Monopoly Elements in Rent

John Ise

The American Economic Review, Vol. 30, No. 1, Part 1. (Mar., 1940), pp. 33-45.

Stable URL:
http://links.jstor.org/sici?sici=0002-8282%28194003%2930%3A1%3C33%3AMEIR%3E2.0.CO%3B2-B

The American Economic Review is currently published by American Economic Association.

Your use of the JSTOR archive indicates your acceptance of JSTOR's Terms and Conditions of Use, available at http://www.jstor.org/about/terms.html. JSTOR's Terms and Conditions of Use provides, in part, that unless you have obtained prior permission, you may not download an entire issue of a journal or multiple copies of articles, and you may use content in the JSTOR archive only for your personal, non-commercial use.

Please contact the publisher regarding any further use of this work. Publisher contact information may be obtained at http://www.jstor.org/journals/aea.html.

Each copy of any part of a JSTOR transmission must contain the same copyright notice that appears on the screen or printed page of such transmission.

JSTOR is an independent not-for-profit organization dedicated to and preserving a digital archive of scholarly journals. For more information regarding JSTOR, please contact support@jstor.org.

http://www.jstor.org
Wed Feb 14 11:40:46 2007

MONOPOLY ELEMENTS IN RENT

The concept of land ownership as a monopoly is old, but it reappears in new and altered form in Professor Edward Chamberlin's theory that urban rent is a purely monopoly income, while agricultural rent is purely competitive. This theory, based on a confusion of the markets for *retail goods* and *agricultural products,* on the one hand, and the markets for *retail sites* and *farm lands,* on the other, seems definitely invalid. The markets for both retail sites and farm lands are imperfectly competitive; and the rent, in both cases, is an imperfectly competitive return.

Land ownership has often been referred to as a monopoly. Adam Smith's well known dictum that "the rent of land . . . is naturally a monopoly price" was followed, in some cases with modifications, by Malthus, Senior, J. S. Mill, Henry George, and by a few recent economists. This doctrine has not hitherto met general acceptance, but Professor Chamberlin has recently given it new prestige in his *Theory of Monopolistic Competition* in which he has formulated the novel theory, that while agricultural rent is a purely competitive return, urban rent is a "pure monopoly return."[1]

Professor Chamberlin finds many differences between agricultural land and urban land, and between agricultural rent and urban rent. He contends that a business site confers no advantages analogous to superior fertility in agricultural rent; that one site "is capable of *producing* as large a quantity of retailing services as another—there are no differences in fertility and no scarcity whatever of the best land in this respect"; that marginal and submarginal land anywhere—practically free land—is as "fertile for selling purposes" as the best shopping site in New York City. Urban rent, which is entirely location rent, is quite different even from location rent of farm land; for the location rent of farm land is due to differences in the cost of transportation to the market, but the urban land "carries its market with it." The market for agricultural products is purely competitive, allowance being made for differences in transportation costs; there are many buyers and sellers, as required for pure competition, and any seller can dispose of an indefinitely large amount of product at the prevailing price. "The retail market, on the other hand, contains monopoly elements, for the factor of convenience differentiates the product spatially." Since buyers do not move about with entire freedom, the owner of any particularly convenient site, according to Professor Chamberlin, has a monopoly of the use of the site, and receives a monopoly rent. His site affords a market which is, to a degree, distinct from the whole; and the amount of product he can dispose of at the prevailing price is not indefinitely large—as in pure competition.

It is not difficult to agree with much of Professor Chamberlin's argument. It is quite true that the advantages afforded by good business sites are different in some respects from those afforded by good land; that low-rent sites

[1] Third ed., pp. 112, 113, and Appendix D. Professor Chamberlin considers only the rent of agricultural land and of urban land devoted to retailing.

are not poorer than high-rent sites in the same sense that marginal agricultural land is poorer than good agricultural land; that the owner of a particularly convenient urban site is a monopolist with respect to his own site, to the extent that it is differentiated from all other sites. For reasons that will presently appear, we may concede that the rent of urban land *may* include a more important element of monopoly than that of agricultural land; but even this is doubtful.

