Chapter III.

Of Rent, In Its Relation To Value.

§ 1. Commodities which are susceptible of indefinite Multiplication, but not without increase of Cost. Law of their Value, Cost of Production in the most unfavorable existing circumstances.

We have investigated the laws which determine the value of two classes of commodities--the small class which, being limited to a definite quantity, have their value entirely determined by demand and supply, save that their cost of production (if they have any) constitutes a minimum below which they can not permanently fall; and the large class, which can be multiplied *ad libitum* by labor and capital, and of which the cost of production fixes the maximum as well as the minimum at which they can permanently exchange [if there be free competition]. But there is still a third kind of commodities to be considered--those which have, not one, but several costs of production; which can always be increased in quantity by labor and capital, but not by the same amount of labor and capital; of which so much may be produced at a given cost, but a further quantity not without a greater cost. These commodities form an intermediate class, partaking of the character of both the others. The principal of them is agricultural produce. We have already made abundant reference to the fundamental truth that in agriculture, the state of the art being given, doubling the labor does not double the produce; that, if an increased quantity of produce is required, the additional supply is obtained at a greater cost than the first. Where a hundred quarters of corn are all that is at present required from the lands of a given village, if the growth of population made it necessary to raise a hundred more, either by breaking up worse land now uncultivated, or by a more elaborate cultivation of the land already under the plow, the additional hundred, or some part of them, at least, might cost double or treble as much per quarter as the former supply.

If the first hundred quarters were all raised at the same expense (only the best land being cultivated), and if that expense would be remunerated with the ordinary profit by a price of 20*s.* the quarter, the natural price of wheat, so long as no more than that quantity was required, would be 20*s.*; and it could only rise above or fall below that price from vicissitudes of seasons, or other casual variations in supply. But if the population of the district advanced, a time would arrive when more than a hundred quarters would be necessary to feed it. We must suppose that there is no access to any foreign supply. By the hypothesis, no more than a hundred quarters can be produced in the district, unless by either bringing worse land into cultivation, or altering the system of culture to a more expensive one. Neither of these things will be done without a rise in price. This rise of price will gradually be brought about by the increasing demand. So long as the price has risen, but not risen enough to repay with the ordinary profit the cost of producing an additional quantity, the increased value of the limited supply partakes of the nature of a scarcity value. Suppose that it will not answer to cultivate the second best land, or land of the second degree of remoteness, for a less return than 25*s.* the quarter; and that this price is also necessary to remunerate the expensive operations by which an increased produce might be raised from land of the first quality. If so, the price will rise, through the increased demand, until it reaches 25*s.* That will now be the natural price; being the price without which the quantity, for which society has a demand at that price, will not be produced. At that price, however, society can go on for some time longer; could go on perhaps forever, if population did not increase. The price, having attained that point, will not again permanently recede (though it may fall temporarily from accidental abundance); nor will it advance further, so long as society can obtain the supply it requires without a second increase of the cost of production.

In the case supposed, different portions of the supply of corn have different costs of production. Though the twenty, or fifty, or one hundred and fifty quarters additional have been produced at a cost proportional to 25*s.*, the original hundred quarters per annum are still produced at a cost only proportional to 20*s.* This is self-evident, if the original and the additional supply are produced on different qualities of land. It is equally true if they are produced on the same land. Suppose that land of the best quality, which produced one hundred quarters at 20*s.*, has been made to produce one hundred and fifty by an expensive process, which it would not answer to undertake without a price of 25*s.* The cost which requires 25*s.* is incurred for the sake of fifty quarters alone: the first hundred might have continued forever to be produced at the original cost, and with the benefit, on that quantity, of the whole rise of price caused by the increased demand: no one, therefore, will incur the additional expense for the sake of the additional fifty, unless they alone will pay for the whole of it. The fifty, therefore, will be produced at their natural price, proportioned to the cost of their production; while the other hundred will now bring in 5*s.* a quarter more than their natural price--than the price corresponding to, and sufficing to remunerate, their lower cost of production.

If the production of any, even the smallest, portion of the supply requires as a necessary condition a certain price, that price will be obtained for all the rest. We are not able to buy one loaf cheaper than another because the corn from which it was made, being grown on a richer soil, has cost less to the grower. The value, therefore, of an article (meaning its natural, which is the same with its average value) is determined by the cost of that portion of the supply which is produced and brought to market at the greatest expense. This is the Law of Value of the third of the three classes into which all commodities are divided.

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§ 2. Such commodities, when Produced in circumstances more favorable, yield a Rent equal to the difference of Cost.

If the portion of produce raised in the most unfavorable circumstances obtains a value proportioned to its cost of production; all the portions raised in more favorable circumstances, selling as they must do at the same value, obtain a value more than proportioned to their cost of production.

