

Study Guide to *Human Action* by Robert P. Murphy

Chapter XXII. The Nonhuman Original Factors of Production

Chapter Summary

1. General Observations Concerning the Theory of Rent

The Ricardian treatment of rent was actually quite similar to the marginal-utility analysis of prices; the classical economists were simply wrong in applying the concept of "differential rent" only to parcels of land, and not to every productive factor. More generally, the classical trichotomy of land, labor, and capital—which earned incomes of rent, wages, and profit/interest respectively—was untenable. Although modern economic theory retains these classifications, it uses a single theoretical framework to explain the prices of units of each productive factor. Another major stumbling block for Ricardian economics was its holistic approach. Ricardo tried to explain the distribution of the total output among various classes of inputs, rather than determining the prices (and hence earnings for the sellers) of individual units.

2. The Time Factor in Land Utilization

Modern economics retains the classification of the classical school, and distinguishes first the original from the produced means of production (i.e., capital goods). Then the original means of production are divided into the human (labor) and nonhuman, which is called *land*, though the latter term includes not only parcels of soil but also deposits of tin and schools of tuna fish.

Ricardo wrote of the "indestructible" powers of the soil, but this is irrelevant for acting man. The nonhuman factors of production can be used in ways that preserve their capacity to provide in the future, or they can be aggressively exploited to yield more present goods at the expense of future output. Institutional factors can greatly influence how people treat land at their disposal.

3. The Submarginal Land

A given piece of land can only yield a finite amount of services; that is why land is an economic good, rather than a general condition of the environment. However, the quantity of available land is so large that at any given time, the binding constraint is the scarcity of labor and capital goods available to work the land. This is why people exploit only the most productive parcels of land, giving rise to marginal land that yields no rent (in the Ricardian sense), and submarginal land that is not brought into cultivation at all. An increase in labor or capital goods—even if it were the most unskilled labor, and the least expensive capital goods—would increase total output. Yet an increase in land would only improve humanity's material welfare if the increments were of higher fertility than the marginal land under cultivation.

4. The Land as Standing Room

Some parcels of land must be withdrawn from agricultural or other "productive" uses, to be employed as the foundation for homes, office buildings, factories, and so forth. The high price one must pay for the use of urban land signals the competing uses others place on it.

5. The Prices of Land

In the evenly rotating economy, the price of a piece of land would be equal to the sum of its future rents, discounted by the rate of interest. Of course in the real world, people make incorrect forecasts, yet their appraisal of land is guided by expectations of its future net yields, whether through agricultural production or apartment rentals.

The Myth of the Soil

Romanticists condemn economists and modern society for treating land as a mere factor of production, rather than a noble source of livelihood and indeed virtue for those tilling the soil. Yet actual peasants do not harbor such notions, which were invented by city dwellers. Those working the land understand that it is a means for the satisfaction of wants, and treat it accordingly.

Why It Matters

In this short chapter Mises explains the determination of both rental and purchase prices for parcels of land. He also explains the evolution of economic thought on the subject.

Technical Notes

- (1) The discussion on pages 635–636 explains the "tragedy of the commons," in which people over-utilize a resource (such as a buffalo herd or pasture) because of weakly defined or enforced property rights.
- (2) Mises says that in "many countries the owners of land or of certain estates enjoyed special political legal privileges or a great social prestige," and that such "institutions too can play a role in the determination of the prices of land" (p. 640). The distinction between legal privileges and "social prestige" makes it sound as if Mises is adopting the Prussian Historical School's method of explaining certain market prices by reference to custom or social norms. In light of his scathing critique of this approach in reference to wage rates (p. 606), clearly Mises is not saying here that sometimes emotions trump market forces in the determination of land prices on an unhampered market. What he probably means is that, for example, a family of nobility may be willing to pay to keep a particular parcel of land in its state as a hunting ground, in order to entertain guests, rather than sell it for development into a shopping mall. This desire raises the price that developers must pay for other parcels of land.

Study Questions

1. General Observations Concerning the Theory of Rent

- Why are land and the services that it renders dealt with in the same way as other factors of production and their services?
- What is the greatest merit of the Ricardian theory of rent, according to Mises?

2. The Time Factor in Land Utilization

- How is the factor of time important for the utilization of land?
- Which institutional conditions can affect the utilization of land?
- Is the assertion that land cannot literally be consumed relevant to the explanation of land as a factor of production?

3. The Submarginal Land

- What is the value of submarginal land?
- Under which conditions would an increase in the amount of land increase the supply of cereals, etc?

4. The Land as Standing Room

- Is it inefficient to place an apartment building on arable farmland?

5. The Prices of Land

- How do the prices of land differ from those of other factors of production?
- What is the myth of the soil?