Much of Professor Chamberlin's analysis seems, nevertheless, to be unsound, and his general conclusions entirely invalid. Throughout his analysis there is a confusion of the market for *products* of land and the market for the *land itself*. He is concerned with the differences between the farm *business* and the retail *business,* and with the differences between the pricing process for *farm products,* as contrasted with *retail goods.* As in his general theory of imperfect competition, he states that the market for farm products is purely competitive, while the market for retail goods is imperfectly competitive; and apparently from this he proceeds to the conclusion that the market is perfectly competitive for agricultural land, and imperfectly competitive or purely monopolistic for urban sites. (Just how he proceeds to the conclusion that urban rents represent "*pure* monopoly," the writer is unable to make out; and he is also unable to understand how there could be any pure monopoly.) In Professor Chamberlin's analysis little attention is given to the *land market,* in which rents are determined.

His conclusions, even as to the *products* markets, seem to the writer to be only partially valid. There is clearly an error in the first assumption here—in the assumption that the market for farm products is purely competitive. The markets for such staple commodities as wheat, cotton and corn approximate this fairly well, yet with important qualifications. If we think of the wheat market, for instance, as the place where the farmer sells his wheat, there is of course a strong taint of monopsony, or duopsony, or perhaps of oligopsony, in the market; for there is often only one elevator, and there are seldom more than two or three, within easy hauling distance. At one time the grain elevator was one of the mid-West farmer's most hated monopolies. This would not be the ordinary conception of a market, to be sure; but when we turn to the grain exchange we find again that the picture of perfect competition does not fit the facts. Standardization of wheat is not perfect, for there are some variations in quality within a given market grade. Millers do not buy wheat of a given grade indiscriminately, but, for at least a part of their needs, buy only after inspection and testing. Such other farm products as tobacco, fruit, livestock, poultry, eggs, milk, butter and cheese are by no means so standardized as to meet the requirements of a perfectly competitive market. There are, furthermore, definite elements of monopoly in the markets for agricultural products: on the demand side, for tobacco, livestock, flax, often for milk and some other products; and on

the supply side, for some kinds of fruits and nuts, and sometimes for milk. Even where there are many producers and many consumers, there are often monopolistic elements in the middleman's functions.[2]

In his discussion of the retail business, Professor Chamberlin comes to even more questionable conclusions. The statement that "urban rent arises from the products of lands of the *same* grade being sold in *different* markets" raises two questions: a minor one, to stress which would be cavilling—why "the products of land of the *same* grade?" It seems obvious that the products of lands of *all* grades are mixed beyond possibility of identification. A more important question arises from the assumption that different retailing sites are *different markets*. To the extent that they are really different markets, the retailer on each site would be a monopolist; yet his store could scarcely be called a "market," as economists use that term, any more than could the local elevator at which the farmer sells his grain.

Much of the discussion of "spatial monopoly" in recent economic literature stresses too much the monopoly element in retailing. It is true, as Professor Chamberlin states, that the advantages afforded by different sites "are dependent only in part on relative volume of business," that "other factors are the prices which can be charged, and the type of business which can best be conducted on the location." The demand curve for goods sold on any site is not a horizontal line, but slopes negatively. The retailer on such a site can mark his goods at various different prices, and sell different amounts of goods; and presumably, like any seller under imperfect competition, he will fix his prices at the point which will yield him maximum net revenue. Yet various considerations indicate that the slope of the demand curve is not very steep, and that competition and not monopoly should be stressed here.

In the first place, although different stores, and different sections of the shopping area, appeal to different classes of people, offering different qualities of goods and grades of service, quality of goods and service considered, prices cannot vary much. Logic would suggest that they might be higher on the high-rent sites, where the greater crowds are, and where therefore the demand curve should have the steepest slope; yet there is certainly no evidence that prices are higher on these sites. Operators here evidently think of their advantages mainly or entirely in terms of volume rather than price. Anyone who observes shoppers flitting from one store to another will get the impression that prices charged on different sites are given rather careful scrutiny. This scrutiny is likely to be effective with respect to the many branded and perfectly standardized goods sold at retail.