The owners, however, of those portions of the produce enjoy a privilege; they obtain a value which yields them more than the ordinary profit. The advantage depends on the possession of a natural agent of peculiar quality, as, for instance, of more fertile land than that which determines the general value of the commodity; and when this natural agent is not owned by themselves, the person who does own it is able to exact from them, in the form of rent, the whole extra gain derived from its use. We are thus brought by another road to the Law of Rent, investigated in the concluding chapter of the Second Book. Rent, we again see, is the difference between the unequal returns to different parts of the capital employed on the soil. Whatever surplus any portion of agricultural capital produces, beyond what is produced by the same amount of capital on the worst soil, or under the most expensive mode of cultivation, which the existing demands of society compel a recourse to, that surplus will naturally be paid as rent from that capital, to the owner of the land on which it is employed.

The discussion of rent is here followed wholly from the point of view of value, while before (Book II, Chap. VI) the law of rent was reached through a limitation of the quantity of land due to the influence of population. In the former case the rent and produce were stated in bushels. By introducing price now (as the convenient symbol of value), instead of the separate increased demands of population in our illustration than used (p. 240), it will be seen how the same operation, looking at it solely in respect to value, brings us to the same law:

Price A B C D per Bushel. 24 18 12 6 bushels bushels bushels bushels Total Rent. Total Rent. Total Rent. Total value of value of value of value of product. product. product. product. $1.00 $24.00 $0.00 .... $1.33 $32.00 $8.00 $24.00 $0.00 .... $2.00 $48.00 $24.00 $36.00 $12.00 $24.00 $0.00 .... $4.00 $96.00 $72.00 $72.00 $48.00 $48.00 $24.00 $24.00

It was long thought by political economists, among the rest even by Adam Smith, that the produce of land is always at a monopoly value, because (they said), in addition to the ordinary rate of profit, it always yields something further for rent. This we now see to be erroneous. A thing can not be at a monopoly value when its supply can be increased to an indefinite extent if we are only willing to incur the cost. As long as there is any land fit for cultivation, which at the existing price can not be profitably cultivated at all, there must be some land a little better, which will yield the ordinary profit, but allow nothing for rent: and that land, if within the boundary of a farm, will be cultivated by the farmer; if not so, probably by the proprietor, or by some other person on sufferance. Some such land at least, under cultivation, there can scarcely fail to be.

Rent, therefore, forms no part of the cost of production which determines the value of agricultural produce. The land or the capital most unfavorably circumstanced among those actually employed, pays no rent, and that land or capital determines the cost of production which regulates the value of the whole produce. Thus rent is, as we have already seen, no cause of value, but the price of the privilege which the inequality of the returns to different portions of agricultural produce confers on all except the least favored portion.

Rent, in short, merely equalizes the profits of different farming capitals, by enabling the landlord to appropriate all extra gains occasioned by superiority of natural advantages. If all landlords were unanimously to forego their rent, they would but transfer it to the farmers, without benefiting the consumer; for the existing price of corn would still be an indispensable condition of the production of part of the existing supply, and if a part obtained that price the whole would obtain it. Rent, therefore, unless artificially increased by restrictive laws, is no burden on the consumer: it does not raise the price of corn, and is no otherwise a detriment to the public than inasmuch as if the state had retained it, or imposed an equivalent in the shape of a land-tax, it would then have been a fund applicable to general instead of private advantage.

The nationalization of the land, consequently, would not benefit the laboring-classes a whit through lowering the price to them, or any consumer, of food or agricultural produce.

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§ 3. Rent of Mines and Fisheries and ground-rent of Buildings, and cases of gain analogous to Rent.

Agricultural productions are not the only commodities which have several different costs of production at once, and which, in consequence of that difference, and in proportion to it, afford a rent. Mines are also an instance. Almost all kinds of raw material extracted from the interior of the earth--metals, coals, precious stones, etc.--are obtained from mines differing considerably in fertility--that is, yielding very different quantities of the product to the same quantity of labor and capital. There are, perhaps, cases in which it is impossible to extract from a particular vein, in a given time, more than a certain quantity of ore, because there is only a limited surface of the vein exposed, on which more than a certain number of laborers can not be simultaneously employed. But this is not true of all mines. In collieries, for example, some other cause of limitation must be sought for. In some instances the owners limit the quantity raised, in order not too rapidly to exhaust the mine; in others there are said to be combinations of owners, to keep up a monopoly price by limiting the production. Whatever be the causes, it is a fact that mines of different degrees of richness are in operation, and since the value of the produce must be proportional to the cost of production at the worst mine (fertility and situation taken together), it is more than proportional to that of the best. All mines superior in produce to the worst actually worked will yield, therefore, a rent equal to the excess. They may yield more; and the worst mine may itself yield a rent. Mines being comparatively few, their qualities do not graduate gently into one another, as the qualities of land do; and the demand may be such as to keep the value of the produce considerably above the cost of production at the worst mine now worked, without being sufficient to bring into operation a still worse. During the interval, the produce is really at a scarcity value.

