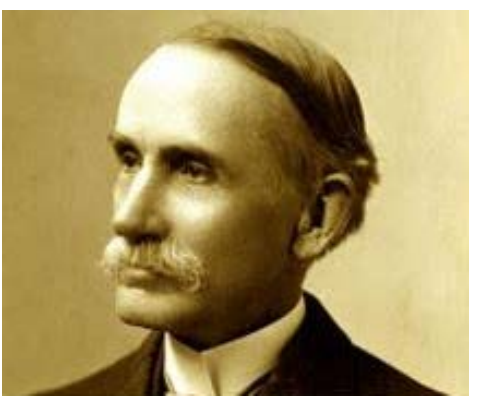
Capital and Its Earnings

John Bates Clark

Publications of the American Economic Association
Vol. 3, No. 2, May 1888

TABLE OF CONTENTS.



PREFATORY NOTE.

This essay is a prospectus and somewhat more. It serves to indicate the scope and character of a fuller discussion that, if present plans are executed, will in due time follow it. It anticipates to some extent the work of that discussion, and is issued to avoid delay in bringing before the minds of students of economics certain principles not yet recognized, but seemingly obvious enough to win assent, even though briefly presented. It may be found that these principles settle questions of agrarian socialism, and carry the study of the general wage problem to a point where a solution of it will be more nearly possible than it has been. The practical fruit of the discussion will appear in the latter part of it, and may perhaps compensate the reader for being detained for a time in a region of abstract thought.

J. B. CLARK.

NORTHAMPTON, MASS.

CAPITAL AND ITS EARNINGS.

The Nature of Capital.

In the language of business the word capital stands for a single, clear conception; in the language of economic science it stands for two unlike conceptions, and is unconsciously applied now to the one and now to the other. Scientific analysis has been baffled by this fact, and many logomachies have been occasioned by it. Socialism draws its intellectual supplies from a vitiated pool the disturbing element of which is this shifting conception of capital.

Ask a manufacturer, "What is your capital?" and he will probably express his answer in dollars. Ask him, "*In* what is your capital invested?" and he will specify the buildings, machines, land, materials, etc., in which his productive fund now chances to be embodied. These concrete things will figure in his thought as the containers of his capital; while the content itself will appear to him to be a value, an abstract quantum of wealth. He will think of it as a fund that is permanently his, though it may not retain for a single day its exact present form of embodiment. The visible objects in his possession will, one after another, depart from him; but his

capital will remain. Materials will become finished products and disappear in the market, and new materials will take their places. Machines will wear out, and new ones will be obtained. Even buildings will be renewed by gradual decay and restoration; but through all transmutations of its outward form, the fund of capital itself will continue as a permanent fact. If there are a half-million of dollars invested in the business to-day, there will be that amount or more, unless disaster intervenes, twenty years hence; but of the objects that now embody that value but few will then remain. Capital is, in this view, an abstract fund, the destiny of which is to migrate through an endless series of outward forms.

Take an inventory of a hardware merchant's stock. Make a complete list of saws, hatchets, nails, etc., that his shelves and store-rooms contain. Have you determined what is his capital? Not, according to his own view, until you have attached to each article on the list the figure that represents its market value, and added the figures into a sum total. Then you will have something that is permanently his, something that he put into the business and can probably get out of it. Take another inventory a year hence. Most of the goods that appeared on the former list will have departed, and new ones will be in their places; but if the new figures on the list represent the same value as before, the capital is intact. If the original goods had not departed, the fund would have been seriously impaired. The corn or wheat that perishes abides. The goods that pass away in traffic leave behind them the value that, for economic purposes, may be regarded as a sort of vital essence. That value perishes by holding fast

to its material body, and lives by passing continually into new forms. Goods must be sold and others bought, tools must be worn out in creating products, or the fund that was invested in the business will dwindle and ultimately vanish.

The fund, capital, resides in many unlike things, but consists of a single entity that is common to them all. That entity is "effective social utility."[1] So much of this as a business man retains embodied in instruments of production constitutes his permanent capital, however the instruments may come and go in exchange, and however they may perish and be restored through use.

This abstract conception of capital is employed in business a hundred times where the concrete conception is employed once. For the purposes of a scientific study of modern problems it is the primary notion of capital. Yet it is possible to view this economic element in the concrete. It is often useful to consciously merge in thought containers and content, and to speak of buildings, machines, materials, etc., as constituting capital. The form of the productive fund is important; and in those problems that require a reference to it, it is entirely possible to speak of it without confusion. The actual practice of economic science has been to first define capital in the concrete, and then, in the problems connected

[1] For the full significance of these terms I am obliged to refer the reader to the fifth chapter of my treatise entitled "The Philosophy of Wealth." The term "effective" excludes utilities that, like that of air, can be had in abundance without effort. It facilitates the discussion of questions concerning capital to have in mind a standard of value that does not make all measurements of it to depend on promiscuous comparisons between unlike things. Such a standard is offered in the chapter referred to.

with it, to tacitly substitute again and again the abstract conception. Capital is first said to consist of tools, buildings, materials, food, etc., and is then tacitly treated as a fund, as the result of saving from incomes, as the reservoir out of which come wages, the workingmen's share in the division of abstract wealth. Even recent and acute discussions shift continually from one conception to the other, with results that baffle honest inquiry and make heresy plausible. This practice has given a decided impulse to agrarianism and state socialism. Economic theory, whether recognized or not, is a main-spring of political action, and a faulty theory widely taught is sure to produce fruit in bad action.

At the cost of lingering in the region of abstract thought longer than, with practical questions before us, we might like to do, it is best that we fully determine the nature, functions and varieties of capital, and observe a few cases in which the wavering in thought between different conceptions of it has led to especial harm.

Capital in the concrete consists of commodities that aid production. It is instrumental wealth,—that which directly satisfies no natural wants, but helps men to obtain the things that satisfy them. Yet productive instruments directly appeal to desires of a certain kind, and the clearest line of separation between concrete capital and other forms of wealth is afforded by fixing the special nature of the desires which capital gratifies. They are derived desires. They result not from a natural craving but from reflection,—from reasoning on the connection between means and ends. Appetite for food engenders, through the intellect, a desire for the arrow that will

kill game, the ladder that will lift a man to fruit-bearing branches, etc. Capital may be defined as the wealth that affords gratification only in this indirect way. It is wealth in mediate utilization, and stands in contrast with that which has been termed "consumers' wealth," which is in direct utilization.

There are two opposite ways in which concrete capital aids production. Some things, like artizans' tools, help to fit for use the matter furnished by nature. They have an active rather than a passive function to perform. They impart utilities to other things. Machines that transform matter, vehicles that move it, buildings that protect it, come in this category; and so do all appliances that, in the war between man and nature, range themselves on the side of man and help him to subjugate resisting elements to his use. These instruments constitute the active variety of concrete capital.

The materials on which implements work are mechanically passive. They receive utilities instead of imparting them; they undergo modifications, and themselves modify nothing. In the contest between man and nature they range themselves on the side of nature, and maintain a recipient attitude towards man and his active appliances. Cotton is thus passive, while the spindle is active; bar iron is passive, while the roll and the hammer are active; and throughout the field of industry the character of the process itself draws a line of demarkation between active instruments and passive materials, between man's weapons of offense and nature's elements of defense.

The passive forms of concrete capital include not merely the crude matter with which industry begins,

but the products that pass in an unfinished state from one working group to another. It includes not only ore but iron, not only wool but yarn, cloth, and even ready-made garments awaiting purchasers. It includes the stocks of merchandise that, in the hands of dealers, are awaiting the minor utilities of form, place, etc., that are necessary in order to make them entirely ready for final consumption.[1]

This distinction underlies the one usually made between so-called "fixed" and "circulating" capital. Instruments that are rated as fixed capital,—buildings, tools, etc.,—have active industrial functions to perform; while those which are rated as circulating capital have passive ones. Practical thought, however, applies the terms fixed and circulating to capital in the abstract rather than in the concrete; and here again common usage bears the test of careful analysis. Concrete things do not circulate in any true sense. The division of labor causes them, in the making, to pass through a series of hands; but when finished they go into the possession of users and remain there. There is, however, something that truly circulates; pure capital passes through an endless series of outward forms. We have called it a permanent fund, and it is so; but it perpetuates itself only by passing continually out of one body into another. It lives by transmigration.

Pure capital stays longer in some forms than in others. It remains for an instant in steam, and for an hour in the fuel that generates it. It stays for

[1]It is worthy of notice that the raw materials that enter into a tool make a transition from one variety of concrete capital to the other. The steel that is passive in a bar becomes active in a hammer. At any particular time it is easy to see on which side of the line a thing belongs.

weeks in unfinished products, for years in the machines that make them, and for decades in the buildings that house them. How long may it remain in the land under the buildings? Here, indeed, is an exception to the rule of endless wandering. Pure capital that vests itself in land is at liberty to stay there indefinitely.

The value that a business man invests in the passive forms of concrete capital should, for good results, remain there only briefly. Profits are greater the more quickly raw materials are transformed, sold, and replaced by others. If the capital that is to-day embodied in unfinished goods is in those same goods a few months hence, it indicates trouble on either the mechanical or the commercial side. The commodities have been either too long in finishing or too long in selling; and in either case the owner suffers a reduction of his gains. His capital ought to have been more quickly liberated from the present stock and invested in others. The fund that earns a profit by deserting one body and entering another is circulating capital. It inhabits only the passive instruments of industry.

The value that is embodied in an active instrument needs, for good results, to remain there as long as is practicable. Machines, buildings, etc., ought not to wear out and be replaced too quickly. They cannot, indeed, last for ever; sooner or later the value that is now in them will have left them and betaken itself to other things; but this results from an unpleasant necessity, and the owner postpones it as long as he can. The fund that earns its profit while remaining in the forms in which its owner invests it is fixed capital. Its tenure of its material dwelling is not,

indeed, absolutely fixed; nature will evict it by destroying the dwelling; but it will not of its own motion abandon it.