A second consideration indicating that the slope of the demand curve

[2] On the monopolistic elements in agricultural markets the writer has used a study on *Monopsony and Monopsonistic Markets,* by Mr. Ross Robertson, of the department of economics at Kansas.

facing the operator on a high rent site does not slope much, and that competition should be stressed rather than monopoly, appears when we analyze the crowds of shoppers who are responsible for high rents. Professor Chamberlin, like many other writers on this subject, seems to assume that these crowds just *happen to be* in the high-rent shopping districts. To some extent this is true. To some extent, the large crowds are there because of immobility, or because they are "impeded" in their movements. The proximity of hotels, the confluence of street-car lines, perhaps many other factors, may mean that there are considerable numbers of buyers here, although these in turn may be here because there are good stores in the neighborhood. That the location of the shopping district of a city is to some extent determined by the distribution of the population through the city is indicated by the fact that shifts in the distribution of population usually bring shifts in the retailing districts. To some extent, the buyers do *happen to be* there, and the operator on a site faces a negatively sloping demand for the products sold there which will enable him to exploit them through higher prices than those generally prevailing on inferior sites. He may take advantage of the fact that they are "impeded" in their movements.

But to some extent buyers *come* there, *overcome* their "impediments" in order to be there, presumably because they find there advantages in the price of goods—or in the quality, or service, or selection available, which are dimensions of the price; and to that extent it is clear that the operators on expensive sites face a demand curve which, within the limits set by the rationality of buyers, is horizontal. They induce people to *come* by offering prices at least as low as those of competing sellers on less expensive sites, and their advantage over the sellers on poorer sites—the advantage for which they pay high rents—is measured largely, if not entirely, in terms of volume of business. The division of the retailing area of a city into different markets, while interesting in its theoretical aspects, offers a distorted and unreal picture of the retail business.

The statement that "there is no extensive margin in urban site rent" is consistent with Professor Chamberlin's theory that urban sites yielding different rents are really different markets. He argues that the costs of producing on low-rent sites are not higher—as they would be on marginal agricultural land—but rather that "the market they afford is smaller." Here there is apparent unwillingness to recognize urban uses as proper uses of land. Urban land "produces" only in the sense of affording "buyer contacts"; and the low-rent sites afford fewer buyer contacts than the high-rent sites—just as marginal agricultural land produces smaller crops in proportion to the amount of labor and capital employed. Just as a given amount of labor and capital will yield more produce on good agricultural land than on marginal land, so will a given amount of labor and capital yield more mar-

keting services on "good" urban land than on "poor" land. Just as increased demand for farm products leads to an outward shift of the extensive margin and more intensive use of the superior land, so does an increased demand for retailing services lead to a shift at both points. Marginal agricultural land is land that will produce barely enough products to pay cost of production; and surely there is logic in saying that marginal urban sites are sites which yield barely enough business to pay costs, including no rent. Or, if we must be meticulous, we may say that marginal land, in both cases, must pay a small rent, to turn it from the next lowest use.

Turning now to the *land market* and the rent of agricultural and urban land, we find a similarly inaccurate picture. There is no necessary connection between the products market and the land market, as far as monopoly is concerned, in either agricultural or urban lands. Monopolistic or monopsonistic elements in the market for a farm product may not affect the land market at all. If the tobacco manufacturing industry were highly competitive, the market for tobacco land would be no more competitive than it now is. Coöperative monopolies in the marketing of some kinds of fruits do not generally affect the land markets in any way. The market for farm products, on the other hand, might conceivably be purely competitive, and the land market highly monopolistic. This would be true, for instance, if a single land owner owned all the corn land, and rented it to a hundred thousand farmers. It is possible to conceive of a situation, similarly, where a single monopolist owner might own all the land in a city, yet the retail business would be as competitive as it is now. In such cities as Gary and Pullman, such a situation exists. Any city which socialized its land would be a monopolist owner of business sites; but such socialization would not affect rents or the retail business in any way, unless the city held some land out of use. Much of Professor Chamberlin's discussion of the markets for farm products and retail goods seems irrelevant to the problem of rent.

