

6-15-2020

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### Citation Details

Balentine, Jarod "The Evolution of the Landlord, Working Paper No. 44", Portland State University Economics Working Papers. 44. (15 June 2020) i + 13 pages.

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# The Evolution of the Landlord

## Working Paper No. 44

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A Contribution to the *Working Papers* of the

Department of Economics, Portland State University

**Submitted for:** EC460, “History of Economic Thought”,

15 June 2020; i + 13 pages

Prepared for Professor John Hall

**Abstract:** This inquiry seeks to establish that the meaning of the term ‘the landlord’ has evolved over the course of history. In this sense, this inquiry contributes not only to the disciplines of History and Politics, but also to the field of the History of Economic Thought and the subfield of Evolutionary-Institutional Economics, carrying on the tradition established by Thorstein Veblen. A pervasive and dominant institution during the feudal era, the landlord has since evolved considerably, shifting away from the position of a predominantly political institution into a more economically oriented, capitalist institution. As a figure and agent operating within societies, the landlord continues to evolve. In contemporary times this means from a small capitalist into a corporate entity, in keeping with a broader trend towards corporate hegemony identifiable both in the United States particularly and within the global capitalistic system. (128 words)

***Journal of Economic Literature Classification Codes:*** B00, B52, R31

***Key Words:*** Corporate Hegemony, Evolutionary-Institutionalism,

Landlords, Physiocrats, Thorstein Veblen

This inquiry seeks to establish that the concept of ‘the landlord’ has evolved, experiencing significant changes in meaning over a span of history, as well as within the field of the History of Economic Thought. Emphasis will be given to the transition from the landlord within a feudal form of organization and into the era of capitalism. Beginning with the Physiocrats in the 18<sup>th</sup> century, carrying forward through the Classical economists, and continuing into contemporary times, this inquiry seeks to point out and in this way establish changes in the concept of a land-owning individual and their role in the economy and society. Along with the original documents of the relevant thinkers, the insights of Robert Heilbroner (1996) and Mark Blaug (1985)—both scholars on the History of Economic Thought—will be cited.

### **The Physiocrats**

For the Physiocrats land represented the origin of all wealth. Mark Blaug (1985, 24) explains that to understand the Physiocratic view one must consider their historical context. Blaug (1985, 24-25) describes how under Louis XIV and *Colbertisme* (the economic policies of Jean-Baptiste Colbert, who served as minister of finance under Louis XIV), industry experienced significant growth and improvement, often at the expense of agriculture. Despite calls for a revitalization of the agricultural sector, Louis XV instead engaged in the unsuccessful Seven

Years' War against England, leaving France as a "second-rate" European power. These historical developments, Blaug (1985, 25) notes, encouraged a "back-nature-movement" which the Physiocrats embraced.

François Quesnay (1694-1774) represents the best-known member of this circle of French thinkers. For Quesnay (Heilbroner 1996, 38), economic activity consisted of the interactions between three sectors: 'the productive class,' 'the sterile class,' and 'the proprietors.' The productive class refers to those who work in agriculture, drawing forth the "gift of nature" which the Physiocrats viewed as the sole source of surplus. The sterile class represents manufacturers and merchants (the property-owning members of which would later come to be known as the bourgeoisie), whom the Physiocrats saw as transforming part of the surplus of the productive class, without contributing any additional value. Finally, the proprietors consist of rent-collecting landowners. Heilbroner (1996, 38) explains that the designation of "class" is misleading, as the first two sectors include both employers and employees, and the proprietor 'class' does not differentiate between landowners themselves and the considerably larger population of servants. Thus, 'sector' better represents Quesnay's distinctions.