Although fixed capital generally retains its forms of investment much longer than circulating, the mere duration of the tenure does not always distinguish between them. Some active instruments, such as emery, oil and fuel, are highly perishable, while some passive instruments are held in storage for considerable periods. The essential point of difference lies, as stated, in the fact that it is profitable for circulating capital to pass from one form to another, while it is profitable for fixed capital to retain its form of investment till, through the wear of the instrument, it is forced to leave it.

If fixed capital can find a productive instrument that is not destroyed in the using, it will naturally remain in it if once so invested. Such an instrument is land in the special economic sense of the term. Whatever a producer invests in land may remain there as long as his industry continues. While circulating capital moves from form to form rapidly and eagerly, and while most of the fixed capital migrates slowly and under compulsion, there is a part of this latter fund that migrates not at all. Capital, then, in the abstract sense of the term, is to be classified as circulating or fixed; but in one case only is the fixity permanent.[1]

[1] Land is not invariably an active instrument of production; and in the cases in which it is passive it contains circulating capital. A dealer in real estate may buy a tract of land in the suburbs of a city, divide it, and sell it for building lots. A fund used for this purpose is circulating capital; and so is all the wealth that is speculatively invested in land that is to be held for a time and then sold for the sake of securing the rise in its value.

The Origin of Capital.

We may now unravel a few entanglements occasioned by a wavering in scientific thought between the abstract and the concrete conceptions of capital. In immediate connection with definitions of capital that make it to "consist of buildings, tools, raw materials, etc.," it is customary to say that it originates in "abstinence" on the part of the owners. Here is, perhaps, the earliest unconscious lapse into the abstract use of the term. Is abstinence practiced on concrete things? Does the owner of a mill refrain from using it when it is ready? Does he store materials and hold machinery in idleness? Would it be meritorious or profitable for him to do so? He has, in fact, practiced abstinence; but it has been in reference only to abstract wealth. Having at his disposal a certain available fund, he refrained from vesting it in the luxurious forms in which it would give immediate enjoyment, but must perish in the process; he vested it in forms in which it may itself last forever, while at the same time aiding in the creation of other wealth. The abstinence in question consists solely in the diversion of an abstract fund of wealth from one mode of investment to another. It has, however, the effect of saving the fund itself from destruction.

But, does capital ever thus continue? Is it not all consumed in the using, as Mr. Mill and others have said? Do not machines wear out, buildings fall to pieces, and materials merge themselves in products? Certainly; but here is another naïve transition of thought and speech from one conception of capital to the other. It is the concrete forms of capital that perish in the using. The industrial instruments that

embody capital vanish like consumers' wealth. Throw coal under the boiler of a mill and it will pass off in smoke and heat, like the coals in a fire-place; but the fuel burned in the dwelling spends its energy on the person of its owner, while that burned in the mill merges itself in the products that it helps to create. All of its available utility finds its way along the belts, pulleys and shafting to the threads upon the spindles and the web upon the looms. The effective utility of the commodities that constitute consumers' wealth perishes with them, while that of concrete capital is, in successful industry, perpetual. To capitalize, then, is, as already indicated, to rescue an abstract fund of wealth from destruction; it is to save, in a literal sense; but it is to cause the concrete things that at first embody the fund to pass out of existence. The more the machine is worked the greater is its wear, and the larger are its earnings. The bodily tissue of capital lives by destruction and replacement; the utility that is the vital essence of it is, in successful industry, perpetual.

The Industrial Function of Capital.

Is capital, as the theories say, "a fund for the maintenance of labor?" Does it seek, as its natural and primary forms of investment, food and comforts of low grade? It is clear that such things are incapable of what we have termed secondary utilization. They minister to the direct wants of men, and the value that resides in them perishes with them in the using. It has none of the marks of pure capital, but lies on the other side of the boundary that separates instrumental wealth from consumers' wealth. Commodities in full readiness to be used by laboring

men have nevertheless been treated as the typical forms of capital.

If the workman were an engine, the fuel that feeds him and the wrappings that protect him should be rated as instrumental wealth; and a tendency to study economic activities from an employer's point of view leads naturally to such a classification. Wealth invested in food that feeds a laborer may, from this point of view, be said to reappear in the product of his efforts, precisely as does the wealth that is invested in fuel for the engine. From the workman's own point of view such a treatment is an absurdity. To him food does not seem to be consumed, nor clothing to be worn, nor simple luxuries to be enjoyed, for any ulterior purpose. The effect of such consumption on his own sensibilities is ultimate. Laboring humanity is all humanity, with a few exceptions; and the workman's view is the distinctively human view of capital and its action. That which never fails to distinguish it is its indirect relation to man and his gratifications. Whatever satisfies a direct natural craving is not capital but consumers' wealth. Moreover, the treatment that calls capital primarily means of subsistence for laborers is a survival of the Wage Fund theory, a doctrine that, in its entirety, has long ago gone the way of exploded fallacies, even though now and then some writer of ability infuses a galvanic life into some part of it. Just now this entire doctrine is enjoying a probation after death, and it may be well to incidentally raise the question whether wages can, in successful industry, be paid from capital. The question is, in fact, settled in the asking, if we simply attach in succession to the term capital the

two distinct meanings that the word conveys. Using one meaning we get a negative answer; using the other we get a qualifiedly affirmative one; and if we choose to shift from one meaning to the other we get what much discussion has in fact yielded—confusion only.

Do wages, considered as a value, a share in the distribution of social income, come out of a fund of pure capital accumulated in advance? Clearly not. The value that is made over to the workmen on Saturday night has come into existence during the week. It is the economic product of the industry in which they are engaged. Are the men in question weavers? The fund that is to pay them grows as the looms work and the web lengthens. Are they masons? Their particular wage fund *is embodying* itself in the courses of brick or stone that are appearing on the wall. Industry first creates value, and a part of that value rewards the labor engaged in it. Wages, regarded as a mere *quantum* of wealth, come from no fund provided in advance.

Do concrete wages come out of concrete capital that was in existence before the work began? Is the bread that a man eats, and the coat that he wears after his week's work is over, taken from an antecedent store? The fact on this point is equally clear. The goods purchased on Saturday night were partly finished a week before; most of them were, in the economic sense, completed during the very interval of labor that Saturday's wages cover. While the men were earning their money wages in the mill others were giving the finishing touches to the things that they buy on pay-day. Those things were, however, partly made before. The wheat has lain in the

elevators, and the flour in the bakeries. The wool, the cloth, and the finished garments have lain here and there in store. This fore-handedness is necessary, not in order that wages may be paid, but in order that they may be promptly and conveniently invested. The goods thus provided constitute not a wage paying fund, but an exchanging stock; and it is the confounding of these different things that has made trouble with wage theories.

If labor is to be employed and paid, that which is first necessary is a true wage fund, a value to be brought into existence by the industry itself. When the men are hired this value is prospective; when they are paid it is newly created. That which is secondly necessary is a concrete exchanging stock, a mass of commodities begun in advance of the labor that is to be rewarded by them, but to be completed while that labor is in progress.

How much, then, have we gained by this analysis? A new nomenclature? Is something now termed an exchanging stock to do the work of the former wage fund? Is it as necessary as it was ever supposed to be to accumulate capital in advance, if wage-working is to proceed? Does the part of the exchanging stock that is accumulated in advance set the same limit upon the rate of wages, or the number of workers, that the wage fund was supposed to set? We shall be able to answer to all these inquiries an emphatic "no." The exchanging stock stands in no such quantitative relation to wages. A reduction of it would not lessen them nor curtail work as standard writers have tried to prove. The true wage fund, the value created by the week's industry, *must* be large enough to contain the week's wages, or work

will soon be checked. The pre-existing mercantile stocks *are* in practice large enough to contain them several times over, but they need not be large enough to contain them once. In fact, the finished commodities on hand at the beginning of the week might be so reduced as to equal in value only a quarter of the wages to be paid at the end of that interval, and yet labor might be employed and paid much as is done at present. We may go farther, and allow for the completing of unfinished commodities during the week itself. We may safely say that if the mercantile stocks in the possession of an entire community at the beginning of a week of labor were of such a size, and were in such a state of advancement, that by the end of that interval enough commodities would be completed to cover a quarter of the wages that would then be due to workmen, labor might be employed and paid as it is under present conditions. Reduce mercantile stocks to a twentieth of their present size, and though you would disarrange industry by the sudden transition, you would impose no such mathematical limit upon wages as traditional theories suppose.

Pure wages do not come out of the exchanging stock; they simply seek investment in it. The vast actual extent of this stock is a convenience, not a necessity. It makes labor attractive, by offering a varied assortment of tempting articles in which its returns may be invested. The stock must indeed be large enough to afford either a week's supply of ready food, or the means of getting it during the interval. When famine conditions should be reached, when so much of present accumulations should have been sunk in the sea that crude nutriment for the com-

munity could no longer be had, then the exchanging stock might begin to do the work that, under the name of a wage fund, it has been supposed to do. It might set the limits of work and wages that are mathematically possible.

We here take issue with that large remainder of the Wage Fund theory that expresses itself in the statement that "demand for commodities is not a demand for labor." This proposition has been supposed to contradict the off-hand verdict of common sense; but it has also been supposed to rest on the higher ground of an intricate scientific analysis. It will, in fact, bear the test of a clear analysis as little as it will that of a popular judgment.

The awkwardly worded statement that "demand for commodities is not a demand for labor" is intended to mean that men might arrive in a civilized community ready to disburse large incomes in luxurious living, and their demand for articles of consumption would set in motion no wheels, it would call into the mills no idlers from the street, because, forsooth, that demand would furnish no capital with which to advance the necessary wages. In the illustration that Mr. Mill has rendered classical, a landed proprietor, the wealthy builder of artificial lakes, might resolve to devote the whole income heretofore spent in this way, to the purchase of velvet, and his demand would add no workmen to the forces now in the velvet shops, for the reason that it would, of itself, furnish no capital with which to advance the wages of the new men. It is a marked commentary on the present state of deductive economics that the plausible reasoning that sustains this proposition should be rated among its triumphs.

