CHAPTER XI

DISTRIBUTION: RENT

1. Distribution Defined.—We have already observed how present day production requires the combined utilization of all the four factors of production, and how each of these must be assured of some reward or return in order to induce its participation in economic activities. Logically speaking, the wealth produced as a result of the combination of these four factors must be broken up and returned to them in certain proportions. The process of dividing the product of industry between the contributing factors is what is called in economic science "distribution," and is one of the primary divisions of the subject. In this sense, distribution should be clearly distinguished from the process by which the material wealth itself is actually conveyed to the ultimate consumers. This process is also commonly called "distribution" but is an entirely different matter. In the economic sense distribution takes place not by the actual subdivisions of the product itself, but by means of money.

In the preceding discussions, we have spoken of the reward of land, labor, capital and organization, as if those four factors were entities themselves and the return was actually paid to them. These factors are merely forces and, when it comes to payment, are represented by or embodied in certain individuals. The principle of ownership is always present. The return to land goes to the owner of the land; the return to capital goes to the owner of the capital; the return to labor goes to the laborer; and the return to organization goes to the man whose initiative, daring and intelligence developed the business.

In the case of the simplest productive unit, where all four factors are embodied in the same person, the matter of distribution is purely one of academic or theoretical interest. As long as rent, wages, interest and profits all come to the same individual, he does not care what proportion is assigned to the specific factors. But just as soon as two or more persons cooperate in a productive enterprise, the matter of distribution becomes a practical one; and when, as in most modern industries, the four factors are represented by large groups of individuals, the problem of distribution becomes one of the great questions of our economic system. From the point of view of material well-being, nothing is of greater importance to a producer than the question as to what share of the product which he has helped to create shall be assigned to the factor he represents and in which his interest lies. This is one of the great outstanding examples of naturally conflicting interests, which must be harmonized if society is to remain on anything like a stable basis.

2. Present Principles of Distribution.—In studying the laws of distribution it is important to note at the outset that there are two classes of principles which might be considered. The first includes those which state how the product actually is distributed at any given time in any given society. The second includes a statement of how the product ought to be distributed on the basis of some assumed principles of right or abstract justice. Obviously the former are much easier to reduce to definite terms than the latter. A difference of opinion as to how closely these two classes of principles harmonize, under-lies most of the present economic conflicts. It is easy to see how each group of producers may feel that the actual distribution does not correspond to the principles of abstract justice, and may demand a modification to suit these principles. And since principles of abstract right are difficult if not absolutely impossible of demonstration, there is room here for an unlimited difference of opinion. The first step is to understand the principles upon which actual distribution now takes place.

From the point of view of distribution, the underlying fact in our whole economic system is that the product belongs wholly to the enterpriser. The word " belong " is here used to represent legal ownership. This is one of those common facts so generally taken for granted that we fail to appreciate their full significance. Its constant recognition aids in understanding the present industrial situation.

The enterpriser, as already defined, is the man who undertakes the responsibilities of ownership and risk. The ownership of the business under our present institutions necessarily involves the ownership of the product, and the assumption of risk equally involves the right and the obligation to make final disposition of the product. In the last analysis it is the enterpriser who pays for the use of land, capital and labor. The assumption is that he pays for them out of the product, and in practice this is virtually true. At the same time, the enterpriser is morally and legally bound to pay wages, rent and interest, whether or not there is any product at all. The assumption is that he has resources, apart from the product of the enterprise, to serve as a guarantee to those who supply the land, labor and capital that he will make the stipulated returns. When this is not the case, these three factors or one or two of them, must inevitably share in the risks of the enterprise and to that extent are part enterprisers. In strict economic analysis rent, wages and interest imply a certainty of return.

3. How Rent is Determined.—The first task is to examine the principles which determine the portion of a product returned for the use of land. The first principle to set down is the absolutely limited quantity of land. This has already been sufficiently discussed. Secondly, it is necessary to distinguish the different uses to which land may be put. The first distinction is between land which is rented for what can be got out of it, and land rented for what can be put on it. In the first class is included all land used for extractive production. Under land used for extractive purposes we may further distinguish those types in which the extractive process ultimately destroys the value of the land, and those in which its value remains unimpaired or relatively so. The first kind includes mining lands of all kinds and timber lands as customarily exploited in this country. The second consists of agricultural and grazing lands and also fishing grounds.

