this advance in economic understanding, the use of the term monopoly as referring to class monopoly virtually disappears from the literature.

Two late appearances should perhaps be mentioned, however. Hobson (1891) accepts the Ricardian analysis of differential rent as it applies to land with but a single use, such as wheat, and hence agrees

> rent could not figure in the price of wheat. But where there are many uses for land, and all land is not equally suited to each use, it will be evident that the worst land employed for a particular use may be land paying a rent. The simplest case is of course that of town lands, where the land at the margin of employment for town purposes is not no-rent land, but land commanding high agricultural rent. This rent paid at the margin of employment enters into town prices, and forms an element of monopoly in the "expenses of production" of manufactured goods. . . .

This content downloaded from
149.10.125.20 on Thu, 03 Feb 2022 02:30:53 UTC
All use subject to https://about.jstor.org/terms

What applies to town uses applies also the agricultural uses of land. (Hobson 1891, 14)

These "monopoly rents," he argues, "raise the 'expenses of production' above the limit indicated by the natural 'cost of production' " (p. 13).

Another, but otherwise dissimilar, view that land rent is partially a monopoly rent appears in Charles Gide's *Principles of Political Economy,* first published in the nineteenth century but in its seventh edition in 1924. In discussing the theory of rent he agrees that Ricardian theory can explain differences in the rents of different sites because of their differences in fertility, but goes on to say that

it will be seen that on this theory there are only differential rents, which means that there would be no rent at all if all pieces of land were of the same quality. Now that is where Ricardo's theory seems to be, if not incorrect, yet at any rate incomplete as an explanation of rent. . . . Rent would undoubtedly remain . . . , although by hypothesis, it would be the same for every piece of land. It must, therefore, have some other basis that is absolute and not merely relative, which leads us back to the explanation that bases it upon the fact that land is a monopoly. (Gide 1924, 374)

The idea that all rent is due to a monopoly of land—that landowners "possess a class monopoly over land use" (Harvey 1973, 179)—returns to the literature in work by the geographer David Harvey in the 1970s (Harvey 1973, 1974; Harvey and Chatterjee 1974). This is completely apposite since Harvey was consciously seeking "to turn to the earthy richness of classical political economy," taking the view that "the neo-classical achievement . . . succeeds in burying some of the more relevant technical and ethical issues which attach to rent as it functions in the urban land market" (1973, 178). Apart from an alteration in terminology, however, it is unclear what is gained by this particular change. Certainly, as this author has argued elsewhere, it does not seem to add to our understanding of the land and property market, since Harvey and Chatterjee's economic analysis was based on the premise of competitive markets, and class monopoly rent in their work appeared to be conceptually similar to Marshallian economic rent (Evans 1975; Boddy 1975). But then, as the analysis in this section shows, this was to have been expected, since the concept of monopoly rent in classical economics was an attempt to deal with the same economic problem as the concept of economic rent in Marshallian economics.

II. SITE MONOPOLY

If class monopoly depends upon the idea that landowners have, by definition, a monopoly of land, site monopoly depends upon the idea that the owner of a site has a monopoly with respect to that site because it can be distinguished, if only by a map reference, from all other sites. The basis of this concept of monopoly rent is stated very clearly by Bye (1940). "It is evident that two pieces of land cannot occupy the same fixed space, and that land, unlike other commodities, must be used where it is found. In this sense no plot of land can be duplicated, and its owner might be said to possess a monopoly" (Bye 1940, 11).

If the idea of class monopoly rent seems to have been a feature of classical economics and current in the period between Smith and Marshall, the idea of site monopoly rent seems to be primarily a twentieth century concept, with interest in the concept being initiated by some comments by Chamberlin in *The Theory of Monopolistic Competition* (1933). Despite, or perhaps because, these comments were little more than asides they seem to have been the stimulus for a number of contributions—by Ise (1940), Bye (1940), Anderson (1941), and Spengler (1946); and, later, an exchange between Wendt (1957) and Ratcliffe (1957).

Chamberlin stated that "the rent for any urban site is an expression of the value of the monopoly privilege of providing retail services at that particular location" (1933, 268). He limited the application of the con-

This content downloaded from
149.10.125.20 on Thu, 03 Feb 2022 02:30:53 UTC
All use subject to https://about.jstor.org/terms

cept to urban sites, and urban retail sites in particular. Some justification for this limitation is provided by Bye. Farm lands

> conform to the assumption of pure competition, whereas [retail merchandising sites] are said to display monopoly characteristics. The basis of dissimilarity lies in the effect of location upon the product. Differences in location of various farms do not distinguish their products in the market. Buyers have no preference for a near over a distant seller. The varying location of retail stores, on the other hand, serve to differentiate their products spatially, each affording a convenience for a given group of buyers. Such differentiation constitutes a monopoly element which is the primary factor in the determination of retail merchandising site rent. (Bye 1940, 11–12)

