Rent

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Unlike my previous presentations on separation anxiety, I would like to touch upon this supplementary discussion subject with extreme brevity. Otherwise, this subject should be a topic for a dissertation. In classical economics prior to Adam Smith (1723-90)[1], rent was simply and loosely defined as the rental value of a land, a value for the service that land, the

[1] Scottish social philosopher, political scientist as well as historian; the history's first political economist

After two centuries, Adam Smith remains a towering figure in the history of economic thought. Known primarily for a single work and tome (more than 1000 pages!), *An Inquiry into the nature and the causes of the Wealth of Nations* (1776), the first comprehensive system of political economy, Smith is more properly regarded as a social philosopher whose economic writings constitute only the capstone to an overarching view of political and social evolution. In fact, today's fully established field of economics/economical science as an independent discipline (an academic unit) belonging to broader categories of social science did not exist at that time as yet, and he did not consider himself to be an economist and taught ethics at Glagslaw (Glenshaw) University. Therefore, if his masterwork is viewed in relation to his earlier lectures on moral philosophy and government, as well as to allusions in *The Theory of Moral Sentiments* (1759) to a work he hoped to write on "the general principles of law and government, and of the different revolutions they have undergone in the different ages and periods of society," then *The Wealth of Nations* may be seen not merely as a treatise on economics but also as a partial exposition of a much larger scheme of historical evolution.

factor of production provides in the process of production. However, it was Adam Smith, who is revered as the patron saint of capitalism today, figured out the intricate relationship(s) among the three constituent parts of the costs of production- wages, rents, and profits for the first time; Smith explicates how mutual vying forces the prices of commodities down to their “natural” levels, which correspond to their costs of production. Moreover, by inducing ‘labor’ and ‘capital’ to move from less to more profitable occupations or areas, he argued that the competitive mechanism constantly restores prices to these “natural” levels. While maintaining that wages, rents and profits, are themselves subject to the same discipline of self-interest and competition that helped to give rise to ‘the invisible hand’, Smith provided a rationale for these “natural” prices as well as revealed an underlying orderliness in the distribution of income itself among workers, whose recompense was their wages; and manufacturers, whose reward was their profits; landlords, whose income was their rents

The neoclassical economist, Alfred Marshall, and others after him, insisted that rent should include not only land but also income reverted to the fixed factors (fixed factors because fertile land is not very common and in one state, land is limited enough to be fixed in a definite level unless a new one is irrigated out of the waters such as sea, river, or reservoir) and defined it as the income derived from the ownership of land and other free gifts of nature indicating a number of utilizing possibilities from land.

Apart from renting land, it is of course possible to rent (in this context, to pay for the temporary use of any properties) houses, automobiles, TV sets, and lawn mowers on the understanding that the rented item is to be returned to its owner in essentially the same physical condition if not in a perfectly pristine form.

The more restrictive use of the term became popular rather early among writers on economic matters. For the classical economists of the 18th and 19th centuries, the British society was largely divided into three groups: landlords, laborers (employees), and manufacturers (mostly employers or the “moneyed classes”). This division reflected more or less the sociopolitical structure of Great Britain at the time. The concern of economic theorists was to explain what determined the share of each class in the national product.

It was observed that the rising demand for the product of land would make it profitable to extend cultivation to soils of lesser and lesser fertility, as long as the addition to the value of output would cover the costs of cultivation on the least fertile acreage cultivated. On land of greater fertility—intra-marginal land—the costs of cultivation per unit of output would be below that price. This difference between cost and price could be appropriated by the owners of land, who benefited in this way from the fertility of the soil— another “free gift of nature.”

Marginal land (the least fecund one cultivated) basically earned no rent. Since, therefore, it was differences in fertility that brought about the surplus for landowners, the return to them was called differential rent. It was also observed, however, that rent emerged not only as cultivation was pushed to the “extensive margin” (to less fruitful acreage) but also as it was pushed to the “intensive margin” through more intensified use of the more fertile land. As long as the additional cost of cultivation was less than the addition to the value of the product, it paid to apply more labor and capital to any given piece of land until the net value of the output of the last unit of labor and capital hired had fallen to the level of its incremental cost. The intensive margin would exist even if all land were of equal fertility, as long as land was in scarce supply. It can be named as scarcity rent, thereby in contrast with differential rent.

However, because the return to any factor of production, not solely to land, can be determined in the same way as scarcity rent, it was often asked why the return to land should be given a special name and special treatment. A justification was found in the fact that land, unlike other factors of production, cannot be reproduced. Its supply is fixed no matter what its price would be whereas its supply price is effectively zero. By contrast, the supply of labor or capital is responsive to the price that is offered for it. With this in mind, rent was redefined as the return to any factor of production over and above its supply price.

With the supply price of land being zero, the whole of its return is rent, so defined. The return to any other factor may also contain elements of rent, as long as the return stands above the next-most-lucrative employment open to the factor. For example, in the 18^{th} century, a singer's employment outside the opera house might bring a great deal less than the opera actually paid. A large part of what the opera paid could therefore be called rent. The opera singer's specific talent may be non-reproducible; like land, it is a free gift of nature. A particularly effective machine also, though its supply can be increased in time by productive effort, may for a period also earn a quasi-rent, until supply has caught up with demand. Where its supply is artificially restricted by a monopoly, the quasi-rent may in fact continue indefinitely. All monopoly profits, it has been argued, should therefore be classified as quasi-rent. Once this point has been reached in the argument, there is perhaps no logical barrier to extending the meaning of rent to cover all property returns. After all, profits and interest can persist only as long as there is no glut (oversupply) of capital. The possibility of producing capital would presage such a glut, one that has been staved off only by new scarcities created by technical progress.