Some of the older definitions of rent describe it as payment for the use of the natural and inalienable qualities of the land, but the distinction is not absolute. Even the richest agricultural land may be exhausted by improper cultivation. Some of its qualities are not inalienable, but must be replaced continuously if the utility of the land is not to be impaired. The distinction, therefore, between the rent of agricultural and mining land is really whether or not the qualities destroyed by use are such as can be practically replaced.

In the case of mining lands, it is clear that the qualities for which the land is rented cannot be replaced when once removed. This fact puts mining land in a class entirely by itself. The acquisition of rights to the use of mining land is much more like the purchase of a physical commodity than it is of the rental of a piece of land. The laws of the rent of mining land are therefore entirely different from those of agricultural or grazing land. The owner of mining land makes an estimate of the total amount of the wealth stored there which the renter is likely to extract during the period covered by the lease, and charges him for it accordingly. It is really a bargain based upon the estimates of the two parties as to the amount of wealth which can be taken out of the land in a given time. The principles underlying the rent of agricultural, grazing and fishing land are entirely different.

A further principle to observe in the matter of rent is that since land of these different sorts varies in quality, some having more utility for its purpose than others, the desirability of different pieces of land varies to an indefinite degree. Finally, it is to be observed that the laws of rent are entirely dependent upon the rights of land ownership which prevail in any society.

4. Fundamental Considerations.—The principles of rent are most easily understood in the case of agricultural land. It is best to commence with conditions where land is so abundant that some of it is free for the taking. Such a situation existed in North America in the early colonial days, and in certain sections of the United States down to the present time. Let us suppose, then, a newly established settlement in a newly discovered fertile land. The settlers are men of a high grade of intelligence and familiar with the arts of agriculture.

Their number is limited and the extent of land at their command seems unbounded. Communications exist with an older country by means of which they can dispose of the products of the soil. Let us assume further that the land is fit primarily for agriculture.

One of the first steps of social organization taken by such a group of men would be to establish certain regulations with reference to property in land. On account of the great abundance of the land these terms will be exceedingly liberal. The actual acquisition of title to a piece of land will involve no expenditure of money, or at most merely a nominal sum. The laws of land ownership will simply stipulate the amount of land which an individual can acquire in his own right, and the legal steps by which the title is secured. Under these conditions the original settlers will naturally take possession of the best pieces of land first. Many different factors enter into the determination of what is the best land, such as nearness to the shipping port, beauty of the landscape, proximity to church or school, etc. But the fundamental and really determining factor is the productivity of the soil itself.

Within a very short time after settlement, each family will have secured the ownership of a piece of land sufficiently large to maintain it and ordinarily no larger than the family itself can cultivate, for it should be noted that in a society of this kind there will be practically no wage labor class. Nobody will want to work for wages for any one else when he can go out and get a piece of land for himself without cost. Furthermore, the tax on land, which is certain to be laid, will make it unprofitable to own more land than can be cultivated.

5. Owning vs. Renting Land.—Now suppose two new settlers come to this society bringing a small amount of cash and desiring to make their living by agriculture. To do this they must necessarily have a piece of land. They look about them to find suitable plots and discover that all the best land has already been appropriated and is owned by different individuals. This is somewhat of a disappointment to them, but the situation cannot be changed. Two alternatives are open: the first, to content themselves with the somewhat inferior land to which they can secure title; the second, to persuade one of the owners of the better land to let them use his land. One of these new settlers, whom we will call Jones, chooses the former alternative. He says in effect, "I want to own my own farm. I am sorry that I cannot have one of the very best pieces of land. After all it is fair enough that these men who incurred the risks and dangers of starting this settlement should have the first choice. I will take the best of what is left." He thereupon proceeds to acquire a title to the best unappropriated piece of land.

The second man, Brown, says to himself, "I am not willing to work on any except the very best land. I am an expert farmer and I can get my best results only under the most favorable conditions. I will see whether I cannot find some one who will lease me one of the finest pieces of land." He thereupon proceeds to make inquiries among the settlers and eventually finds a man who has had some training as a physician, and who has been considering a return to that profession in response to a growing demand in the community. This man, Smith, consents to transfer the use of his land to Brown, but naturally will not do so without some compensation. The question is, how much will he demand and how much will Brown be willing to pay?