In practice the Chamberlinian distinction between urban retail sites, to which customers travel to buy products, and farm land, from which the products are transported to the customers, seems difficult to sustain, and this quite apart from the no-man's-land to which urban non-retailing sites seem to be assigned. Differences in location matter to farms and farmers just as they matter to shops and shop-keepers. There is a well-developed theory of rural land use dating back to Von Thunen, even to Ricardo, backed by empirical evidence (see, for example, Chisholm 1968), to suggest that farms at different locations pay different rents just as shops at different locations pay different rents. Of course the differences in rent between farms which are near each other are likely to be smaller than the differences in rent between shops which are near each other but the differences exist just the same.

What Chamberlin implies are rents attributable to monopoly are, therefore, rents which elsewhere in the literature are usually described as differential rents. The reference to monopoly merely creates confusion. Moreover Chamberlin makes clear in a later comment that he is in practice talking about differential rents. "The differential remaining, which is due to the superiority of the profit making opportunities afforded by one site as compared to another, is rent, and is put into the hands of landlords by the competition of entrepreneurs for the best opportunities" (1933, 269). If the urban site rents are determined in this manner then they are identical with and the same as differential rents, and no extra monopoly rent exists on top of the basic differential rent.

As Anderson notes, "the term 'monopoly' has not had a consistent usage. In some instances it has been used to imply a position of complete or exclusive control over something; in others it has been used to designate a 'power to control price' " (1941, 341). What seems to happen is that the arguments shift from asserting the first to implying the second. The argument is succinctly stated by Ise:

> Yet our conclusion as to the monopolistic character of urban rent will depend on our conception of the fundamental characteristics of monopoly. If we think of monopoly as control over supply, the urban land owner is a monopolist, to the extent that his site differs from other sites; but so then is the owner of almost every product of nature, for nature emphasises heterogeneity. . . . If we adopt this concept of monopoly, every farm owner is a monopolist, for every farm differs from every other in some respects. . . . But we may say, further, that every man, woman, or child, regardless of abilities, differs from every other, and is therefore also a monopolist . . . .
>
> Such a concept of monopoly has no great social significance, and does not suggest the antisocial character of monopoly. We may well regret that there [is] not . . . an unlimited supply of the best agricultural land and the most favourably located urban sites; but nature and not . . . "monopolists" is responsible for the limitation.
>
> If, on the other hand, we assume that the fundamental characteristic—or shall we say effect?—of monopoly is a restriction of production and an increase in price to the consumer . . . then urban rent has few of the earmarks of monopoly. (Ise 1940, 43)

This confusion in the use of the term monopoly rent still occurs. Very recently

This content downloaded from
149.10.125.20 on Thu, 03 Feb 2022 02:30:53 UTC
All use subject to https://about.jstor.org/terms

Dämpfling (1985) attributed differences usually ascribed to differential rents to monopoly rents.

> The production costs of two dwellings may be absolutely identical, but if one is at a pretty location, the other at a less favoured site, the rents corresponding to the sites will be very different. . . . The rents of the dwellings cannot differ because their production costs differ, but because of a monopoly price, which defines the level of the site monopoly rent. (Dämpfling 1985, 96)

In fact, of course, the differences between the rents at the two locations occur because of competition between buyers for the better site and so would be usually described as differential rents elsewhere in the literature. As has been said, although the owner of a site may have a monopoly over that site, this does not mean that the owner obtains a monopoly rent over and above differential rent, and the use of the term to describe what is in practice the ability to obtain differential rent is misleading.

Why then does the use of the term "monopoly rent" persist? The most important reason, in my view, must be that there is no standard price for a piece of land. The prices of different sites are certainly related as buyers assess the additional benefits or additional costs of one site rather than another. For example, the price of a piece of land may be determined by, say, the amount that buyers are willing to pay for otherwise similar sites a little bit further from or nearer to a market place, but still the price for this particular site is different from the prices of these other sites, being higher than the one and lower than the other. It may be that these differences in price are entirely explained by differences in transport costs, but still the price for this apparently unique site is itself apparently unique. So even if price differences can be explained by the theories based on the original work of Von Thunen and Ricardo, still, to some, it appears reasonable to attribute these rent differences to monopoly, in some sense, rather than to differential rents determined by a competitive process.