What will actually happen in the case of this lake builder? What will result if he and others of his class suddenly cease investing their incomes in ponds and aqueducts, and begin to spend them for articles of luxury? We may make the case unnaturally favorable to the old theory by supposing that the land-owners publish in January their intention of diverting rents that will accrue in April to a specified list of commodities. That prospective demand will create an instant demand for the labor that can satisfy it. Silk-makers, velvet-makers, carriage-makers, wine-growers, etc., will make immediate additions to their working forces. Every day's labor on the part of the new men will create a value. It may be represented for a time by very unmarketable goods; by carriage materials in the rough, by silk cocoons, and by newly planted vineyards; but this value, even while thus embodied, will find the means of conveying itself to the workmen, and from them to the venders of provisions, clothing, etc. There will, indeed, be a new inroad made upon the stocks of these venders. For a brief season their supplies of merchandise will be less ample than they average, and purchasers will find the assortment presented for their selection less adequate during the interval to satisfy their varied tastes; but that involves nothing more serious than an occasional case in which some one may not get the precise article that he desires, and may have to make the best of a substitute. Wage-working, wage-paying, and wage-spending will be possible and actual from the time when the future demand for articles of luxury becomes an established fact. It is not only true that demand for commodities is a demand for labor, but it is true

that a known future demand for articles of any kind is, in actual conditions, a present demand for labor.[1]

A true wage fund, consisting of value created by the industry itself, a fund that comes into existence in adequate quantity during every hour in which successful work proceeds, is the one indispensable requisite of wage-paying. This fund must be large enough to contain the wages paid. It is liable, in particular cases, to fall short of that amount, and workmen are then discharged; they are sent away because the business that has employed them has ceased to be profitable.

An exchanging stock, a quantity of commodities accumulated partly in advance, is the condition of convenient wage-spending. Stocks, such as those that exist in civilized communities, would bear an indefinite reduction before any necessary curtailment of wages would take place. With a pure fund of value constantly created by industry, and with even a small stock of merchandise for exchange, labor will be able to earn its reward, to receive it, and to spend it.[2]

---

[1] If we do not suppose that the land-owners publish in advance their intention of spending future rents on articles of luxury, we have a more natural case. If they wait to receive the April rents, and then make a sudden inroad upon the stocks of dealers in velvet and other luxuries, the reduction of those stocks below their average standard, as to amount and variety, would take place directly, and additional laborers would be hired during the following quarter. Some of these would be needed for the replacing of the goods suddenly taken from the existing stocks. These can be paid, according to any theory, from the proceeds of the unusual sale. Others are needed in order to meet the permanent increase in the demand for similar goods; and these will draw their true wages from the value that their industry creates from day to day.

[2] In a fuller discussion it would be in order to show by what mechanism value embodied in unfinished goods can be conveyed to

The Earnings of Capital.

Interest is the name of the earnings of pure capital. It is expressed relatively, as a percentage of the amount of productive wealth that secures it. It has no reference to the form in which the capital is invested; a thousand dollars per annum is interest on twenty thousand, whether that larger sum be, for the moment, invested in ships, farms or merchandise.

There is need of a term that shall designate, in the same comprehensive way, the earnings of concrete capital. It should correspond to interest both in detail and in general. As interest expresses the earnings of the abstract sum that is invested in any concrete instrument of production, so the corresponding term should express, in an independent sum, the

---

laborers in such a shape that they can use it in purchasing commodities. This would require some explanation of the action of currency and banks. It is not necessary in this connection to invoke the aid of a loan fund, a quantity of otherwise idle capital held in readiness for such contingencies. If such a fund were a necessity, the older economists would be right in maintaining that demand for commodities is not, without the intervention of an antecedent store of capital, a demand for labor. They would be wrong in supposing that, in actual society, such a demand could spring up without calling new labor into immediate employment, since a great loan fund is one of the facts with which positive economics has to deal. They probably did not, in reality, take a sufficient account of it, and they have expressed themselves as though a new demand for commodities might, in practice, spring up and the needed workmen might still remain idle. The extent of the actual loan fund makes this whole question theoretical; but in that shape it has important bearings on the labor problem and on socialism. Let us therefore suppose that the employers in the ideal case above referred to, on becoming conscious of the increased demand for their products, hire new men and pay them in value certificates, conveying a title of ownership to partly finished products. Let us suppose that these certificates are redeemable in

earnings of the instrument itself. As interest in general designates the total earnings of the social fund of productive wealth, so the parallel term should designate the sum total of the particular amounts earned by all of the concrete instruments that embody that fund.

If we allow ourselves, here, as elsewhere to be guided by the subtle discriminations that are at the basis of practical speech, we shall find that rent is precisely the term that we are seeking. When freed from the limitations imposed by an arbitrary scientific definition the word insists on including in its meaning the returns of all the concrete things in which pure capital embodies itself. It is instinctive with farmers to speak of the rent of wagons, horses,

---

money at the expiration of an interval of production, and that the credit of the employers is good. If exchanging stocks are ample, dealers will accept these certificates and deliver to the new workmen the needed supplies. If the stocks are, by an extreme supposition, inadequate for this purpose, workmen will keep some of the certificates until the expiration of the interval. "That," it may be said, "will make the workmen capitalists." In a sense it will do so, but in a manner that illustrates the main point for which we here contend. The capital that the workmen thus possess was not in existence before they began to work. It has been created by the industry in which they are employed, and during the pending interval.

The view here advocated differs from the traditional one in one point of logic and in two points of fact. Wages must be regarded as paid when value in any form is made over to workmen. The question then remaining is one of investment. A loan fund actually exists so large as, even if the traditional doctrine were true, to preclude the possibility of a demand for commodities without a demand for labor. The loan fund is not, however, necessary. Exchanging stocks exist that are more than adequate to furnish forms of investment for new wages. A demand for commodities that does not immediately call the corresponding labor into employment is by two removes distant from actual possibility.

and reaping machines, as well as land; it is instinctive with manufacturers to speak of the rent of mills, machines, canals, and reservoirs, as well as mill sites.[1]

The ground of this usage will bear the closest analysis, for the distinction between pure capital and the concrete things that embody it is primary, while that between land and other instruments is secondary. The law of rent, which it has been customary to apply to land, applies equally well to all the material commodities that aid man in production; while, on the other hand, the law of interest, which it has been customary to vaguely apply to capital in other forms than that of land, may and should be consistently applied to pure capital invested in any-

[1]It is less common to designate as rent the returns of a productive instrument that is used by its owner than it is to so designate the hire paid to an owner by another user; but it is also less common to speak of interest earned by pure capital in the hands of its owner than to speak of the interest paid to him by a borrower. The fact of borrowing the "money," or hiring the instrument, has the effect of clearly separating, from the owner's point of view, the earnings of the fund or the instrument from other parts of his income. When they are in his own hands they are merged with wages, and are less easily distinguished. In extending the meaning of rent as well as that of interest to include the earnings of capital employed by its owner, we only make popular speech consistent with its own finer discriminations.

That only the active forms of concrete capital are commonly spoken of as earning rent is due to the fact that they only can be borrowed and returned. To hire raw material and fully utilize it is to make it impossible to return to the owner exactly that material. It is necessary to return the value of it in another form. Borrowing raw material is borrowing the value that is embodied in it, a transaction in which pure capital, rather than its concrete vehicle, is the subject of transfer. When, however, the passive instruments of industry are retained in their owner's hands this difficulty disappears, and it becomes possible to regard as rent the actual earnings of any concrete form of capital.

thing, whether tools, ships, buildings, merchandise, or farms.

Rent, then, for the purposes of the present essay, is the amount earned by concrete productive instruments of any and every kind. Farms, tools, buildings, ships and merchandise alike earn it. It is expressed in lump sums, not, like interest, in percentages. It has no direct reference to the value of the things that secure it. A thousand dollars earned by a farm, a building, a ship, or a car, constitute the rent of that farm, building, ship or car, whether the thing itself is worth ten thousand dollars or a hundred thousand. Whatever accrues to a man by reason of the fact that he owns an instrument of production is the rent of that instrument, irrespective of its value.

It has of late been somewhat customary to speak of "rent of personal ability." From a practical point of view this nomenclature seems anomalous; and it has a tendency to introduce an actual and serious anomaly into the scientific analysis of distribution. For the purposes of this discussion rent will be confined, as it is in the business world, to the sums earned by outward and material instruments of production.

The entire income resulting from the ownership of property is, thus, interest, when regarded in one way; it is rent, when regarded in another. Ascertain the total market value of all instruments of production, find what proportion of that amount these instruments annually earn for their owners, and you have the total income of the property holding class, as such, in the guise of interest. Make a list of the instruments themselves, and place opposite to the

name of each the sum that it annually earns; add these amounts, and you have the total income of the property-owning class, as such, in the guise of rent. In this connection practical thought makes no distinction between land and other material instruments that are let for hire, and neither should science do so. There are grounds on which land may demand a special treatment. That which needs to be most sharply distinguished is the material apparatus of the social workshop, on the one hand, and the value that is invested in it, on the other.

It is this fund of wealth, abstractly considered, that figures chiefly in questions of distribution. The whole income of society resolves itself into the reward of labor and that of capital. There is, indeed, an intermittent element of gain, apart from interest, accruing to a certain portion of social capital. This I have elsewhere termed "pure mercantile profit."[1] It is an ever appearing and ever vanishing sum, and is a special premium for mechanical invention and the perfecting of industrial organization. It accrues to that part of capital that, in opportune times and ways, is combined with labor. Competition tends to annihilate pure profit, and to cause wages and interest to absorb the entire gain from social industry.[2]

---

[1]See *Political Science Quarterly* for December, 1877; also "*The Modern Distributive Process.*"—Ginn & Co.

