IU NEWSLETTER
MAY 1970

RENT AND PRICE - A REBUTTAL

By GASTON HAXO (St. Petersburg, Fla., U.S.A.)

In IUN No. 9, Messrs. Richard T. Hall and S. Tucker take me to task for claiming that rent is part of price.

Mr. Hall denies that rent and wages are factors in the market price of a product, "since market price is determined solely by the law of supply and demand." That is true at a particular time and place, but Mr. Hall forgets that there is something which affects supply and demand and that is the cost of production (rent and wages). A market price higher or lower than a normal production cost will cause supply and demand to fluctuate accordingly and tend to bring about an equation of cost and price. Therefore it is clear that in the long run, it is rent and wages which are the basic determining factors of prices. If we operated on a barter system, the laws of economics being what they are, the results would be the same as they are under a money system. Wages and rent would be paid in labor products whose exchange ratio would depend, basically, on their cost of production (wages and rent).

Mr. Tucker argues that total price for all the goods brought to market obviously include the surplus known as rent, but that rent is not part of the price charged per unit, the proof of this being that "goods of the same quality, etc., tend to sell at a uniform price irrespective of the rent element; rent does not enter into the individual price of any commodity." To prove his point, Mr. Tucker offers this illustration: "A" produces 100 bushels of wheat from "100" land, and "B" can produce only 50 on his inferior land. "A" gets a market price of $100 and "B" $50. "Rent is part of total price, not part of the price charged per bushel."

My answer is that, on the contrary, if goods of equal quality, etc., produced on various grades of land, tend to sell at a uniform price, it is because rent is included, otherwise goods produced on the most productive land, at the lowest cost, would sell at a lower price than similar goods produced at a higher cost on inferior locations. In other words, rent tends to equalize the cost of production, thus: lowest labor cost (1) plus highest rent (2) equals 3. Higher labor cost (2) plus lower rent (1) equals 3. Highest labor cost (3) plus no rent equals 3.

In Mr. Tucker's illustration, B's cost per bushel is $1 (all labor); A's cost per bushel is $1 (50¢ labor and 50¢ rent). How could A sell 100 bushels for $100 without charging any rent? It could be done on the first 50 bushels by charging $1 per bushel for labor instead of 50¢ and nothing for rent (a questionable procedure) but in that case the other 50 bushels would have to be sold at $1 per bushel for rent instead of 50¢ and nothing for labor (even more questionable, for a labor product which has no labor cost is an economic hallucination). Far from proving that rent is not in the price, Mr. Tucker's illustration seems to prove the opposite. The truth is that whenever rent represents a lower cost of production, it has to be part of the price, unit price as well as total price, otherwise rent could never be collected.

Thus we see that rent is a most valuable economic fact and that, if publicly collected, it would not only provide the public revenue, but would also give producers an equal opportunity and would, by equalizing production costs, insure fair competition. At present it is possible for a landowning producer to beat competition by giving away some of his unearned increment in lower prices, something which his rent-paying competitors cannot do.

In my article on "Rent and Price" (IUN No. 8) I wrote: "The profit motive prevents the landowner from selling below the market price, thus forcing him to collect the rent." The article by Frank Dupuis in IUN No. 10 causes me to reflect that the profit motive is not a sure preventive but land value taxation would be.