THE THEORY OF RENT AND AMERICAN AGRICULTURE

By H. C. Taylor

The University of Wisconsin

It is assumed that the phrase "the theory of rent" refers to the theory as stated by Ricardo. This theory may be said to contain three major premises, namely:

1. The more useful grades of land are first utilized, and with the growth of population the movement is from the better to the less useful land with rising rents on the older lands.

2. Rent is the *one* differential surplus in the distribution of wealth.

3. Rent is *measured* by the differences in the usefulness of land.

While these propositions have all been accepted and taught in the United States, no one of them has passed without criticism and modification.

I. In the middle of the nineteenth century American agricultural development had reached a stage where, for the time being, and looking at the United States in the large, the very reverse of the assumption that with progress the less and less useful lands will be resorted to and the rent of the older lands continue to rise prevailed. By the middle of the century the westward movement of population had reached the prairies of the central states where the cost of bringing land into cultivation was at a minimum and the natural fertility of the land was at a maximum. With the development of transportation facilities this land has gradually become the most valuable in America.

With the expansion of the corn area the movement was from poor corn land to good, then from good to excellent. This was partially true of wheat, though it may be questioned if any wheat lands in the United States have ever surpassed the best wheat regions of New York and Pennsylvania. The significant fact was the great abundance of wheat land. In the expansion of the cotton area the Ricardian theory was both proved and questioned, for, while the westward movement brought better lands into cultivation, these better lands, for example, the black prairie of Alabama, the alluvial areas of the lower Mississippi and the black prairie of Texas, were selected spots surrounded with wide areas of less useful lands which were passed by to take the better lands.

Yet the general effect on prices and on rents was, for the time, the reverse of the Ricardian hypothesis. Better and better lands were taken up, price levels were on the decline, and many farmers in the older regions suffered an undeserved decrement instead of getting the expected unearned increment in land values.

In this early period of expansion into the prairies there was enough faith in the Ricardian philosophy to lead large numbers of men to make speculative investments, notably in the cheap prairie lands of central Illinois, yet many felt that it would be a long wait for the speculator. About 1850 one agricultural writer expressed the belief that more land was then held speculatively than would be needed for actual settlers in a hundred years, that one had as well speculate in eight-acre tracts of the Great Lakes or in quarter sections of the Atlantic Ocean as in the prairie lands of the West.

This period produced a man who tried to square his whole economic philosophy with the conditions of his time. Henry C. Carey read in the facts of his own time the reversal of Ricardo. For eastern men of his own time Carey's short-time point of view gave wiser counsel to the investor than did the long-time point of view of Ricardo. While, in the long run, the general truth in the Ricardian hypothesis that the movement is from good to less desirable land holds true, the history of American agriculture forces upon one's mind the limited usefulness of this theory for a given time and place. The direction and the resultants of progress cannot be foretold in simple formulas. It is only when this theory is accompanied by a careful study of the tendencies of the times, viewed in the light of a knowledge of history and geography, that it is a trustworthy guide to the man of affairs. The Ricardian hypothesis was used by its author as a basis of a system of economic philosophy and as such it is too general to be very useful, but as a starting point for inductive study it is highly useful.

II. The second proposition, that rent is the one differential surplus, began to look questionable under American conditions of industrial life where a large proportion of the working population were able to accumulate wealth by saving from their incomes. Whether this is to be explained by future economic historians in terms of temporary conditions arising out of the great natural resources of this century, or in terms of differences in the efficiency of men and, hence, of permanent significance, may now be a debatable question.

Differences in the efficiency of men were recognized by J. E. Thorold Rogers in the little volume on *Social Economy* published in 1871, in which he says, "There is a sort of fertility of men's minds very like the fertility of certain fields. . . . The work of one man may be paid for at fifty times the rate which another man's work is paid, simply because people find out that it is worth fifty times as much." But it was the American economist, Francis A. Walker, who accepted variation in human efficiency as an important fact in the industrial world and made it the basis of his theory of profits, thus putting his theory of profits on a par with the theory of rent. Once the question was thrown open the tendency has been to look for new species of the genus to which rent belongs. This broadening of the differential theory formerly applied only to rent was an important step forward in the history of economic thought.

III. The Ricardian statement of the measure of rent becomes seriously complicated so soon as it is admitted that rent is one of a class. If rent is measured by the differences in product, the question may well be asked,—"Whose product and by which grades of equipment?" This problem has been dealt with in detail at other times and will not be entered upon here except to state that while the *differential character* of rent stands reinforced by its companions, the differential measure of rent seems to have been thrown into utter confusion by the presence of other differentials to be paid out of the same lump sum.

The quantity of rent can best be studied by listing all the forces which tend to increase and all the forces which tend to decrease rent and proceeding to study these forces at given times and places in the light of history and geography. In other words, the same methods are essential in the study of the annual value of land (rent) as are used in the study of the value of other economic goods. A summary statement of the forces which determine the amount of rent which the writer has used in the class-room is as follows:

The amount of rent tends to vary directly with the number and capacity of those engaged in agriculture and of the equipments employed, directly with the amount of capital seeking investment in farming operations, directly with the opportunities for continuous, remunerative employment throughout the year for the labor and equipments, directly with the social advantages of the locality, and directly with the prices of farm products. The rent tends to vary inversely with the efficiency of the managers, workmen, and equipments in the competing region as a whole, inversely with the prices of farm equipments, wages, and other operating costs, and inversely with the abundance of good land.

To some it may seem undesirable to encumber the student's mind with so complex a catalogue of forces instead of the old simple formula that the rent of a given piece of land is measured by the difference in the value of its product and the product of marginal land per unit of expenditure. This old statement is easier to teach, temporarily satisfies the student's mind, and makes him feel he is getting somewhere. Ultimately, it leads to discarding economics as of little practical value. The analytical statement followed by a careful study of the operation of each force will introduce thinking students to the real problems in a way which will be of practical value to them. To make this method effective it must be vitalized with concrete illustrations taken from real life. The day is arriving when the economist will devote nine-tenths of his time to the collection of facts. Less time will be given to logical deductions from hypotheses and more time will be given to the foundations of the hypothesis. Researches of this character will lead to a better understanding of all of the forces which operate in the modern economic world and will give basis for an education in economics which will deepen the insight of the man of affairs into the complex life about him.