[2]In an able discussion of this subject in the *Quarterly Journal of Economics* for January, 1888, Mr. Sidney Webb, of London University College, proposes to include the profits of business, apart from salaries of management, under the general term "economic interest." This is grouping under a single name commercial interest, which competitive law tends to preserve, and pure profit, which, as is here claimed, competitive law tends to destroy.

The current treatment of distribution resolves the income of society into rent, interest, wages, and *entrepreneur's* profit. Not one of these four elements is made to include the so-called unearned increment of land, or the value that attaches itself to the soil in consequence of social progress. Rent, as here defined, will be found to include this immense item of social gain; interest will also include it, and the entire income of society will thus resolve itself into the earnings of labor and those of capital.

The true rent of anything is the entire gain accruing to the owner of it, and must therefore take account of all changes in the value of the thing itself. It may grow more valuable or less so in the using. Buildings, machines, ships, etc., wear out, and the surface alluvium of the earth itself does so. If by social arrangements this loss falls on the owner of one of these instruments, he must, in order to know what is his true income from it, deduct from the sum paid by the user whatever may be necessary in order to restore it to its original condition. Where, by contract, the user assumes this loss, and undertakes to protect the owner by keeping the instrument in repair, he must deduct from the gross amount that it is worth to him the cost of thus preserving it. The sum then received by the owner is, in so far as this element is concerned, the true rent.[1]

[1] In the renting of buildings custom throws the loss by deterioration mainly on the owner, and the sum received by him is true rent, plus an indemnity for the injury to the property. In the renting of mines, forests and quarries the contract rent includes a large element of indemnity. In the renting of machinery the loss by wear is thrown on the user in so far as it is covered by the cost of repairs assumed by him. Such deterioration as is not prevented by repairs must be covered by an indemnity that is a part of the nom-

Some things acquire elements of value by time. One of Raphael's paintings would be worth to-day, to an enterprising exhibitor, far more than the artist could ever have gotten from it. Most land increases in value from year to year. If the true gains of the owner of a productive instrument are to be computed account must be taken of additions to the value of the instrument itself, as well as of deductions from it. Contract rent, as paid by a lessee, has no occasion to include this element of gain, and falls, by so much, short of the true rent.

Economic science has endeavored to make a sharp distinction between land, as given by nature, and improvements upon it made by labor. Utilities artificially imparted to a portion of the earth are, in this use of terms, capital, while the land itself is not so. We cannot here admit that a productive fund ceases to be capital when invested in land itself, any more than it does when invested in buildings, fences, drains or dykes. We may, however, class as auxiliary capital the sums spent in improving agricultural land.

Rent is currently said to be paid for the use of "original and indestructible properties" of the soil; and science has had to struggle against the natural meaning of these terms. There is a kind of fertility that is a prominent cause of rent, and that is also highly destructible. The food creating alluvium on the surface of the earth necessarily loses chemical

inal rent. In the renting of agricultural land custom in the older countries tends to throw most of the loss from deterioration on the user, and to make the contract rent in so far approximately the true rent. In the newer countries a large part of this loss falls on the owner, and the contract rent paid for the land includes the sum necessary to make good the injury that it suffers.

elements in imparting them to crops. The value residing in the loam of the American prairies is exported in the shape of wheat and flour. There comes, however, a time when soil exploitation is unprofitable, and when policy, enforced by contract, ensures that the nutritive elements taken from the soil by the cultivator shall be restored to it. The farmer undertakes to repair the food-creating instrument that lies in a thin stratum on the top of the really indestructible part of the earth, much as he would repair a reaping machine furnished by the landlord. The nutritive loam is thus constantly perishing and constantly replaced, and only by a decided stretch of language can it be termed indestructible. If a farmer bears the cost of keeping the superficial earth in good condition, what he pays to his landlord is a true rent minus the "unearned increment."

Location is an element that determines the rent of land; but it is location relative to a market. This can scarcely be termed an "original" property of land, though it is more nearly so than utilities directly imparted by labor, and the stretch of meaning in the case of this term is less serious than the former one.

Land is an aggregation of three kinds of utility. It has properties that man did not create and cannot destroy; it has others that mankind, by collective action, create; and still others that individuals impart by the direct labor of improvement. Rent is paid for utilities of the second and third kinds. Those qualities of the soil that are in the fullest sense original and indestructible, the qualities that would have existed if man had never been created, and that would continue in their present condition if the

human race were to perish, have, at present, no direct influence on rent.

Solidity and power to sustain artificial structures are qualities of land that result from geological causes. So also is that condition of the surface of the earth which permits inhabitants, animal and human, to stand upon it or travel over it. Capacity to hold a thin stratum of alluvium and expose it to the action of rain and sunlight comes in the same category. These properties man can neither impart to land nor take from it. They are original and indestructible; but they are too abundant to have present market value. They are a pre-requisite of rent, since, like air and sunlight, they are essential to animal and vegetable life, but they have no direct influence upon it.[1]

A utility of land that is created by man is accessibility, or capacity to be easily reached from permanent human abodes. This "place utility" of land is imparted to it by establishing settlements on or near it. It may, however, be created, without moving human abodes, by reducing the efforts necessary to convey persons and products to and fro between the land and the settlements. Railroads may be said to manufacture place utility in land. Elevated railroads impart this quality to suburban districts of New York. Pacific railroads impart it to western

[1] It is not here denied that the original utilities of land are important when they are combined with other qualities that are more rare. The solidity of a building site in a city is important; but sites having that quality only are too abundant to be of value, and the actual price of a city lot possessing it is owing to the farther utility that it possesses by reason of its location. Sites on the alkaline plains lack only good location to make them as valuable as those of Manhattan Island.

territories, and the Panama canal will, if completed, impart it to opposite coasts of Europe and Asia. That which makes land accessible from the markets makes markets accessible from the land, and imparts a new place utility to the building sites of cities themselves. The improvements in transportation that have been said to "annihilate distance," and that have actually made it possible to carry bulky goods from one quarter of the globe to another, at a cost that absorbs only a small fraction of their selling price, have created this utility on an enormous scale. Migration is carrying markets to Montana and British Columbia, and railroad building is moving these territories toward the present eastern markets. Mechanical progress is transforming the world into one comprehensive mart. Protective tariffs still create economic remoteness between countries, but mere local remoteness is becoming a relatively unimportant factor. Man is making the world accessible, and in the actual market the place utility of land can never be a full monopoly.[1]

There resides, however, in land that is literally near to a market a special accessibility that cannot be exactly duplicated by improved means of transportation. One can go from New York city to an adjacent county more quickly, as well as more cheaply, than he can go to a remote county or state; and he can safely ship perishable goods to and fro between such nearer points. There resides in a farm lying in Westchester county a residual utility that

[1]Here and in the following paragraphs the term monopoly is used in the inexact sense in which it is used currently in discussions concerning land, as indicating that which exists in a rigidly fixed quantity, even though it be not in the hands of a single owner.

cannot be reproduced by labor. This residual utility, based on the fact of literal proximity to markets, gives to land the only monopoly value that resides in it. The monopoly is of a very limited and partial kind.

Fertility is a constant subject of demand and supply; and it has its market price and its natural or normal price like any other manufactured product. The superficial fertility that lies in loam itself is, as already stated, necessarily destroyed and renewed in the operation of agriculture. The loam is, in a certain way, distinct from the land on which it lies, and is to be regarded rather as a food-creating tool, that wears itself out in imparting to a product the chemical elements that it contains. There is an original period of exploitation in which the elements of fertility in the soil are so abundant as to be worth less than it would cost to produce them. When virgin soil that will produce ten crops of wheat without showing an appreciable diminution of the yield can be had for a dollar and a quarter per acre, it is unprofitable to resort to artificial fertilization. Rich loam is a drug in the market, and it is a waste of labor to manufacture it. After the original supply has been reduced, the process of soil manufacture becomes a necessary part of agriculture, and the food-creating qualities of surface loam, like any other product of industry, are worth what they cost.[1]

There is a permanent fertility that depends, not on the presence in the surface loam of the chemical

[1]This principle needs, of course, to be applied with a full knowledge of the fact that the elements of fertility that are restored to the soil, in well-conducted agriculture, are, to a great extent, an incidental product, rather than the chief product, of the labor that secures them.

elements needed by plants, but on the capacity to so expose the loam to the favorable action of air, water and sunlight as to make it available. This element of fertility originally exists in great abundance. Much of the alluvium of the Mississippi valley was found in the first instance rich in the nutriment required by plants, and well situated for making it available. It was neither too moist nor too dry, neither too hot nor too cold, to yield crops of various kinds. In the end even this supply of original fertility is exhausted, and must be increased by labor. The building of dykes, drains and irrigating canals becomes a necessary part of the industry that supplies the country with food and with raw materials. When once this condition is attained, when once fertility of this permanent kind has become a necessary subject of production, it is, like any product, worth, in the long run, what it costs. Even the land that needs neither draining nor irrigating, is gauged, in its market value, by the cost of duplicating its qualities in other land.[1] The cost of dykes and drains measures the value of land that nature has made sufficiently dry, and that of irrigating canals measures the value of land that nature adequately waters.