It is true that a city is a peculiar institution, in its relation to land. From one point of view, it appears that most of the people are there because the others are there, for the purpose of transacting business of various kinds; yet there is usually a fundamental geographic basis for the location of cities, and for the "market productivity" of urban sites, a basis analogous to the fertility of good agricultural land. The unequalled harbor of New York City, the river junctions at Kansas City and St. Louis, the lake site of Chicago, are such geographic bases, and the land near such strategic geographic points is highly productive of marketing facilities—of "buyer contacts"—somewhat as good agricultural land is productive of crops. Professor Chamberlin states that "urban land carries its market with it," but perhaps it would be more accurate to say that it *is* a market, as far as it is devoted to retailing. This calls for congestion, and at points of maximum congestion,

for very high rent; while there is never a scarcity of land beyond the fringe of urban use.

Much of Professor Chamberlin's analysis of urban rent seems confused:

> If entrance to every portion of a retail field were unimpeded, there would be no differences in the rents paid throughout. The impediment of land scarcity where customers are most numerous and opportunities for profit therefore greatest gives larger returns at some locations than at others—returns which cannot be reduced by other sellers moving in to share them.[3]

The idea seems to be that since retailers are "impeded" in their efforts to engage in business on the scarce, high-rent sites, those who have the use of the sites make monopoly profits, which competition forces them to turn over to the land owners, as "monopoly returns." Elsewhere Professor Chamberlin notes that the buyers are also "impeded," and with the same results:

> The movements of buyers being impeded, the "product" of each site contains an element of convenience to a certain group, and the seller locating on the site has a monopoly of its product, the full value of which he is obliged by the competition of others for its use to pay into the hands of the landlord. If buyers moved freely over the entire area, as they would if the market were a purely competitive one, the differences in urban rent, and in land values would entirely disappear.[4]

In other words, sellers and buyers—not of urban lands but of the products sold on urban lands—do not move about with perfect freedom and therefore the entire retail area of the city is not a single competitive market, but a number of separate monopolistic markets. As an analysis of the market for *goods,* this seems sound, although exaggerated; but the conclusions as to rent do not follow. Suppose sellers had free access to the high-rent land, and as many as wished to could use such sites, rent would be equalized only in the sense that it would disappear, just as agricultural rent would disappear if an indefinitely large number of farmers could produce an indefinitely large amount of farm produce on the best farm in Iowa. Such a situation would simply mean that the law of diminishing returns was no longer in operation, and of course rent would no longer be paid. What would happen if buyers—of goods—moved freely over the entire retail area is difficult to decide definitely, but it seems likely that rents would fall greatly; yet some rent would still be paid, and slight rent differences would persist. Complete mobility in buyers would *tend to* eliminate rents, for if buyers could move freely over the entire retail area they could presumably move farther, and cause the retail area to expand to a point where rents would *nearly* vanish. Retailers on no-rent sites would be able to get as much business as those paying rents, and, with consequently lower costs, could pull business to the margin, which would shift outward until rents approached zero. Some rent, and differences in rent, would remain, however,

[3] *Theory of Monopolistic Competition,* 3rd ed., p. 112.
[4] *Ibid.,* p. 215.

because of the immobility of *goods*. It would cost something to haul goods from terminals to the stores, and since this cost would be slightly greater for longer distances, the sites near the sources of supply would command rents equal to the differences in the cost of hauling. If rents are to be reduced to equality, or eliminated, there must be perfect mobility of both people and goods; but, as a matter of fact, if there were such mobility in both, there would remain only two reasons for the existence of cities: some people might prefer to live gregariously, and many would want access to city utilities.

All this, however, seems to be little more than begging the question. Urban rents are entirely, or almost entirely, location rents; and location rents are based largely on immobility of people or goods. Even the location rent of farms is based on the immobility of crops—the cost of transportation—or on the immobility of people, and would disappear if there were perfect mobility of both.