There is a second reason which makes this point of view attractive. Those renting out or selling property do not appear to be price takers. They have some of the appearance of price makers. They set prices and are prepared to wait for renters or buyers to accept the prices offered, even if this means that in the mean time the property lies empty. But the property market is an imperfect market, not because of endemic monopoly, but for other reasons. Property is heterogeneous and the property market is characterized by a lack of information. A seller of property sets a price and advertises it. Buyers search through buying opportunities. Negotiation takes place before the sale or lease of a property to agree upon a price. The landlord therefore appears, to some extent at least, to be determining prices. Nevertheless, just as with the labor market where similar imperfections result in different wages being paid by different employers for equal work, the landlord is not a monopolist because an asking price is set initially, any more than a potential employee is a monopolist because he or she has a reservation wage below which work will not be accepted.

III. MARXIAN MONOPOLY RENT

Marx, as one might expect, as a classical economist if for no other reason, attributes all rents to monopoly—"Landed property presupposes that certain persons enjoy the monopoly of disposing of particular portions of the globe as exclusive spheres of their private will to the exclusion of all others" (Marx [1894] 1981, 752). But unlike the earlier classical economists he distinguishes three types of rent—differential rent, absolute rent, and monopoly rent (see Harvey 1973, 179–82). The first of these arises from the differences between locations and pieces of land and is as usually understood. The second of these is not dealt with here, but arises because, on Marx's view, landlords would not let out their land below a certain minimum which he called absolute rent (see Evans 1988). It is the third of these which concerns us here, monopoly rents being the surplus over the other two arising from "an independent

This content downloaded from
149.10.125.20 on Thu, 03 Feb 2022 02:30:53 UTC
All use subject to https://about.jstor.org/terms

monopoly price for the products of the land itself." Marx deals with monopoly rent virtually in a single paragraph in *Capital*.

It is necessary to distinguish whether the rent flows from an independent monopoly price for the products or the land itself, or whether the products are sold at a monopoly price because there is a rent . . . . A vineyard bears a monopoly price if it produces wine which is of quite exceptional quality but can be produced only in a relatively small quantity . . . [The] surplus profit, which in this case flows from a monopoly price, is transformed into rent and accrues in this form to the landowner by virtue of his title to the portion of the earth endowed with these special properties. Here, therefore, the monopoly price creates the rent. Conversely the rent would create the monopoly price if corn were sold not only above its price of production but also above its value, as a result of the barrier that landed property opposes against the rent-free investment of capital on untilled land. (Marx, [1894] 1981, 910)

Here Marx distinguishes monopoly rent (which flows from an independent monopoly price for the products or the land itself) from absolute rent, to which the last sentence of the quotation refers.

The idea that monopoly rents may occur in certain situations, in particular in the case of vineyards, also appears in Daniel Buchanan's classic article analyzing and rewriting the Ricardian and marginalist traditions in the theory of land rent. In a footnote he comments that "there are exceptional cases in which land is so peculiarly fitted by nature for one product, such as grapes, that it has no practical alternative . . . . In such a case an agent may be forced to accept a very small return (for instance, grape land in a world gone prohibition) or it may get very much, a monopoly rent" (Buchanan [1929] 1957, 634).

Now whereas the previous two concepts of monopoly rent that have been discussed do not seem very useful, the ideas they represent being subsumed by the concepts of economic rent and differential rent, this concept of monopoly rent does represent an additional mode of economic analysis of land rent. It implies that, over and above differential (and absolute) rents, some landlords may also obtain monopoly rents. This situation may arise if the product or service derived from a few sites may only be obtained from those sites and so the owner of the site has a monopoly over the provision of the product or service by virtue of his ownership of the site. Furthermore if the landlord lets the site to a tenant, it follows that the tenant acquires a monopoly of the sale of the product, and so the landlord can ask a higher rent than he otherwise could, that is a monopoly rent can be obtained over and above the normal differential rent. Moreover if the land is let to several tenants, the landlord can impose conditions on their use of their sites to ensure that, although the rent of any single tenant may be lower than it otherwise might be, the total rent derived from the land is higher because of his monopolistic behavior.

In the next section the standard, partial equilibrium theory of monopoly is used to show that monopoly rents may exist. The extent to which they actually do exist then becomes a question to be decided on the basis of empirical evidence. It is suggested that there is evidence that they do exist, although their importance is likely to be small. It is recognized that some may object to the use of neoclassical methods for the analysis of a concept which is admitted to appear first in Marxian economics. Perhaps, for them, the concept should be regarded as being reinterpreted within the context of the neoclassical paradigm. There seems no reason why the paradigms should be totally separate; dialogue should be to the benefit of both.