What law of rent, then, can govern the earnings of this aggregation of unlike utilities? A utility that is original and indestructible, but so abundant as to be valueless, a utility that results from social growth and is a subject of limited monopoly, three

[1] We here apply the principle that the final increment of the supply of anything, even though it be small, tends to control the price of the entire supply. In the case of land unusually large allowances must be made in the practical application of the law.

unlike utilities capable of being created by labor,—such is land in the economic sense. If there is one law that governs its market value, it must apply to four dissimilar properties that contribute to that value.[1] If there is one principle that determines its annual earnings, that principle must apply alike to the four dissimilar utilities. Is there such a "blanket" principle? Is there one formula that can apply to the rent of three unlike products of labor and one limited monopoly? To the immediate or market rent, yes; to the permanent or normal rent, no. Either for sale or for rent utilities of the most unlike kinds command rates that are fixed by a single principle, if we consider only the immediate returns of a particular time and place. In the long run there is one principle that governs the returns of monopolies, and another that governs the returns of things that can be produced by labor. The principle, moreover, that governs the returns of things capable of production, applies in different ways, according as an increased production of the thing in question is attended with increasing or with diminishing cost. If a utility cannot be duplicated the price and the rent of it are governed by the action of demand and supply, without reference to cost of production; if it can be duplicated its price and rent tend to conform to the

[1] In chapter VI. of *The Philosophy of Wealth* I have endeavored to show that the law that governs the natural or normal price of any commodity must embrace the forces acting on the different utilities that compose it. In the case, for example, of woollen cloth the elementary utility residing in the material is governed by a law of increasing cost, while the form utility is subject to a law of diminishing cost. The price of the cloth in its entirety is the resultant of these two laws. It is separate utilities that are created by industry, and that are the true subjects of demand and supply in the actual market.

standard of cost, but that standard either rises or falls as the amount created becomes greater. No single principle can govern the permanent returns from an article that is an aggregation of one monopoly and three manufactured utilities. No single principle can govern the permanent rent of land.

There is in nearly universal acceptance a formula for determining the actual rent of land. It is often so expressed as to involve a large mathematical error,[1] but it may be so stated as to avoid this error, and to be, on grounds of theoretical accuracy, wholly unassailable. We shall not only take no issue with it on this ground, but shall extend its application beyond the limits usually imposed on it. We shall, however, try to ascertain the value of this formula, and to determine how much of meaning there is in it. We shall ascertain whether it affords in reality anything more than a circuitous mode of reaching a conclusion that a practical man would reach more directly, and that Adam Smith reached, and stated

[1]This error appears where it is stated or implied that the rent of a piece of land equals the difference between the value of its product and that of the product of *an equal area* of the poorest land in use, supposing that the two pieces should be cultivated with an equal outlay of labor and auxiliary capital. The rent of ten acres of garden land near New York would thus have to equal its product, minus the product of ten acres of wood land in the Adirondacks or of grazing land in Montana, on the supposition that the two pieces should be utilized with the same outlay of labor and subsidiary capital. This supposition demands either that too little be spent on the suburban land, or that too much be spent on the low-grade land with which it is brought into comparison. The true statement is that the product of the ten acres in the suburbs of the city, minus the product of the indefinitely large quantity of frontier land that happens to profitably employ exactly the same amount of labor and secondary capital, equals the rent of the better piece. In applying the formula the acres compared are nearly always unequal.

in a simpler way. We shall discover also the radical defect of the Ricardian formula, whether stated in the customary form or in the older and simpler one. It applies to temporary or market rent, not to permanent or normal rent. There is the same difference between the two that there is between market price and the "natural" price that was fully discussed by Mr. Ricardo. The traditional law of rent is, therefore, a principle that, if it were intended to gauge prices instead of annual earnings, would be at once pronounced superficial. It states what is true at a particular time, but affords no permanent standard to which rent tends to conform.

The cause of this defect in the current law of rent lies in the fact that land has been treated as constituting in its entirety a natural monopoly; if it were so it would have neither a normal price nor a normal rent. It is idle to talk of the cost of production, in the case of a utility that cannot be reproduced. Land is not, in its entirety, such a utility; three of the four elements that constitute the value of it are capable of being created by industry; and these have their normal prices.

The transient rent of land may be correctly expressed by the Ricardian formula. This is, indeed, an *omnibus* rule, for it expresses the market rent, not only of the diverse utilities that constitute land, but of every concrete instrument of production. A ship, a mill, a canal, or a tool yields to its owner the income indicated by the classical formula, "rent equals product[1] minus the product of the poorest in-

[1]It is shown in a later note that the term "product," as thus used, requires a special definition if the formula is to state the truth in any connection. Without such a special definition of the term the Ricardian Law of Rent, even in its customary applications, would be vitiated.

strument of the same class that is utilized with an equal outlay of labor and auxiliary capital." So does every variety of land, from the mountain summit, that is nothing but a natural observatory, to the prairie that yields wheat, the mine that yields ore, the shore that furnishes dock room, and the street frontage that affords building sites. Whether the instrument in question can be reproduced by labor or is a natural monopoly is, for purposes of mere market rent, of no consequence.

There are, doubtless, in the world "no-rent" ships, mills, canals, and tools. There are no-rent mountains, prairies, harbors, and building sites. There can, doubtless, be somewhere found an instrument of each kind that yields to its owner nothing more than the wages of the labor that is involved in utilizing it, with the interest on any auxiliary capital that may be employed. The product of such an instrument simply equals the wages of a certain amount of labor, plus the interest on a certain amount of supplementary capital; and when we say that the rent of a better instrument equals its product, minus that of the poorer, or we simply say, in effect, that its rent equals its product minus such wages and interest. There is no other mathematical significance in the Ricardian formula.

Here is a piece of land; let us test by the rule the rent that may be had from it.

We take its product as a minuend, and, for a subtrahend, let the eye range downward through the list of similar instruments till it falls on a field that yields just enough to pay wages on the amount of labor spent on the field that we are testing, and interest on the auxiliary capital used in connection

with it. This, we can prove, is the poorest field that it will pay to cultivate, and we call it the poorest in actual cultivation. If worse ones are, in fact, in use, we throw them out of account. The income from our test farm then obeys the rule,—rent equals product minus such other product as ought to be, and probably is, equal to wages and interest on auxiliary capital. It takes but little mathematics to show that the formula resolves itself simply into this: rent equals product, minus wages and interest on auxiliary capital. The rent of any instrument is gauged by its capacity to enlarge the product of industry. Let x units of labor and y units of capital command in the general field of industry a product expressed by z. Give to their owners an instrument of production to aid them in some process; and if the product now is $z+1$ the rent of the instrument is 1. This is all that can be mathematically gotten out of the Ricardian formula; but such as it is, the rule is of universal application.

Let us test by the same rule the income from a ship. Ascertain the product that can be had from it, and then search the docks for the clumsiest hulk to which can consistently be entrusted as many men and as much auxiliary capital as are entrusted to the one that we are testing. This is the no-rent ship, and its product is the subtrahend in the second number of the rent equation; it equals wages and interest on subsidiary capital. The rent of the good ship equals its product minus the product of such other ship as pays wages and interest on auxiliary capital. In a simpler form the rent of the ship is its product minus such wages and interest. The earnings of this instrument are gauged by its power to increase the product

of industry. Precisely the same is true of the mill and the canal, the mountain summit, the mine, and the building lot.[1]

Whether no-rent land, ships, mills, etc., actually exist or not is a matter of scientific indifference. The formula would be equally good without them. A hypothetical subtrahend is as serviceable in the equation as an actual one. The rent of a piece of land might be said to equal its product minus the product of the poorest piece that ought, according to economic principles, to be cultivated with the same outlay. We should then, in estimating the rent of a farm, appraise its crop and, from the value thus computed, substract the value of a supposed farm of such a quality that if it were in fact cultivated, it would yield wages and interest on auxiliary capital, but no more. Now it takes but little reflection to perceive that the authors of the Ricardian formula actually proceeded in this way, and that those who use the rule do the same. There are in actual use fields that yield a minus rent, fields that fall short of paying wages and supplementary interest. These must be thrown out of scientific account or the formula is vitiated.[1] If it is to tell the truth about the rent of land or of anything else, it must compare its product with that of a similar instrument arbitrarily selected, because it yields just

---

[1]In order that the formula may be actually true it is necessary that the term product be construed as including all increments of value attaching to the instrument itself, and all loss of value that it suffers by deterioration. The formula then applies equally well to all the concrete forms of capital.

[2]It may be said that these minus-rent fields are not in permanent cultivation. But the only evidence on that point is the *a priori* one above given. Science proves that it will not pay to cultivate them. There are certainly no statistics on the point.

the amount covered by wages and interest on auxiliary capital.

The universality of the rent law, when stated in a form that will bear testing, is the chief truth thus far attained by our analysis. The law becomes, indeed, a circuitous statement of the simple truth stated by Adam Smith when he said, in effect, that the rent of land is its product less what a tenant must reserve for wages and interest. In a general form the rent of any instrument equals the amount that it adds to the product of the industrial agents that cooperate with it. The earnings of all capital in concrete forms are gauged by the productive efficiency of those forms. Make a list of everything that industrial society uses, test the earnings of every piece by the Ricardian formula, add the amounts thus gained and you have the total earnings of concrete capital.[1]

[1] In testing the rent of a farm we virtually substract from its product wages for labor and interest on auxiliary capital employed upon it. What is that auxiliary capital? Buildings, fences, drains, tools, etc. These are concrete instruments of production, and subject to the rent law. The rent of improvements, implements, etc., considered in the aggregate, equals the product gained in the process of using them minus wages of labor and interest on the value of the farm. In applying the formula to improvements, etc., the land itself becomes the auxiliary capital to be taken into account. What, then, if the returns of the industry afford a surplus above wages and interest on all capital, whether in land or in other things? That surplus is pure profit. It belongs to the entrepreneur; and the applying of the rent law in two directions, in the manner here suggested, enables us to accurately gauge the amount of it. The gross returns of the industry cannot, under such circumstances, be construed as the "product," that is the minuend in the rent formula; since, if they were so, the formula, when applied only in one direction, would be vitiated. Pure profit would figure as rent of the particular instrument to which the test might be applied. The product to be recognized in applying the law is exclusive of special gains resulting from exceptional opportunities and lying wholly within the

This grand sum is identical with the total earnings of abstract capital. The law of interest also is universal.