In all this discussion of the immobility of buyers and sellers, there is no mention of the immobility of *land,* which is far more important in the problem of rent. If the low-rent *land* could be moved to the high-rent locations, and could be stacked up there advantageously—as capital is—then indeed rents would be equalized, or eliminated; but land cannot be handled so.

Professor Chamberlin insists that there is no extensive margin in urban site rent:

> This concept has to do with a situation where the product of lands of *different* grades is sold in the *same* market, whereas urban rent arises from the products of lands of the *same* grade being sold in *different* markets. Low-rent sites are not poorer sites in the same sense that marginal land is poorer than the best agricultural land. The costs of producing on them are not higher; rather, the market they afford is smaller. Two sites have different rents to the degree that they are in different markets, and to exactly this same degree the concept of an extensive margin is meaningless as applied to them.

It is quite true that the extensive margin in urban site rent is a different sort of concept than the extensive agricultural margin; that low-rent sites "are not poorer sites in the same sense that marginal land is poorer than the best agricultural land"; but what of it? We might as logically reverse this, and say that "marginal agricultural land is not poorer than good land in the same sense that low-rent urban sites are poorer than high-rent sites." In the city, land is used for a different purpose—for the transaction of business, instead of crop production. It "produces" by providing access to the city crowds, by providing buyer contacts, rather than by growing corn or wheat; it affords "standing room" rather than fertility: but its services are quite as essential as the services of farm land. Indeed it is in its urban uses that we see most clearly the fundamental attribute of land, which, as Marshall points out, is "extension." In its extension, land is most definitely

a peculiar factor, most definitely a gift of nature, unalterable by man. Urban rent is easier to separate from other forms of income than agricultural rent, and for many purposes serves better as an example of economic rent.[5]

The truth appears to be that, with respect to monopolistic elements, there is no clear distinction between agricultural and urban rents. The land itself, in its physical aspects, is generally the same in both uses. The land on Manhattan Island could be used for agricultural purposes, if that were the most profitable use; and any farm land could be used for retailing, if it were taken into a city. There are of course other uses to which any land could be put if conditions warranted: urban residence, manufacturing, wholesaling, forestry, or recreation. No matter what the use, the rent (or price) of the land may be explained on the common principle of supply and demand—not for the products or services of the land, but for the land itself.

Since Professor Chamberlin is concerned mainly with the goods market, rather than the land market, he does not take pains to indicate clearly what is his conception of rent—whether he thinks of it as a differential surplus, of products or of buyer contacts, or as a money payment; but apparently he believes that even for urban land, the money payment equals the economic rent, and that the entrepreneurs pay the land owners the amount of the economic rent. At any rate he states:

> Competition among entrepreneurs to secure these monopoly gains is the force which puts them into the hands of the landlords. . . . The differential remaining (above profits) which is due to the superiority of the profit-making opportunities afforded by one site as compared to another, is rent, and is put into the hands of the landlords by the competition of entrepreneurs for the best opportunities.

There is no hint here of any monopolistic interference in the *land* market, no hint that it is not a perfectly competitive market. In fact, if the owner of an urban site can get, and must accept, for the use of his site a sum just equal to its productivity, in what respect is his market situation different from that of a farmer selling wheat? He has no more control over his price than has the farmer.

This point may be elaborated a little. The demand for retailing sites is of course a derived demand, derived from the demand for the advantages to be gained from the use of the land, advantages in the *number* and *quality* of consumer contacts—quality referring to the possibility of selling at high prices. Apparently the entrepreneur lessee, as Professor Chamberlin concedes, must pay the land owner just what those advantages are worth. If so, have we not an approximation of a perfectly standardized commodity, and a *purely* competitive market? In renting a site, the lessee is buying consumer

[5] This classic discussion of the differences between agricultural and urban rents is to be found in Von Wieser's "Die Theorie der Städtischen Grundrente," published in 1909, as an introduction to Mildschuh's *Mietzinse und Bodenwerte in Prague,* and reprinted in 1929 in Von Wieser's *Gesammelte Abhandlungen.* The writer ventures no elaboration of Von Wieser's views, but wishes merely to offer an argument against the notion that urban rents represent pure monopoly and agricultural rents pure competition.