IV. THE ECONOMIC THEORY OF MONOPOLY RENT

In interpreting the concept of monopoly rent we shall assume initially that a product is produced from an area of ground owned by a single landowner (or, of course, a cartel). We assume, for ease of exposition, that it is a vineyard, that Chateau Alpha wine can be produced from the vines in this vineyard, and that the quantity of wine produced is a linear function of the amount of

This content downloaded from
149.10.125.20 on Thu, 03 Feb 2022 02:30:53 UTC
All use subject to https://about.jstor.org/terms

land set aside for producing Chateau Alpha. This wine can be distinguished from other wines. The demand curve for Chateau Alpha is downward sloping and the price which can be obtained for it is higher if less is produced.[1] Since the landowner/producer faces a downward sloping demand curve it is clear that monopolistic behavior is possible. The output of wine could be restricted to increase total revenue. Whether this is worthwhile depends on other conditions. We shall analyze two cases, called, following Buchanan, the Ricardian and the marginalist cases.

The Ricardian Case

In the Ricardian case the land on which the vines grow has no alternative use. This appears to be the situation envisaged by Buchanan in the quotation above—"land is so peculiarly fitted by nature for one product, such as grapes, that is has no practical alternative." Now in some circumstances, in this Ricardian case, the existence of a downward sloping demand curve may make no difference, so that the rent charged is the same as if the land were owned by a large number of competing landlords. This is illustrated in Figure 1, OQ is the amount of land available for growing Chateau Alpha and it has no other use. The landlord faces a downward sloping demand curve for the land, DD' since the less wine is produced, the higher the price and the higher the rent that a tenant might pay. In order to maximize his total income the landlord must set marginal revenue equal to marginal cost.

Marginal revenue is indicated by the line DR. But marginal cost is zero as long as less than OQ is used and becomes infinite if OQ is used, since initially there is no additional cost involved in leasing out more land and, then, after OQ has been let, there is no further land available for this purpose. The marginal cost curve is therefore horizontal along OQ and vertical along QC. In the case illustrated in Figure 1 the marginal revenue curve intersects the vertical section of the marginal cost curve. This means that the landlord maximizes total income

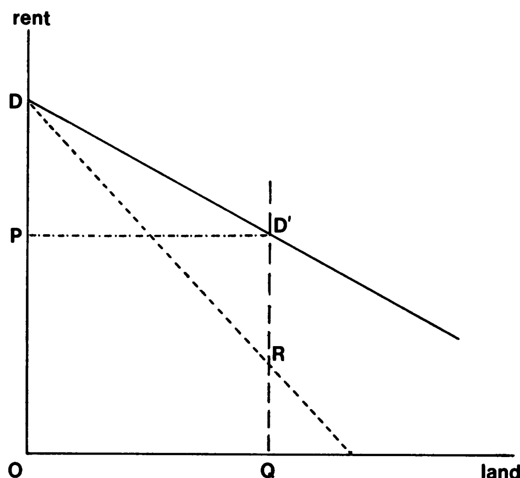

FIGURE 1

by leasing out all the land available for the production of Chateau Alpha and in turn this means that the rent charged, OP, is the same as if there were no monopoly. There is in fact only differential rent. If the land OQ were owned by a very large number of landlords and let to a large number of tenants, the price and quantity let would be that indicated by the intersection of the demand curve, DD', and the supply curve, which is the vertical line QC, and this would be OP and OQ respectively, the same as in the "monopoly" case.

This is not necessarily true, however, and the second possibility is illustrated in Figure 2. In this case the marginal revenue curve, DR, intersects the horizontal section of the marginal cost curve at Q_1. The landlord can therefore maximize income by only allowing OQ_1 to be cultivated and leaving Q_1Q vacant. The rent per unit is then OP_1 which is higher than the competitive rent OP. PP_1 is therefore monopoly rent but it should be noted that this exaggerates the landlord's monopoly profits be-

[1] It might as well be remarked here that in the ensuing discussion I am not alleging that this is how the producers of high quality, Appelation Controlée wines do operate, only that this is how they could operate. Whether they actually operate in the manner suggested would make an interesting topic for research by a French Ph.D. student.

This content downloaded from
149.10.125.20 on Thu, 03 Feb 2022 02:30:53 UTC
All use subject to https://about.jstor.org/terms