The rent that we have been speaking of is a mere market rent, not a normal one. It disregards the cost of producing the instruments. In the long run the market rent of most things conforms to a normal standard, as fixed by the element of cost. If the earnings of a ship are larger than those of a mill that costs as much, less mills are built and more ships. The competition of ships with each other then reduces their earnings to the standard that is maintained in other spheres of investment. It is the interest on the pure capital invested in an instrument of production that determines its permanent or normal rent. Pure capital gravitates to the points of greatest returns; it seeks out and vests itself in concrete forms that, as tested by the rent formula, give the greatest earnings. The result is an equalization of the earnings of pure capital; and this is the primary law that governs the returns of productive wealth. Pure capital interpenetrates and dominates the concrete instruments of production, and the law of interest, rather than that of rent, is permanent and supreme. The entire process of distribution resolves itself into a division of social earnings between labor on the one hand, and pure capital on the other, followed by an equalizing process on both sides. The earnings of

---

control of the entrepreneur. It is the product that the owner of the instrument can count upon if he lets it to an employer who possesses the normal amount of business ability and enjoys average opportunities. If this special definition of the term, product, be inadmissible, then the Ricardian Law of Rent, as now generally applied, is vitiated.

capital tend toward equality ; and, with certain important reservations, those of labor do the same.

Has land a normal rent? Does the cost of producing it have anything to do with the earnings that it will in the long run yield? Does the equalizing principle apply to it, and will the pure capital that is vested in it generally return the same interest as that in other forms? The answer in each case is "yes." If land were a natural monopoly, pure and simple, the market rent of it would be the only one to be recognized, and that would be fixed by the Ricardian formula at a scarcity rate. Three of the four utilities that constitute its value are, as we have seen, produced by labor, while the fourth is the result of general social growth, and constitutes a limited monopoly. The rents of the three manufactured utilities are normal; they are governed by cost of production. Fertility, as secured by drains or irrigating canals, tends to secure for the makers of such improvements a return proportioned to their cost. Fertility gained by enriching surface loam is more immediately amenable to the rule of cost. The accessibility that is secured by improvements in the means of transportation conforms to the rule of cost only in a general and imperfect way; the disturbing influences that are a constant factor in applied economics need here to be made exceptionally large. Still, even here, with adequate allowances, the rule may be considered as operative. The utility that depends on local proximity to markets is independent of cost, and the rent that is secured by this utility is gauged by the Ricardian formula. The total earnings of a piece of land are a composite of three rents that are, in a general

way, normal, and one market rent that is fixed at a scarcity rate.[1]

The importance of these principles lies in their bearing on future rents. The earnings of the single utility in land that is a monopoly tend to rise as population increases; the returns of the three utilities that are industrial products tend to fall as wealth accumulates and processes are perfected. The permanent rent of land in its entirety is the resultant of these opposing forces; it is the sum of four rents, of which one tends upward and the others downward. It is a scientific absurdity to treat land as, in its entirety, a monopoly, and as certainly destined to increase in its rental value to the end of time. Given certain conditions, and the total rent of the four utilities of land will increase; given certain other conditions and it will decrease. The conditions of increasing rents are now realized in the world; those of a general decrease may be slow in coming, but those of a retarded increase are near at hand. How soon and how extensively the checks upon rent may make themselves felt is a question of the relative strength of opposing forces. The utility in land that is a limited monopoly is at present rising in value so rapidly as to obscure the presence of the three other

[1] Living as we are, in a period of original occupation and exploitation of land, when the natural utilities in it overshadow the artificial ones, we have difficulty in realizing the permanent relation between those kinds of utility, and the idea that either the price or the rent of land may conform in any considerable degree to a standard of cost, may seem altogether theoretical. It will probably seem less so when the interval of exploitation shall have been, in the main passed, and when land shall be utilized in a normal way. Scientific laws are those which hold good in the period of normal utilization.

utilities, and to give to land, as a whole, the fictitious appearance of a monopoly. This appearance exists, however, only to the hastiest view, a second glance shows its unreality. Even during the epoch of grand exploitation, while a continent has been in process of seizure, counteracting forces have sufficed, in particular localities, to depress land values. Agricultural rents have fallen in a great part of New England. More and better land has been artificially made accessible; and though the utility that once gave a high value to the lands of these States, namely, capacity to be easily reached from markets, resides in them to-day in a still greater degree than ever before, the value of it is lowered by the great supply of that same utility that has been thrown into the market.[1] We have manufactured so much of this land value that we have depressed the price of what nature gave us.

When once the period of original occupation and exploitation is over a new set of conditions will supervene. Agriculture that is now enlarging by territorial expansion must thereafter enlarge by a process of compression. It must become more and more "intensive" within given areas. Instead of striving to include as many acres as possible within the area to be tilled by a single man working with a minimum of capital, it will find itself forced to expend more and more labor, and to employ more and more auxiliary capital, within a given area. With the epoch of intensive agriculture the artificial

[1]The subject of the utilities created by improved means of transportation demands a fuller treatment than is possible within the limits of this sketch, and may receive it in the treatise referred to in the prefactory note.

utilities of land must come definitely to the foreground. With population growing slowly, and with capital increasing normally, there may be afforded conditions in which the cheapening of the utilities of land that are created by industry shall overbalance the increasing dearness of the one that is a residual monopoly, and give, as a resultant, a declining rent of land in its entirety.[1]

In his valuable treatise on *The Premises of Political Economy*, Dr. Simon Patten has called attention to the fact that, when once auxiliary capital has been put into land in the form of large permanent improvements, it cannot be withdrawn; and if such improvements have been made at the margin of cultivation, they must have permanently extended, at that point, the cultivated area. Even a decline of population would not throw out of use the particular piece that has been thus extensively improved. Slight improvements may carry a piece of no-rent land just within the margin of cultivation, and leave it where the first decline in population would throw it out. Great improvements carry it so far within the limit that it cannot thus be thrown into disuse.

To this a critic has replied that though the particular piece of land thus improved might not be thrown out of use by a diminution in the demand for crude products of the soil, other pieces would be so, and the Ricardian principle would hold good, that the margin of cultivation advances with increasing population, and recedes with every decline. The recession may not take place at the point of advance.

[1] Land not subject to artificial improvement may decline in the return that it yields per acre; and land that is subject to such improvement may show a corresponding fall in the income that can be attributed to its natural utilities.

Putting both views together, since both are true, we have a picture of what might occur if the demand for crude products of the soil were subject to considerable alternations. There would be a substitution of artificial utilities in the soil for natural ones. With an increased demand for raw products a swamp would be drained and a rich field secured; with a decline in that demand a barren hillside would be abandoned. With another advance a plain would be irrigated, and with the following reaction some half arid stretch would be given up. If the decline in the demand in each case equaled the advance, there would result a permanent recession of the margin of cultivation in certain quarters, and a permanent advance in others. There would be a constant gain in the proportion that artificial utilities in land bear to natural ones. Man's work would slowly supplant the untouched work of nature.

It needs to be noted, in passing, that economic science has contented itself with an exceedingly crude conception of the phenomenon known as the advance of the margin of cultivation. Agriculture has been in the main treated as if it were homogeneous. A given area has been tilled, some of it with more and some of it with less of labor and capital; but varieties of tillage have played a small part in the theory of the subject. For exact results each distinct kind of agriculture needs to be treated as a separate industry. The principle of non-competing groups has as clear an application here as in other departments of economy. Wheat farming can scarcely be said to come into competition with sheep raising; nor can market gardening with dairy, farming, wood growing, or cattle raising, not to

mention such special industries as the cultivation of cotton, flax, tobacco, hops, rye, barley, etc., nor the making of lumber, the gathering of resinous products, and the many varieties of mining. Each of these industries has its own margin of cultivation; and the advance and recession of it is governed, in each case, by specific conditions. Moreover, a rent law, to be available as a principle of distribution, must apply to every economic use of land, whether agricultural or not. It must gauge the returns of building sites, water fronts and water powers, railroad ways, etc. In general an advance of the margin of cultivation resolves itself, not so much into the taking of new land into the area already utilized, as the carrying of some of the more "intensive" forms of industry into regions formerly occupied by more "extensive" ones. When lands given up to the growth of brush-wood become pastures, and when corn-fields become market gardens, the margin of specific industries will have advanced; and this is the only kind of advance that in the long run needs to be much considered. The absolute extension of the area of economic utilization must, as it would seem, soon cease to play an important part in general industry. The poorest land will at some time lie within the ultimate margin; it will have some economic use. The substitution of one use for another is caused by some specific change in the quality of social consumption.

Reverting now to the subject of the substitution of man's work for that of nature, in fitting land for effective service, we find that it is not necessary to suppose that the demand for crude products fluctuates in order to have conditions in which land man-

ufacture becomes an increasing element in economics. The conditions that control this tendency are subtler than those in the case just noticed. They lie in the relation of pure capital to final consumption. How much instrumental wealth have men, and how much consumers' wealth do they use?—are test questions. Moreover, in the final consumption, the quality of the commodities used is important. What kind of goods men buy for their own use is as large an element in the problem as how much in mere quantity they buy.

The discussion of this subject would transcend the limits of this essay, but it is necessary, even here, to indicate the forces that tend to increase the proportion of artificial utilities in land, and to make it more and more subject to a law of normal rent. Let us suppose that the original occupation of our territory for industrial purposes of some sort were, in the main, completed. There would still be great areas not actually tilled, and an increase in population, while capital, interest, and wages remained stationary, would advance the area of actual tillage and increase the proportion that natural utilities in cultivated land bear to artificial ones. With more people we should have more acres in use; meadows would become gardens, pastures meadows, and waste lands pastures; but there would be no costly redemption of swamps and arid plains.

Vary the conditions; let capital increase rapidly, and population slowly or not at all, and you will see good land manufactured and the poorest of the natural fields thrown out of tillage. With more wealth we shall have better land and less of it.

Vary the ratio of distribution; give more of the income of society to labor and less to capital, and you

turn the land-making industry into a new direction, and make the new fields produce "qualitative increments" of food, clothing, and shelter. There will be a demand not for more food, etc., but for better food, finer clothing, and more comfortable dwellings.