contacts, and paying for them at a certain rate, much as if he were buying unstandardized gasoline and paying for it according to its propulsive power. If there are many sites available, although completely heterogeneous, and many bidders for sites, have we not the essentials of perfect competition? When we buy homogeneous gasoline at a certain price per gallon, we have the standardization essential to perfect competition; and if we buy heterogeneous gasoline at a certain price per unit of power in it, is that not essentially the same thing? The bidder in the retail land market may have a sentimental preference for a certain site; he may want to be in a certain general neighborhood for his particular kind of business; he may want a "grade" of site proportioned to his "grade" of abilities: but, aside from such considerations, it should make little difference to him which site he gets, since he must pay in proportion to the number and quality of customer contacts that go with it. Any site, provided that it fits the specifications mentioned, is about as good as any other; any site, within the limits suggested, is an almost perfect substitute for any other. From this point of view, since there are many buyers and a considerable number of sites, the retail land market would appear to approximate perfect competition.

The urban land market being thus, in effect, almost purely competitive, how does urban rent become a pure monopoly return? Apparently from the fact that the retailing business conducted on the site is imperfectly competitive: "The amount of product each seller can dispose of is not indefinitely large at the prevailing price. . . . Spatial differentiation results in demand curves for the goods of individual sellers which have a negative slope instead of being perfectly horizontal." The monopoly elements in the retailing business reflect back on the land and make the rent monopolistic; although it was the "spatial differentiation"—due to land—which made the retailing business monopolistic in the first place. There is a strong suggestion of circular reasoning here, and much of the reasoning can hardly be reconciled with the assumption that the land owners receive money incomes which measure economic rent accurately.

Defining rent as the money payment made for the use of the land, in order to square it with the general price analysis, let us consider further Professor Chamberlin's distinction between agricultural and urban rent. It is clear that agricultural rent is not a purely competitive return as he would have it, and urban rent is not a purely monopolistic return; but, on the contrary, both are examples of imperfectly competitive price. While the "buyers and sellers"—lessees and lessors—of agricultural land are numerous enough in the aggregate to make a competitive market, agricultural land is by no means homogeneous, but varies greatly as to climate, fertility, location and suitability for producing different crops. The agricultural area of the country, furthermore, is divided into many local areas which to some extent represent distinct and separate markets *for the renting of the land,* just as, according to Professor Chamberlin, the land area of a city does. In these

local areas the number of renters and farms to rent may not be very large, and rents may not represent anything even approximating competitive price. Still other factors prevent any very precise adjustment of agricultural rents: the heterogeneity in the dispositions of land owners, who differ considerably in the zeal with which they pursue their own financial interests; and a similar heterogeneity in the dispositions of tenants, with respect, not only to their ability as farmers but also their reliability in paying the rent. Other factors of similar significence are the fact that rent is often paid in kind, rather than in money, and the fact that a farm is not only a productive agent but a home as well, and therefore not subject entirely to business calculations. For all these reasons, farm rent does not conform to the law of one price, but, even for land of similar fertility and location, may vary.

The number of retail sites is of course smaller than the number of farms, and the sites are more heterogeneous with respect to their productive value—varying from almost nothing to the fantastic values on Wall Street—and perhaps also with respect to their uses; yet the number of sites suitable to most uses is so large that no owner could affect the rent much by withholding his land from use, and the number of demanders is so large that no one of them has much influence on the rent. The appraisal of these sites is fairly precise, probably more precise than the appraisal of farms. Their rents are determined in a market where the buyers and sellers are doubtless shrewder than farmers, and where purely business considerations operate, for business sites are not used as homes. On the whole, it is not certain that the market for urban sites is more monopolistic than that for farm lands.