Allowing for human nature, it is a fair assumption that Smith will demand all he can get, so that the practical question is how much will Brown be willing to pay for the use of the best land, rather than take up a piece of the second best land for his own. An agreement is finally reached whereby Brown agrees to pay a certain sum for the use of Smith's land for one year. This sum is what we call "rent," and it tends to be fixed at approximately the difference between what Brown expects to get from Smith's land and what he would probably be able to produce from a piece of land of the next grade. For the simplicity of the illustration it is desirable to ignore other factors which might enter in, such as the pride of ownership, the expectation of the increase in land values and the like, etc.

6. Rent the Price of Use of Land.—To put the definition in formal shape, rent is the price paid for the use of a piece of land. The negotiation is just as much a bargain as if it were the purchasing of a hat or an automobile. The difference is that in the case of rent, the *use* of a piece of wealth for a given time is purchased rather than the wealth itself. The amount of rent tends to be fixed at the difference in productivity between the piece of land rented and the best available piece of free land. The transaction between Brown and Smith has introduced the factor of rent into this new community. Smith has now become a capitalist. His future income will be in part wages for his personal services as a physician and in part rent on his land. Just as soon as this takes place, every other holder of a piece of land of the same quality as Smith's must begin to credit a part of his income to rent, even tho he continues to cultivate the land himself. In the case of each piece of land of the same size and quality as Smith's this bookkeeping rent will be equivalent to the sum actually paid to Smith by Brown.

Furthermore, strange as it may seem, even tho Brown had eventually decided not to rent Smith's land, but to follow Jones's example and take a piece of land of his own, every holder of a piece of first grade land would still have been compelled to credit a part of his income to rent. Without an actual bargain, it would have been impossible to state this rent in terms of money. Theoretically it would have been the sum at which Brown might have been induced to rent Smith's land. In a general way, accordingly, it may be said that rent appears as a factor in income as soon as land of any but the first grade actually passes under cultivation.[1] It is the sum at which some individual might be persuaded to buy the use of some one else's land instead of using an inferior grade of his own.

7. The Cause of Rent Increases.—Now suppose that this process goes on thru the coming of other settlers until all the second grade land has been taken. New settlers will have to choose between free land of the third grade or rented land of the first or second grades. When this takes place, Jones and all other holders of second grade land will begin to receive rent whether they continue to use the land themselves or sell the use to some one else. As for Brown, he will find that he must pay an increased rent to Smith if he is to continue to use Smith's land. His rent will now be, not the difference in productivity between Smith's land and Jones's, but between Smith's land and the poorest land under culti-

[1] Of course real land is seldom divided into sharply defined grades, but the principle is the same.

vation, or that which has been considered for cultivation. In general terms, the rent of land increases every time it becomes necessary to bring a poorer grade of land into cultivation, and this increase in rent affects every grade of land above the lowest. Rent is accordingly the outcome of the growth of society on a limited land surface of varying qualities.

Out of this simple illustration several questions arise. The first is, how can Brown continue to make a living if he has to pay a larger and larger rental year after year for the use of Smith's land when the assumption is that at the beginning he was not making much more than a fair living? The answer is that because the growth of society has necessitated the use of poorer land, it has also enhanced the value of agricultural products. The increasing division of labor, the enlarged use of capital and all the changes that accompany a growing society mean that Brown's income will tend to rise sufficiently to offset any increase in his rent.

The next question is, how is rent to be determined after the land has been entirely appropriated and there is no more free land to be had by newcomers? It might seem that rent would stop rising under these conditions, but when we look at Europe, where there has been no free land for centuries and where rents, tho very high, are still rising, we realize that this is not the case. Rent does not cease rising when free land is exhausted, but it is more difficult to explain the basis on which the rise takes place. The principle to be borne in mind is that rent always represents the difference, in the mind of some individual who has to make his living, between the income which he expects to secure by buying the use of a piece of land and the income which he may expect from other avenues open to him. In the foregoing illustration, the alternative considered was taking up a piece of free land. Other opportunities, however, are always present, and become the determining factors when the free land is gone.