If the ground be taken that this increase in the reward of labor must always lead, in a short time, to an enlarged population and a reduced rate of wages, the conclusion will be drawn that the only permanent effect of the transient prosperity of labor will be a call for more crude means of subsistence, and a pushing forward of the margin of cultivation in order to get it. If the healthier view be taken, that prosperity among wage-earners does not necessarily annul its own effects, then it will appear that an era of high wages may cause a permanent qualitative advance in production. It may raise human life to more rational levels. The elevation of man's mode of living causes the earth itself to change under his manipulation. Less of coarse products are demanded and more of fine ones; these require special qualities in the soil that furnishes them, and there results an increasing preponderance of the artificial utilities of the land itself, a literal subjugating of the earth, followed by and again following the improvement in man's own nature.

The conclusions thus far reached may be summarized in the following propositions:

1. Rent is the part of the social income that is earned by concrete instruments of production. Interest is the part earned by the abstract fund of pure capital that is embodied in these instruments.

2. The Ricardian law of rent, when correctly stated, governs the market rent, not only of land,

but of all concrete things into which pure capital enters.

3. Instruments artificially made have a normal as well as a market rent. This is governed by the cost of producing them. Pure capital flows spontaneously into the forms in which it yields the largest returns, and reduces those returns to the level fixed by other instruments of equal cost. The tendency of interest on pure capital is toward a general level; and this tendency governs the returns of all artificial instruments of production.

4. Land is partly subject to this law. Of the utilities that constitute its producing power and create its total rent, three are subjects of artificial production and command normal rents; the fourth is a limited monopoly and commands a market rent only.

5. The principle of non-competing groups needs to be applied to agriculture, if the true nature of the advance and recession of the margin of cultivation is to be apprehended. There are, in reality, as many margins as there are distinct groups.

6. The effect of higher civilization is to cause the artificial utilities of agricultural land to predominate over the natural ones, and to thus subject this complex instrument more and more to the law of normal rent. The element in land that is a monopoly is losing its relative importance.

The Earnings of Pure Capital.

In attaining a simple formula that governs the rent, not only of land, but of every concrete instrument of production, we have incidentally attained an equally simple rule that applies to the earnings of all pure capital, whether it be invested in the

ordinary instruments of production or in land itself. It is based on the equalizing action of pure capital; its earnings tend toward a universal level. There can, therefore, be no permanent question in equity between one class of capitalists and another; neither can there be such a question between workmen and a particular class of capitalists. Whatever permanent grievance workmen may have on the ground of the general results of distribution is against the capitalist class as a whole. Natural law, in the long run, levels inequalities, and if one class of property owners appears to-day to be specially favored, it may by to-morrow appear to be correspondingly oppressed. A uniformly low rate of interest on capital in every form is one general result of natural law in distribution.

The principle that tends to give to capital a uniform reward, regardless of the form in which it may be embodied, is a chief basis of an equitable system of distribution. It is pure capital that represents "economic merit," or personal sacrifice incurred in the service of society. While it is of no consequence that a mill, a ship and a farm should earn like sums for their owners, it is of every consequence that ten thousand dollars, the fruit of twenty years of labor, should command the same annual return, whether it be invested in mills, in ships or in farms. This adjustment is, indeed, never exact, and at particular times there are large variations from it; but the tendency toward it is an invaluable result of natural economic law.

We have said that this leveling principle applies to the capital that vests itself in land as well as to that that finds other forms of embodiment. The part of

the fund of productive wealth that is embodied in land, even apart from all artificial improvements, tends, under the influence of competition, to secure for its owners rates of gain that, considering the time and manner in which they are realized, tend to make this form of investment neither more nor less lucrative than others.[1]

The so-called unearned increment of land is an integral part of the gain that is realized from the pure capital invested in it. If the nominal or contract rent accruing to an owner of land from the industrial use of it, plus the increased value that the instrument itself acquires by time, equals the true rent of the instrument; and that sum is the true interest on the pure capital that it contains. If this is large, as compared with interest elsewhere realized, capital tends to flow in increased amount towards this form of investment, and to reduce the interest there realized to the prevailing level.

What is the immediate method by which an increased amount of capital can vest itself in a given amount of land? By competing for the purchase of the land in the market, and raising the price of it. Land manufacture is a slow process. Three of the four utilities that constitute the value of this instrument are, indeed, capable of being created by labor, and in no connection must this fact be overlooked; but the production of them involves time, and before

[1] Security against ultimate loss is an element that affects the nominal rate of interest on a particular investment; and so is the element of immediate convertibility. Investments that are safe and quickly convertible bear the lowest interest. Capital in land possesses one of these advantages, but lacks the other. It is safe, but highly inconvertible; and a part of the return that is realized from it is an offset for the uncertainty and delay in realizing that return.

it can happen a competition may take place for the possession of the land already in the market. The price of it then rises till it ceases to furnish a specially desirable form of investment. The price reached is that at which the pure capital that the land embodies is rewarded at the same rate as other portions of the general fund that are invested in equally safe and convenient ways.[1]

If the rent of land be fixed, the price of it tends to vary inversely as the rate of interest; the farm that is worth ten thousand dollars when interest stands at five per cent. should, if its rent remains the same, be worth twelve thousand and five hundred, when interest shall have fallen to four per cent. At its former price it would now constitute a specially lucrative form of investment; and under a system of free sales and easy transfers of land, capital would seek it in such quantities that its price would rise, and the special inducement to further investments in this direction would be removed. Interest is, in fact, declining, and the price of land is consequently rising. A part of the "unearned increment" is the result of that tendency of capital toward uniform earnings that is so important a feature in an equitable system of distribution. If a given amount of "economic merit" is to win everywhere a uniform reward, capital must seek investment in land whenever interest declines, and by the process raise the market price of this instrument.

The system of social industry rests on the right of men to what they create. That is not things but

[1] Under these circumstances the man who buys land and pays for it knows nothing of any unearned increment of gain. He or some near relative acting in his interest has earned what he gave for the land, and by so doing has earned all that he will get from it.

utilities ; nature furnishes matter, and man modifies it so as to make it serviceable. It is, moreover, in civilized industry, not so much a particular utility as a quantum of utility in the abstract that a producer is obliged to claim as the fruit and the natural reward of his efforts. He makes, indeed, a distinguishable product ; but he merges it with those of many other workers in some completed commodity. He may perform one of the sixty-four operations that constitute the making of a shoe. The utility that he creates is definite, but he can never get possession of it ; and it would be useless to him if he did so. It has become an inseparable part of the shoe that represents the work of a little community of laborers. Now this modification of crude leather, which a worker affects many times in a day, represents a distinguishable quantum of effective social utility. In the aggregate it is pure capital of the circulating kind. A particular touch imparted to some hundreds of shoes represents a given value in the market, and it is this that a workman regards as his social product, and that he seeks to obtain in the form of wages. In any highly developed industry it is only an abstract quantum of wealth that a particular worker can claim and receive as his product.

Even the working group as a whole cannot identify and claim a particular concrete product. The shoemakers expend their work upon leather ; that, however, is the finished product of a series of earlier groups. As ready for final use a case of shoes embodies the products of cattle raisers, tanners, transporters, shoemakers, and various wholesale and retail dealers, besides those of a multitude of groups of producers of subsidiary materials such as thread, eyelets, pegs of wood or steel, coloring matter, elastic, etc.

If we were to select from each of these groups the particular men whose work is represented in the case of shoes, and were thus to make a complex group containing every one having a claim on it on the ground of labor; if we were to bring into this abnormal group all others having rights in the product because of capital that they have furnished to facilitate the making of it, we should still be unable to make good the claim of this small army of producers to the actual possession of the concrete product that they have made. That finished commodity is at once launched on a sea of commercial exchanges, and carried out of sight. It can never be found again; and if it could, it would be a mockery of the claims of laborers and capitalists to trace the product and bring it back to them. They made the shoes that they might part with them; what they claim as their own, to have and to hold, is the quantum of effective social utility that is embodied in them. The shoes represent an aggregation of values; in its entirety this rewards the complex group that made them; as resolved into its constituent quantitative elements, it rewards every worker that has contributed to it. Wealth in the abstract, mainly in the form of pure capital, is the prime subject of property rights.

Society vindicates the right of property in the manner in which it is asserted. It enforces the claims of the shoe producing group as a whole, not by tracing the shoes to their ultimate owners and wearers, and bringing them back to the men who made them, but by compelling every purchaser to pay for what he has. It also vindicates the rights of particular workers, not by trying to get for them fractional parts of shoes, but by conveying to them

the value that those parts represent. The claims that society expends its strength in vindicating are, in the main, claims to pure capital of the circulating kind. Once in the social cauldron a man's concrete product is lost beyond recovery; all that he can get is its essence,—the quantum of abstract wealth that it contains.

In primitive social states the case is otherwise. The savage guards his dugout, and the fish that he catches by means of it. Even here it is the utility and not the thing that holds it that is the true subject of the owner's claim. It is the service that the canoe can render that rewards the owner's sacrifice. If he were to lose his canoe without losing the service he would suffer no harm; but the service is inseparably bound up with the canoe itself. To protect it he or his tribe must protect the canoe. In the absence of exchanges what a man makes he, for the most part, keeps in the form in which he makes it; and if a crude tribal police would vindicate his right to essential wealth it must protect him in the possession of the particular concrete things that contain it.

In the case of certain values civilized society may still afford the easiest and best protection by guarding the vehicle that contains them. Fixed capital and consumers' wealth are regularly thus protected. In preserving for an owner the utility residing in a tool, a building or a piece of land, or that in a watch, a coat, a jewel or a piece of silver ware, society incidentally retains in his possession the identical article in which the utility resides. This protection of particular concrete articles is subsidiary and relatively easy. The police effort necessary for this purpose is indefinitely smaller than that involved in guarding

pure capital that is exposed to the dangers of a system of exchanges. It is in this latter field that great losses actually occur. It would take all the larcenies and burglaries occurring in a commercial city in a year to equal in their effects a single great financial swindle.

Society, then, makes it one of its primary ends to protect for owners the values that represent and reward their personal sacrifices. Incidentally it protects the forms in which those values are embodied, whenever such a course subserves the end in view. In a majority of cases the total abandonment of the form in which the value was first embodied is the natural, and, indeed, the only practicable course. The passive instruments of industry lose themselves in the market, and their owners only recover the value that they represent.