There is a sense in which, indeed, the owner of a business site is a monopolist, and his rent pure monopoly; but it is not the sense in which urban rents should be considered. The owner of the site is a monopolist in his ownership and control of his site, if we consider only this one site. But the renting of a single urban site scarcely suggests a market, in a true sense. Where there are a number of bidders for the site, the transaction resembles an auction, with only one thing to sell. To picture a true market we should have to consider more than a single sale as being made, bringing in competing sites; and when we do so we see that the site has its substitutes, like any other commodity sold in an imperfectly competitive market, and that the price or rent represents an imperfectly competitive return.

Yet our conclusion as to the monopolistic character of urban rent will depend on our conception of the fundamental characteristics of monopoly.[6] If we think of monopoly as control over supply, the urban land owner is a monopolist, to the extent that his site differs from other sites; but so then is almost every owner of a product of nature, for nature emphasizes heterogeneity. Man is the standardizer. If we adopt this concept of monopoly, every farm owner is a monopolist, for every farm differs from every other

[6] See C. J. Foreman, "Theories and Tests of Monopoly Control," *Am. Econ. Rev.*, Sept., 1919, pp. 482-501.

in some respects; every owner of a residence site, or a factory site or mine, is a monopolist; every business-man of unusual abilities, every unusually able actor, actress, musician, singer, entertainer, doctor, lawyer, painter, writer, journalist and teacher; every artisan, mechanic, or taxi driver of exceptional ability or integrity. Every one of these has qualities slightly different from those of others of his class, and to that extent is a monopolist. But we may say, further, that every man, woman, or child, regardless of abilities, differs from every other, and is therefore also a monopolist. We may go even further. As any horse trader knows, every horse is unlike every other, in physical resources or in disposition, and cattle are far from homogeneous. The owners of such animals are presumably monopolists. The category extends even to many man-made goods. The writer's 1928 Franklin car is now definitely unlike any other car on the roads, and much of his hand-made furniture is quite unique; so he is a monopolist too—on several scores.[7]

Such a concept of monopoly has no great social significance, and does not suggest the anti-social character of monopoly. We may well regret that there are not a thousand Marian Andersons, a million Edward Filenes, and an unlimited supply of the best agricultural land and the most favorably located urban sites; but nature and not these "monopolists" is responsible for the limitation. A monopoly suit in such cases would have to be directed against nature, and not against men. We may favor heavy taxation of the incomes of the owners of such resources; but we should do so because such resources are largely unearned gifts of nature, rather than because they yield monopoly incomes.

If, on the other hand, we assume that the fundamental characteristic—or shall we say effect?—of monopoly is a restriction of production and an increase in price to the consumer, a characteristic constantly emphasized in Professor Chamberlin's writing, then urban rent has few of the earmarks of monopoly. The owner faces no negatively sloping demand curve for his land; he cannot consider withholding part of his site from the market, in order to lease the rest at a higher figure; he cannot restrict the use of his site, but, on the contrary, the higher his rent, the more stories will be built on it—the more intensively it will be used—and the more services it will render; his rent is not made by reducing services and raising prices to the consuming public. He must usually offer his land in competition with a considerable number of other owners of sites of about equal productive value; he must take as rent what he can get, as fixed by demand, by the supply of competing sites, and to some extent, perhaps, by higgling and bargaining. If his site is strategically located, it is even well that it should command a high rent, for that tends to insure its use by an able entrepreneur. It is unfortunate that such sites are not owned by the public, but since they are not, some one must own them, and in doing so they do not raise many of the problems directly connected with monopoly.

[7] See *The Theory of Monopolistic Competition*, 3rd ed., p. 112.