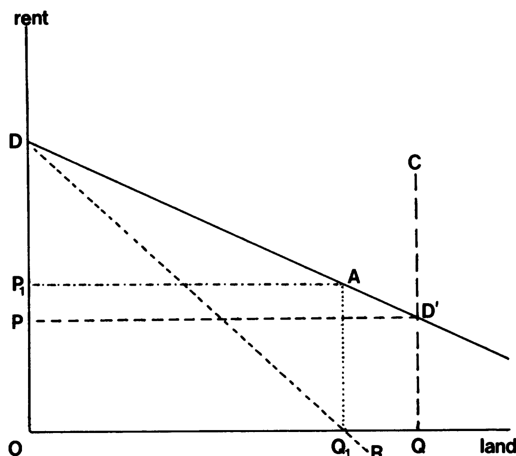

FIGURE 2

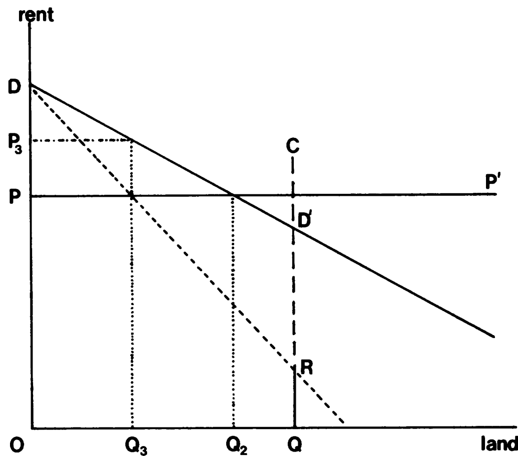

FIGURE 3

cause Q_1Q is left vacant so the differential rent on this, *OP*, is lost to the landlord. The welfare loss to society is slightly greater than this by the amount of the consumer surplus which would have arisen on the lost production. The total welfare loss is therefore the trapezium AQ_1QD' in Figure 2.

Despite the fact that it is theoretically possible that land could be left vacant to increase the rent obtained for the rest, it is rare, to put it no more strongly, to see land being deliberately left vacant and held off the market in order to ensure a higher rent on the land which is let out. Of course land is left vacant for speculative reasons or because of uncertainty about the future but not, so far as can be seen, for monopolistic reasons. But of course the Ricardian case requires that the land area has no alternative use, and this assumption is extremely unrealistic. It invariably does have an alternative use, and in that case, as we shall show, land will not be left vacant.

The Marginalist or Neoclassical Case

In what we may call, following Buchanan ([1929] 1957), the marginalist case, the land has some alternative use. For example, the land owned by the landlord may be used to produce Chateau Alpha, but also vin ordinaire or cabbages can be produced on the land as is done in adjacent holdings.

In Figure 3 the landlord owns *OQ* hectares of land and this land and the adjacent land, can be used to produce, say, cabbages and yield a rent *OP*. As before, the demand curve for land to produce Chateau Alpha is indicated by the downward sloping demand curve *DD'*. If the land area were owned by a number of land owners, competition for sites would result in the rent for land used to produce Chateau Alpha falling to *OP* so that all the land would be let at the same rent whatever its use. In that event OQ_2 would be used to produce Chateau Alpha and the remainder used to produce something else.

If the landowner acts monopolistically, however, revenue is once again maximized by setting marginal revenue equal to marginal cost. Marginal cost is now the opportunity cost of not using the land for Chateau Alpha, namely the rent which would be obtained in some other use. So the amount of land used for Chateau Alpha is set as OQ_3, by the point of intersection of the marginal revenue curve and the horizontal line indicating the rent obtained in some other activity. The landowner gains a monopoly rent of PP_3 from land which is rented out for the production of Chateau Alpha, and on the balance of his holding, where a lower rent is charged, it must be a condition of the lease that that land cannot be used for producing Chateau Alpha.

This content downloaded from
149.10.125.20 on Thu, 03 Feb 2022 02:30:53 UTC
All use subject to https://about.jstor.org/terms

Discriminating Monopoly

Cases different from those discussed above are possible, but only one is considered here.[2] Wines from one part of the estate are designated Chateau Alpha and those from another part are designated Chateau Beta. The demand curves of each are both downward sloping but otherwise differ. The position is as shown in Figure 4.

If the land were owned by competing land owners and occupied by competing tenants the rent would be indicated by the intersection of the demand curves for the two uses. If the amount of land is OQ and no other use is considered, then the equilibrium rent would be OP_E in either use and OQ_E would be used for Alpha and Q_EQ for Beta. If the land is owned by a single landlord who can act monopolistically then the rent of land to produce Alpha would be OP_A and OQ_{AB} would be used. So the rent for Alpha would be higher and the amount produced less. Conversely the rent for Beta would be lower at QP_B and $Q_{AB}Q$ would be used for producing Beta so that more would be produced. Less is produced of the wine with the relatively inelastic demand. A system of control would, of course, have to allow the landlord to ensure that Chateau Beta land is not labelled as Chateau Alpha. In this instance it may be noted that although the landlord acts monopolistically the rent for Beta is lower. A positive monopoly rent for Alpha is partially compensated by a negative monopoly rent for Beta.

V. MONOPOLY RENTS IN PRACTICE

The analysis above demonstrates that monopoly rents are possible, and that they can result in a welfare loss. The question remains open as to whether they exist in practice and are empirically important, or whether, like Giffen goods and reswitching, they are theoretical constructs rarely, if ever, observed in practice.