To the owners of capital the particular forms in which it may be embodied are so relatively unimportant that a conflict between the claim that a man has to a particular thing and the claim that another has to the value that it contains leads to the sacrifice of the claim to the article itself. The man who is in debt must part with concrete property if there is no other way to convey value to his creditor. If the value be in any way due to society the case is indefinitely stronger, and an owner's claim to concrete things must at once give way before it. A man may be made to yield anything that he has in order to promote the essential interest of society. The value of his property he keeps. Eminent domain does not weaken true property rights; it strengthens them. The law makes ample compensation to those whose concrete possessions it takes away. Eminent domain

is the right to change the outward form of a man's essential property, in order to preserve or increase the essential wealth of society. If it takes land for a public building it pays for it, and thus preserves the owner's capital intact; while, by the use that it makes of it, it protects and enlarges the capital of the community. This transmutation of the outward form of property an owner may at any time suffer; the property itself is, under good governments, secure,

Here, then, is one clear principle of economic politics. Abstract wealth is, in civilized states, the fruit of personal sacrifices; men work to obtain value, and they satisfy their wants by means of it, whatever may be its outward form. Claims in equity center here. Let value be everywhere protected; let its forms be transmuted with perfect freedom whenever by this course the essential interests of society can be promoted. The rights that center in the forms of property are trivial; those that center in the value of property are vital. Toward the forms of a man's wealth the state may conduct itself with imperial indifference; toward their content it must observe the scrupulous respect of a perfect court in equity.

The individual has a supreme interest in the mere amount of his pure capital; he has an inappreciable one in the form that it assumes. Whether he has ten thousand dollars or a million is for him a vital point; whether the million be invested in mills, railroads or farms is of little consequence. The state, on the other hand, has only a slight interest in the amount of a particular man's capital,[1] but it has a great interest in the form of it. That a man has a hundred millions of dollars is of little significance in

[1]The total amount of social capital is, of course, important.

comparison with the fact that that sum is concentrated in wheat, in copper, in oil, or in railroads. Monopoly inheres in the form of capital, not in the essence of it. True monopoly, in the objectionable sense, is the undue concentration of one capital in a single form, to the peril of other pure capitals. It is the exercise of a tolerated privilege of formal concentration of property, and is liable to violate the higher rights of property itself. Wherever it develops under natural law it is a clear subject of governmental oversight and regulation. The abuses of it are a clear subject for governmental suppression.

It is a current impression that the era of competition in the production and sale of manufactured commodities is passing away, and that the era of pools and trusts is to be one of essential monopoly in many directions. It is safe to say that this impression is hastily drawn, and that a very effective competition survives the formation of these seeming monopolies.[1] Yet the state cannot afford for a moment to trust to any theoretical conclusions as to the outcome of this movement, and must watch unceasingingly the growth and action of the pools that concentrate such limitless amounts of capital in single forms. It is inherently perilous. It is the nature of a capital thus concentrated in a single form of investment to menace, if not to trench upon, the property of the rest of the community. Yet the kind of competition from which pools have delivered us is an alternative evil too great to be suffered, and the state sees itself compelled to study and master new and gigantic

[1]For a discussion of this residual competition see the chapter, by Mr. F. H. Giddings, on The Persistence of Competition in the book entitled, *The Modern Distributive Process*—Ginn & Co.

forces. To suppress pools is both undesirable and impossible; yet the end toward which they appear to strive is monopoly; and a true monopoly, if it were to be attained, would imperil the rights of society.

The point of present importance, in connection with pools and trusts, is that only through the form in which their capital is invested are they in any way objectionable. It is therefore only the form that the state should even seek to control. Leave pure capital alone. Protect it and let it grow to any extent. Let fortunes that are not tainted by fraud in the making rise into the hundred millions without fear or envy. When they mass themselves in a single investment the problem presented to the community is how best to transmute them in form, leaving their substance unimpaired.[1]

The free sale of every kind of property is the natural means of preventing monopoly. When commodities are monopolized in the making, as in the case of a successful pool or trust, it is essential that the way be kept open for capital from without to flow freely to the point of large returns. When the absorbtion of a product takes place after it is completed, as in the case of a corner in produce, it is necessary that every legal facility should be afforded for the purchase and sale of that product. Outside capital then presses from every direction upon the

[1]The question may suggest itself whether fortunes of such dimensions can be amassed without fraud, and whether, if they could, the owners would be morally at liberty to use them solely for their personal benefit. These questions lie outside of the scope of the present inquiry. *If* great fortunes *are* untainted by fraud the state has no call to reduce them. The ultimate right of the state to demand the sacrifice of the property and even of the life *as a necessary measure of self-preservation* is not here denied.

artificial barrier that speculation has erected, like rising water upon a coffer-dam. The breaking of the barrier is, in the end, inevitable, and the task imposed upon the government in its protection of the equities of capital is lightened. Ninety-nine one-hundredths of the work are done by natural law

Free purchase and sale, the unimpeded flow of capital to the points of large reward,—this is the safeguard against monopoly. If a manufacturing trust is sustained by patents, the patent laws are a subject for legislative amendment. If it is upheld by protective duties, the law at this point is a proper subject for study and change. Guarantee the action of natural law, and it will do of itself much of the regulative work that is chiefly needed. If a residual work remains for the government to directly do it will be relatively simple.

The policy of maintaining freedom in the purchase and sale of commodities emphasizes the duty of the state to protect to the uttermost pure capital in every form of authorized investment. Independently, indeed, of this particular consideration, the right of a man to the social utility that his personal sacrifices have created is a clear one, and the duty of the state to guard that right is equally clear; yet the state may and does lay additional emphasis upon the duty by its action in inviting the free purchase of all forms of property. In its own interest it keeps all doors of investment open to pure capital, and invites it to enter. It sanctions by a special contract its antecedent duty of protecting it. "Go where you will," the state virtually says to pure capital, "it is for my interest that you seek the most profitable forms of investment, and I take on myself the duty of protecting you."

Pure capital when invested in land has the same rights that elsewhere belong to it. Whether nature, or society, or individual man made the earth as an economic entity, man makes, by personal sacrifice, the value that he pays for it. That value is the subject of his claim; the land itself is a vehicle, and may be shifted with entire freedom, if public necessities so demand. The fruit of personal sacrifice, embodied, with the sanction of the state, in the commodity, land, is sacred as against spoliation from any and every quarter.

Yet here also the right that is absolutely clear is put in a special light by the confirmatory action of the state. The free sale of land affords the practical safeguard against monopoly. It has already diffused to an extent not dreamed of in most states the benefits accruing from the rich endowment that America possesses in its soil. It has made us, even when not agriculturists, a home-owning community. It keeps the door of land ownership open, so that wherever men voluntarily refuse to enter it, they give evidence of having a more desirable alternative investment for such pure capital as they may possess. With land in abundance for sale the man who does not buy it, either has no pure capital, or has what is to him a better use for it. A free and active land market is a primary natural guaranty of equity. Yet the maintenance of freedom of sale in the case of land involves here as elsewhere a special duty of protecting the capital that shall vest itself in it. Let the state in its own interest invite capital to freely vest itself in land, and it does not, indeed, create the duty of protecting it, but it places beyond all controversy the duty that already exists. The state must,

in any case, preserve all value created by personal sacrifice ; but if anything can strengthen this clear obligation, it is the fact of having, for the promoting of one of its own vital interests, invited capital to vest itself in a particular form.

Should the free sale of land fail, in the end, to counteract the growth of monopoly, should land-holdings become perilously large, a line of action is clearly within the scope of the state's authority. It may manipulate as it will the forms of capital. It may release and restore to the owners of this particular vehicle the pure capital that they have invested in it, and dispose of the container as it will. Eminent domain, by changing one capital in form, may preserve or increase a hundred others in substance. It is in the interest of value, the fruit of personal sacrifice, that the course is taken. If land, then, is anywhere dangerously monopolized, take it, pay for it, and use it as you will. Expediency here has much to say, but not equity. You will have guarded the essential wealth that, by your invitation and in your interest, has vested itself in this form. The evidence of *a priori* law, and the practical signs of the times, indicate that measures not a few for the diffusion of land ownership are in store for us in future eras. What our government has already done it may do hereafter, though in the face of greater obstacles. It may divide lands and put owners and cultivators upon them, even though it cannot continue always to present a farm to every man who asks for it. The land reform of the future will curtail great holdings and multiply small ones, while protecting to the uttermost the value that is anywhere invested.

What if the state should reverse this process? What if it should respect the form of landed property and seize the essence of it? What if it should leave every owner in possession of his land, and by taxing that land up to its full rental rate, take all the value out of it? Would it be robbery? No; it would be the quintessence of robbery. The act of the highwayman, who should demand your money, take it from your purse and complacently present to you the purse itself as the sole thing to which you have a right, would be in comparison a mild offense. The logic of the two cases would be identical. Property inheres in essential value, not in the form that contains it. Property in land is the right of the artizan, the clerk, the teacher and the farmer to their earnings, as saved and put into homes and farms. It is the right of the capitalist to the wealth that, by invitation of the state and for its interest, he has entrusted to this form of investment. Take the form, if you can establish a case of public expediency for such a measure; the content is the fruit of labor and waiting, and the right to it is the one sacred thing in economic politics. Touch it and you are a robber in somewhat more than the first degree. Inaugurate a systematic policy of taking it by public authority, and you place yourself and your government somewhat beyond the extreme left in the revolutionary gradation. Anarchy would become, in comparison, almost a negative and harmless state. Out of a condition of no government some government will emerge; but what can come from a positive rule that is the refinement of spoliation? What hope is there for a state, established primarily for the protection of person and property, and now system-

atically seizing the special element in concrete wealth in which rights of ownership inhere? Here as elsewhere the instincts of men are trustworthy. Pure capital in land is and will be protected, and the measure that has no hope of success is the one that shall antagonize this moral verdict.