Somewhat the same reasoning applies to the other incomes which Professor Chamberlin classifies as monopoly returns—the incomes of men and women of unusual reputation, skill or ability. The able business-man commands a high income, which is in a sense a monopoly income, yet he does not, like the ordinary noxious variety of monopolist, characteristically skimp in the use of his monopoly abilities, but on the contrary is likely to work hard, to use his talents lavishly. The great singer, offering his services in installments at each concert, does indeed face a negatively sloping demand curve, and may choose to sing less—perhaps only in the larger cities—at higher admission charges; yet on the other hand he is likely to find that the oftener he sings the wider his reputation spreads, and the higher is his total income, as well as his income for each performance, because he is shifting upward the demand curve for his services. The great surgeon is generally a very busy man. His income is monopolistic, in a sense, but he does not generally skimp in his use of his talents. All this seems to indicate that the ordinary evil of monopoly—restriction of supply—is not found here. It is unfortunate that high talents are not more plentiful, but here are the forces that tend to make them as plentiful as natural and environmental limitations—not monopoly limitations—will permit them to be. There are no barriers but those established by nature and environment to admission to the classes receiving these incomes. It is even fortunate that great talents should command high incomes, not only because high incomes encourage the development and cultivation of such talents, as far as possible, but because, as in the case of high-rent urban cities, they tend to insure the most advantageous use of scarce talents.

The illusion of rent as a "monopoly gain" appears most conspicuously in a growing city, where rents are rising and the general land market is one of few sellers and many buyers. In a city of declining population, this situation is reversed, and the land owners rent their land on a declining market, with heavy competition on the supply side.

Even if a considerable number of owners of business sites were to conspire to hold out of use a part of their land—as monopolists in general might do—it is not certain that they could raise their total rent, or even the rent on the land still employed. When all the land is offered, the land owners get a surplus over the costs represented by wages, interest and the entrepreneurs' profits. This surplus, which is ordinarily called rent, Professor Chamberlin calls "monopoly gains." If the land owners held part of the sites out of use, and demanded higher rent for the sites still in use, where would the increased rent come from? Not mainly from the profits of the entrepreneurs, if we assume that their profits are generally what their abilities would command anywhere. Before they would take much less, they would move, in the long run, either to other sites in the city, or to other cities. From an increase in the prices of goods sold on the sites still in use? No; these prices cannot rise perceptibly above the prices of goods sold on

the marginal sites. From an increase in the amount of business done on the sites still used? Possibly; but why might not the business section of the city expand to low-rent and no-rent land, until it occupied as large an area as ever, and the rent on the sites still used declined to its former level? It is difficult to see how these urban rent monopolists could afford to hold land out of use, even if they could act in concert. We have monopolistic combinations of every kind, but the writer has never read or heard of this kind.

That the land owners "love to reap where they never sowed," and are often able to appropriate income which is earned by others, is indeed as true today as it was in Adam Smith's time; but even that does not make them absolute monopolists. Professor Paul Nystrom has shown that rent increases relatively to profits on passing from smaller to larger cities, and on passing from poorer to better locations in a given city; and from this he concluded that the land owners absorb a part of the profits of the superior entrepreneurs.[8] The facts seem well established, but it is not theoretically demonstrable that the land owners are taking profits from the entrepreneurs, or that if they do, they do it as monopolists. There is no way of measuring the relative abilities of entrepreneurs, except by the amount of their earnings; and it is impossible to say how much profits they *should* earn on the high-rent sites, except by reference to other entrepreneurs operating on similar sites. Perhaps the number of able entrepreneurs is greater than is commonly supposed, and those using the best sites are not much abler than many others doing business on inferior sites. If this should be true, rent might absorb a larger proportion of the total income, without taking anything from profits. Or, it is possible that there are general economies in large-scale retailing which raise the rent of favorably located land out of proportion to its relative capacity to provide buyer contacts, and the land owners will be in a position to get the gains arising from this, gains which will smack of monopoly. Even if the high returns accruing to the valuable sites included some profits wrested from entrepreneurs, they would not be pure monopoly returns; for there are a number of sites available to each entrepreneur, as there are a number of entrepreneurs bidding for each site.

It appears, in conclusion, that Professor Chamberlin has confused the goods market and the land market; that he has given too little attention specifically to the land market in which rent is determined; that he has exaggerated the differences between agricultural rent and urban rent, and has failed to appreciate the analogies between these two incomes; and that, finally, as a result of all this, he has come to conclusions that are not valid. Agricultural rent is not a purely competitive return, and urban rent is not purely monopolistic; but, on the contrary, both are determined in an imperfectly competitive market.

JOHN ISE

University of Kansas

[8] *Economics of Retailing*, 1st ed., ch. viii.