In this paper, vineyards producing fine wines have been used to exemplify the argument. Marx and Buchanan drew their examples from the same industry. What has been demonstrated so far is that it is theoretically possible that monopoly rents might exist in the wine industry. Whether or not they actually exist would be a matter of empirical investigation. They probably do; such an investigation would probably find evidence of monopoly rents. But even so the making of wines is an important industry in relatively few countries in the world and the making of fine wines is important in only one or two. Can and do monopoly rents exist in other industries?

One has to be careful here to distinguish monopoly rents from increases in profits which occur because of more "normal" kinds of monopoly. For example a cartel which controlled the output of all or most of the world's diamond mines or oil fields would be able to ensure higher profits to the owners of sites producing these minerals, and any landowners who owned sites which were leased to producers could extract higher rents. Since the landowners are not apparently behaving monopolistically, merely, as usual, selling to the highest bidder, this author does not wish to argue that they are taking monopoly rents but he recognizes that others may take the alternative view. For example, Graziadei (1934) has a chapter on monopoly rent which relates to precisely this kind of problem—the monopolization of sites at which minerals are produced.

Again, if planning authorities restrict the availability of sites for particular kinds of land use, and this results in the prices and rents of these sites being higher than they otherwise would be, the author would not wish to argue that these higher rents are monopoly rents. On the other hand, if particular land owners operate through the political process to ensure that competitive land uses are not allowed permission for development by the planning authorities, then the resulting higher rents certainly would be monopoly rents. In this he would

[2] Two such possibilities result from a mix of the Ricardian and marginalist cases when the horizontal price line PP' cuts the line QC between D' and R or between R and Q in Figure 3.

This content downloaded from
149.10.125.20 on Thu, 03 Feb 2022 02:30:53 UTC
All use subject to https://about.jstor.org/terms

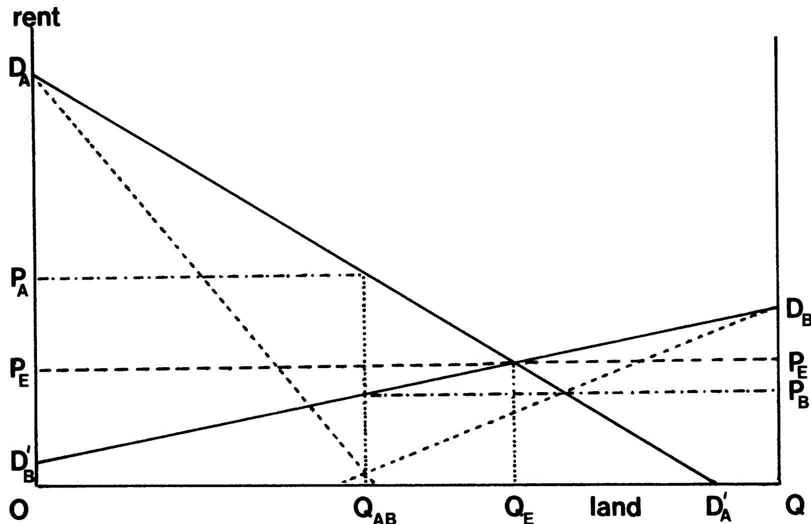

FIGURE 4

agree with Harvey (1973, 192) that "the planner in southeast England and the zoning boards in the New York metropolitan region have alike helped to create further opportunities for extracting monopoly rents." It is sometimes alleged, for example, that part of the reluctance of British planning authorities to sanction "out of town" retail developments stems from the political power of the town center shopkeepers, although, or course, good planning reasons are adduced to justify this reluctance.

If monopoly rents exist, the evidence would be that a single landlord charged a higher rent for one site than for another which was otherwise indistinguishable. Or, to put it another way, a single landowner would charge different rents for sites whereas, if the sites were owned by different landowners, competition would ensure that the same rents were charged.

A modern example of a situation where monopoly rents do seem to be charged is the purpose built shopping center.[3] These properties are usually owned or operated by a single landlord, and the characteristics of these shopping centers—a covered shopping mall surrounded by car parking—means that shops outside the perimeter are not competing on equal terms with shops within the mall. The landlord can therefore charge different rents to different tenants for otherwise indistinguishable sites where competition would otherwise ensure equality. The rents charged can therefore depend on the characteristics of the users. There appear to be two ways in which landlords can act monopolistically.

Firstly a low rent may be asked of a prestigious multiple chain store such as Marks and Spencer in order to encourage the firm to take up space on the site, so that the assurance that customers will visit the center increases its attractiveness to other retailers to whom higher rents can then be charged. There is certainly evidence that this occurs. Indeed a British newspaper recently reported that not only were lower rents paid to some firms, but premiums might even be paid.