Fisheries are another example. Fisheries in the open sea are not appropriated, but fisheries in lakes or rivers almost always are so, and likewise oyster-beds or other particular fishing-grounds on coasts. We may take salmon-fisheries as an example of the whole class. Some rivers are far more productive in salmon than others. None, however, without being exhausted, can supply more than a very limited demand. All others, therefore, will, if appropriated, afford a rent equal to the value of their superiority.

Both in the case of mines and of fisheries, the natural order of events is liable to be interrupted by the opening of a new mine, or a new fishery, of superior quality to some of those already in use. In this case, when things have permanently adjusted themselves, the result will be that the scale of qualities which supply the market will have been cut short at the lower end, while a new insertion will have been made in the scale at some point higher up; and the worst mine or fishery in use--the one which regulates the rents of the superior qualities and the value of the commodity--will be a mine or fishery of better quality than that by which they were previously regulated.

The ground-rent of a building, and the rent of a garden or park attached to it, will not be less than the rent which the same land would afford in agriculture, but may be greater than this to an indefinite amount; the surplus being either in consideration of beauty or of convenience, the convenience often consisting in superior facilities for pecuniary gain. Sites of remarkable beauty are generally limited in supply, and therefore, if in great demand, are at a scarcity value. Sites superior only in convenience are governed as to their value by the ordinary principles of rent. The ground-rent of a house in a small village is but little higher than the rent of a similar patch of ground in the open fields.

Suppose the various kinds of land to be represented by the alphabet; that those below O pay no agricultural rent, and that all lands increase in fertility and situation as we approach the beginning of the alphabet, but which, as far up as K, are used in agriculture; that higher than K all are more profitably used for building purposes, viz.:

A, B, C, ... | K, L, M, N, O, | ... X, Y, Z.

Now it will happen that land is chosen for building purposes irrespective of its fertility for agricultural purposes. It will not be true, as some may think, that no land will be used for building until it will pay a ground-rent greater than the greatest agricultural rent paid by any piece of land. It is not true, for example, if N be selected for a building-lot, that it must pay a ground-rent as high as the agricultural rent of K, the most fertile land cultivated in agriculture. It must pay a ground-rent higher only than it itself would pay, if cultivated. It is only necessary that it pay more than the same (not better) land would pay as rent if used only in agriculture.

The rents of wharfage, dock, and harbor room, water-power, and many other privileges, may be analyzed on similar principles. Take the case, for example, of a patent or exclusive privilege for the use of a process by which the cost of production is lessened. If the value of the product continues to be regulated by what it costs to those who are obliged to persist in the old process, the patentee will make an extra profit equal to the advantage which his process possesses over theirs. This extra profit is essentially similar to rent, and sometimes even assumes the form of it, the patentee allowing to other producers the use of his privilege in consideration of an annual payment.

The extra gains which any producer or dealer obtains through superior talents for business, or superior business arrangements, are very much of a similar kind. If all his competitors had the same advantages, and used them, the benefit would be transferred to their customers through the diminished value of the article; he only retains it for himself because he is able to bring his commodity to market at a lower cost, while its value is determined by a higher.(219)

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§ 4. *Résumé* of the laws of value of each of the three classes of commodities.

A general *résumé* of the laws of value, where a free movement of labor and capital exists, may now be briefly made in the following form:

Exchange value has three conditions, viz.: 1. Utility, or ability to satisfy a desire (U). 2. Difficulty of attainment (D), according to which there are three classes of commodities. 3. Transferableness.

Of the second condition, there are three classes: 1. Those limited in supply--e.g., ancient pictures or monopolized articles. 2. Those whose supply is capable of indefinite increase by the use of labor and capital. 3. Those whose supply is gained at a gradually increasing cost, under the law of diminishing returns.

Of those limited in supply, their value is regulated by Demand and Supply. The only limit is U.

Of those whose supply is capable of indefinite increase, their normal and permanent value is regulated by Cost of Production, and their temporary or market value is regulated by Demand and Supply, oscillating around Cost of Production (which consists of the amount of labor and abstinence required).

Of those whose supply is gained at a gradually increasing cost, their normal value is regulated by the Cost of Production of that portion of the whole amount of the whole amount needed, which is brought to market at the greatest expense, and their market value is regulated by Demand and Supply (as in class 2).

If there be no free competition between industries, then the value of those commodities which has been said, in the above classification, to depend on cost of production, will be governed by the law of Reciprocal Demand.