The Concept of Rent in Economics

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In national accounts and in input-output analysis one component of value added is the operating surplus. That component is a residual and is identified by deducting all other components from value added. It contains, in principle, interest and profits as well as all kinds of rents and royalties. This paper intends to clarify the meaning and stress the importance of these factor incomes. The main focus is on rent for scarce natural factors of production. First, a classification of these factors is provided. It turns out that – for analytical purposes – it makes sense to distinguish (i) renewable, (ii) depletable and (iii) indestructible natural resources. According to classical scholars rent is paid for the use of the original and indestructible powers of the soil, i.e. Ricardian Land. The Smithian notion of absolute rent, the Ricardian concept of (intensive, extensive and external) differential rent as well as Thünen’s idea of spatial rent will be discussed. Whereas the classical authors applied the concept of rent also to depletable resources (e.g oil, coal or mineral deposits) the neoclassicals displaced that idea by Hotelling´s rule. Kurz and Salvadori have demonstrated that, both, Hotelling´s rule as well as the classical concept of differential rent can be applied to depletable resources depending on the acceptance of some alternative restrictive assumptions. The concept of rent is, however, not limited to natural resources. In the semblance of the principle of marginal productivity it has been applied by the neoclassical school to all factors of production.