> Marks and Spencer is reaping multi-million pound rewards by way of cash fees from its "anchor tenant" role in new regional retail developments.
>
> M & S has received a substantial cash fee to guarantee its role as the star attraction tenant

[3]This idea was suggested by James Watson, a student of Land Management at Reading, now with Lovell Homes Ltd.

This content downloaded from
149.10.125.20 on Thu, 03 Feb 2022 02:30:53 UTC
All use subject to https://about.jstor.org/terms

over three years in the £250 million Meadows Hall development in Sheffield. The fee will be taken into the profit and loss account over a three-year period. This is a common practice in America and increasingly in the UK where such major retailers as Burton Group, for example, are offered by the developer what is known as a "premium" to act as a magnet for smaller retailers in the new development. The traditional practice of offering anchor tenants discounted and deferred rents is less attractive now that rents are softening. (*The Observer*, June 4th, 1989, 57)

So different rents certainly are charged to different tenants at otherwise indistinguishable locations in new retail developments where all the sites are owned by a single landowner. If all the sites were in different ownerships, competition would ensure that rents were equalized. Certainly in a normal town center shopping area the owner of the site on which Marks and Spencer is located has no incentive to charge the firm a lower rent because the firm's presence would ensure more trade in nearby shops. These rent differences are not conclusive evidence of the existence of monopoly rents, however. They might arise because of the "internalization of externalities" and might therefore remove a market imperfection rather than create one.

The second example of what would seem to be evidence of the existence of monopolistic behavior is therefore rather more conclusive. As we have shown, a discriminating monopolist would discriminate between land uses on the basis of the elasticities of demand of their products or services. So we should expect the owner of a "planned" retail development to restrict the number of sites let to uses for which the demand is inelastic, whilst increasing the amount of space let to uses for which the demand is elastic.

For example, the number of drug stores or pharmacies could be restricted since the demand is inelastic, and a high rent could therefore be charged. The space so released could be used for, say, more women's clothing shops. An increase in the number of the latter is likely to increase the number of people visiting the center. An increase in the number of drug stores would not do so—existing trade will be simply divided between them.

A recent study by West, Von Hohenbalken, and Kroner (1985) demonstrated that there was a statistically significant difference (at the one percent level) between the types of stores in planned malls and in unplanned centers of a similar size. The malls had fewer drug stores, beauty and barber shops, dry cleaners, petrol stations, and banks. They had more clothing stores, of all kinds, shoe shops, and jewellers. So the results of this study provide evidence that the owners of planned retail developments do let out space in a way which implies that they are extracting monopoly rents.

VI. CONCLUSIONS

This paper has shown, firstly, that the use of the term monopoly to describe the landlord's power to control the use of land which he or she owns has a very long history. The term was often used to refer to the ownership of all land by the landowning class, so that all rents were monopoly rents. This usage died out with the advent of the neoclassical synthesis, but the idea of rent as a return to monopoly reappeared in the 1930s with the increase in interest in aspects of imperfect competition at that time. In this usage the owner of an urban, usually retail, site was regarded as having monopoly power over the site so that the rent was a monopoly rent. This idea seems to have disappeared faced with the argument that the landlord did not appear to be able to act monopolistically by restricting supply and charging higher rents but merely accepted the rent determined by the competition for sites. The working out of the theory of urban land use from the 1960s on further reduced the force of this view. The supposed "monopoly rents" were shown to be differential rents.

The paper has shown, secondly, however, that, as suggested by Marx, monopoly rents may exist, over and above differ-

This content downloaded from 149.10.125.20 on Thu, 03 Feb 2022 02:30:53 UTC
All use subject to https://about.jstor.org/terms

ential rents. These monopoly rents may be obtained by the landlord if there is a downward sloping demand curve for the use or uses of the land. Finally we have shown that there is evidence that monopoly rents do exist, in planned shopping centers, at least.

References

Those references marked with an asterisk are not referred to in the text but have been found to contain some comment on the subject of monopoly rent and so are included here for the sake of completeness.

Anderson, T. J. 1941. "Competition and Monopoly in Land Markets." *American Economic Review* 31 (June):341–43.

*Ball, M., V. Bentivegna, M. Edwards, and M. Folin. 1985. *Land Rent, Housing and Urban Planning: A European Perspective*. London: Croom Helm.

Boddy, M. J. 1975. "Theories of Residential Location or Castles in the Air?" *Environment and Planning A*. 7 (2):109–13.

Buchanan, Daniel H. [1929] 1957. "The Historical Approach to Rent and Price Theory." *Economica* 9 (June):123–55. Reprinted in *Readings in the Theory of Income Distribution*, ed. W. Fellner and B. F. Haley. London: Allen and Unwin.