8. Effect of Population on Available Land.—In societies where all the free land is taken up, there are three chief possibilities open. The first is to go to some other region where land is free or where rentals are lower, that is, to emigrate. The second is to go into some occupation which does not involve the use of land. The third is to sell one's labor on a wage basis to some one who owns a piece of land. All these expedients are constantly in operation the world over and tend to fix limits to the increase in rent. The emigration movement is one of the most remarkable phenomena of modern times, as will be described later. Tens of millions of people have left home and fatherland as an alternative of facing conditions resulting from the complete appropriation of land. Even larger numbers have adopted the second expedient of taking up occupations not directly dependent upon the use of land. Statistics of population in all countries of western civilization show that a steady declining proportion of workers are engaged in agricultural pursuits.

The third expedient is also adopted by great numbers of people, as is shown by the size of the agricultural wage-labor group in practically all the countries of the world. In fact, in societies where industry is not highly developed, this is about the only way open for those individuals whose natural talents, experience and training restrict them within a narrow sphere.

Rent is, therefore, the direct resultant of the increase of population and the limitation of land. As pointed out at the beginning of the discussion, the legal terms of property in land are always a conditioning factor. If, in the settlement previously described, the land had all belonged to some powerful individual or company—as was the case originally in some North American colonies —and if this company had refused to sell, there would have been no question of land ownership for the settlers. They would have been forced either to become wage workers on the land or to make the best terms possible with the landlord for the use of sections of his land. If, on the other hand, the community had refused to alienate any land at all, but had retained all property in land as a state right, the question of the use of land would have been one of government regulation.

9. **Unearned Increment.**—The increase in rent, which comes to the owner of land without effort on his part but merely thru the ownership of land in a growing society, is called an "unearned increment." Probably more private fortunes in the United States are due to this unearned increment than to any other single source. In the minds of many people there is a distinct injustice in the very nature of an unearned increment. It seems quite unwarranted that an individual should be permitted to grow wealthy without a stroke of work on his part, simply because at an early period he acquired from the state the title to certain pieces of land. It is claimed that this increase in income, which is the product of the growth and manifold activities of society, should revert to society itself.

This is the central doctrine of the economic school known as the "Single Taxers." The question is a complicated one which need not be discussed here. There is much logic in the argument, but in its practical application there are many difficulties. The foremost is that very little land at the present time is in the possession of those who first secured the title from the state, but of purchasers who have discounted the unearned increment as a part of the purchase price which they were willing to pay. To deprive such holders of their property would amount practically to confiscation and would involve an injustice greater than the one which it is sought to remedy.

The laws of rent of other forms of land used for extractive purposes are similar to those of agricultural land. In the case of grazing land there is almost no exhaustion of the soil if properly utilized. Partly for this reason grazing lands have frequently been held in common and are among the last types of land to be alienated.

10. Rent Determined by Location.—Turning now to the second great type of land, that which has desirability not on account of what can be got out of it but what can be put on it, we find that the chief differences in the laws of rent are simply the result of the different elements of desirability themselves. Lands of this kind include office and store sites, lands for residence purposes and for the location of factories and other productive plants. For these purposes (except in the cases of residence lawns) the fertility of the soil is of no consequence. Desirability depends almost entirely upon site or location. With these modifications the laws are essentially the same as those of extractive land.

The amount of rental which a man is willing to pay for the use of a factory site depends upon its desirability in relation to the source of raw materials, the proximity to transportation facilities and the labor supply, and accessibility to the market. The sites most desirable in these particulars will bring the highest rent. For practical reasons free land seldom enters into the reckoning of lands used for these purposes. The influence of the growth of society in augmenting the rents of business sites is even more pronounced than in the case of agricultural lands. The most striking example is furnished by the almost incredible rentals paid for little strips of land on the point of Manhattan Island where the development of modern civilization has reached its apex.

11. **Summary of Rent.**—To sum up, rent is the price paid for the use of land and is necessitated by the growth of population upon a limited area. It varies with the desirability of the land. In the case of land used as capital, that is, to produce more wealth, desirability depends upon its productivity, which in extractive land is primarily a matter of fertility, and in land used for industrial purposes is mainly a matter of site. When land is used strictly for consumption, various intangible factors enter in. The starting point of rent is land which can be had for nothing, and is therefore called "no-rent land." Such land does not actually exist in old societies, but is constantly present as a theoretical factor in the explanation.

REVIEW.

Define distribution in the economic sense.

Distinguish between the two types of land used for extractive purposes.

When there is no more free land, what possibilities are open to the settler?

What main factors influence the amount of rental paid for agricultural land? For mining land? For a factory site?

What is meant by "unearned increment"?