Bye, Carl R. 1940. *Developments and Issues in the Theory of Rent*. New York: Columbia University Press.

Cardozo, Jacob Newton. [1826] 1960. *Notes on Political Economy*. Reprints of Economic Classics. New York: Augustus M. Kelley.

Chamberlin, E. H. 1933. *The Theory of Monopolistic Competition*. Cambridge: Harvard University Press.

Chisholm, Michael. 1968. *Rural Settlement and Land Use*. 2d ed. London: Hutchinson.

Dämpfling, Bjorn. 1985. *Die Marxste Theorie der Grundrente: Eine Kritische Studie*. Hamburg: VSA Verlag.

Evans, Alan W. 1975. "Theories of Residential Location or Castles in the Air? Reply." *Environment and Planning A*. 7 (5):601–03.

———. 1988. "On Absolute Rent." University of Reading, Department of Economics Discussion Paper in Urban and Regional Economics, Series C, No 36.

Gide, Charles. 1924. *Principles of Political Economy*. 7th ed., trans. E. F. Row. London: Harrap.

Graziadei, Antonio. 1934. *La Rente de la Terre: Critiques aux Théories de Marx*. Paris: Editions Rieder.

*Guigou, J. L. 1982. *Les Rentes Foncière: Les Théories et leur Évolution Depuis 1650*. Paris: Economica.

Harvey, D. 1973. *Social Justice and the City*. London: Edward Arnold.

———. 1974. "Class-Monopoly Rent, Finance Capital and the Urban Revolution." *Regional Studies* 8 (Nov.):239–55.

Harvey, D., and L. Chatterjee (1974). "Absolute Rent and the Structuring of Space by Financial and Governmental Institutions." *Antipode* 6 (1):22–36.

Hobson, J. A. 1891. "The Element of Monopoly in Prices." *Quarterly Journal of Economics* 6 (Oct.):1–24.

Ise, J. 1940. "Monopoly Elements in Rent." *American Economic Review* 30 (Mar.):33–45.

*Keiper, Joseph S., Ernest Kurnow, Clifford D. Clark, and Harvey H. Segal, 1961. *Theory and Measurement of Rent*. Philadelphia: Chilton Co.

Marx, Karl. [1894] 1981. *Capital*. Vol. 3. London: Penguin Books in association with New Left Review.

Mill, John Stuart. [1871] 1924. *Principles of Political Economy*. 7th ed. London: Harrap.

*Oppenheimer, Franz. 1908. *Rodbertus' Angriff auf Ricardos Renten-Theorie und der Lexis-Diehl'sche Mettungsversuch*. Berlin: Georg Reimer.

*Persky, J., and W. D. White. 1988. "A Rather Neoclassical Contribution to Marxian Rent Theory." *Land Economics* 84 (May):196–98.

Ratcliff, R. U. 1957. "Commentary: On Wendt's Theory of Land Values." *Land Economics* 33 (Nov.):360–62.

Samsonoff, B. 1912. *Esquisse d'une Théorie Générale de la Rente*. Lausanne: F. Rouge et Cie.

Say, J. B. 1861. *Traité d'Economie Politique*. 7th ed. Paris: Guillaumin et Cie.

*Schiele, G. W. 1906. *Über den Natürlichen Ursprung der Kategorien Rente, Zins und Arbeitslohn*. Berlin: Hüpeden und Merzyn Verlag.

*Scott, Allen J. 1976. "Land and Land Rent: An Interpretative Review of the French Literature." *Progress in Geography* 9:102–45. London: Edward Arnold.

Senior, Nassau. [1872] 1938. *An Outline of the Science of Political Economy*. The Library of

This content downloaded from
149.10.125.20 on Thu, 03 Feb 2022 02:30:53 UTC
All use subject to https://about.jstor.org/terms

Economics. London: George Allen and Unwin.

Smith, Adam. [1776] 1910. *The Wealth of Nations*. Vol. 1. London/New York: Everyman Edition, Dent/Dutton.

Spengler, J. J. 1946. "Monopolistic Competition and the Use and Price of Urban Land Service." *Journal of Political Economy* 54 (Oct.):385–412.

*Trautmann, Urs. 1968. *Der Entwicklung der Rententheorie*. Zurich: Juris Druck und Verlag.

Wendt, P. F. 1957. "Theory of Urban Land Values." *Land Economics* 33 (Aug.):228–40.

West, D. S., B. Von Hohenbalken, and K. Kroner. 1985. "Tests of Intraurban Central Place Theories." *Economic Journal* 95 (Mar.): 101–17.

This content downloaded from
149.10.125.20 on Thu, 03 Feb 2022 02:30:53 UTC
All use subject to https://about.jstor.org/terms