This construction of the economy emphasizes the importance of land as the source of all surplus and treats the proprietors—which, at this time, would have consisted of an uneven landscape of landholding nobility and numerous

smallholdings—as a given and fundamental part of the French economic process. Blaug (1985, 25) teaches us that the political aims of the Physiocrats focused around an emulation of the English ‘agricultural revolution.’ This meant rationalizing the economic system via the consolidation of smallholdings (dispossessing of peasants) and the moving away from feudal obligations and organizations. Such a process would concentrate landownership into the hands of a more distinct landowner class. However, Heilbroner (1996, 40) explains that Quesnay’s analysis concluded that the proprietors represented the only sector which the government could tax without burdening the economy, a proposition which evoked resistance from the nobility at Versailles. The reasoning was that to tax the producers would be harmful, as they represent the sole source of surplus and therefore value to the society. The sterile class only ever consumed enough to manufacture and exchange their goods, thus only breaking even and leaving no additional revenue to be taxed. The rents accrued by the proprietors, however, did not further fuel the commercial system. Thus, while the Physiocratic understanding encouraged a more efficient and rationalized landowning system, it similarly offered a recognition that rents—as opposed to the contributions of the productive and sterile classes—were disposable and therefore taxable.

Here it becomes necessary to turn to a younger Physiocrat, Anne Robert Jacques Turgot (1727-1781). Heilbroner (1996, 41) teaches us that Turgot

represents the most “modern” of the Physiocrats and that, for the first time, *capital* takes on a significant role in the analysis. Turgot (Heilbroner 1996, 44) similarly adheres to the Physiocratic presumption that it is the productive class which solely generates surplus. However, Turgot (Heilbroner 1996, 44-45) describes the three classes slightly differently than Quesnay. The productive class remains the same, populated by “the Cultivator.” Quesnay’s sterile class becomes the “stipendiary class” populated by “the Artisan.” The proprietors, for Turgot, are best understood as “the disposable class.” Turgot’s (Heilbroner 1996, 45) analysis largely follows Quesnay’s, with the productive class producing a surplus, some of which is consumed, some of which goes to the stipendiary class for transformation into manufactured goods, and the remainder of which goes to the disposable class as “revenue,” or rent. Where Turgot begins to differ from Quesnay is in the introduction of an additional concept: capital. Turgot (Heilbroner 1996, 46) explains how some landlords will begin to set aside portions of their revenue for future expenses, and that these sums of money—once put out on loan—begin to generate their own revenue stream and thus initiate a process of capital accumulation. This represents an important departure, with Turgot (Heilbroner 1996, 47) further distinguishing his analysis by dividing the stipendiary class into workers and those possessors of capital who initiate industrial undertakings. In doing so, Turgot advances the Physiocratic notions developed in Quesnay’s work

into a more nuanced class analysis, including an appreciation of the importance of capital in economic activity.

Turgot (Heilbroner 1996, 46) advances another important distinction, which will not be taken up again until Marx begins writing on the subject: the equivalency between land and capital. Turgot (Heilbroner 1996, 46) states clearly, “Every capital in the form of money... is the equivalent of a piece of land producing a revenue equal to a particular fraction of this sum.” While Quesnay and Turgot alike distinguish between the proprietors and the sterile or stipendiary classes, it is Turgot who uncovers that revenues of landlords function the same as returns on capital, with land representing just one form of investment which an owner of capital may pursue. Thus, we find the first invocation of the landlord as a form of capitalist, distinct from the landlord’s feudal origins.

### **The Classical Economists**

In considering the contributions of the classical economists, this analysis will juxtapose the works of two of the most notable figures of the time, Adam Smith (1723-1790) and Karl Marx (1818-1883). Each made important contributions to the discipline of economics, including discussions on a landlord class. However, these thinkers worked with a more comprehensive understanding of economic processes, unburdened by the Physiocrats’ shortcomings.

Adam Smith [1776] (1902, 369), a student of Quesnay, offered an understanding of the economy which recognized three classes: landlords, workers, and owners. The distinction between these classes arises from the *source* of their income, with Smith (1902, 369) describing them as “those who live by rent... those who live by wages... and those who live by profit.” Such a distinction harkens back to Quesnay’s formulation, although the recognition that laborers—no matter their sector—occupy a similar economic role opposed to that of their employers significantly improves the analysis. The presence of a third, partly removed landowning class however, persists. Smith (1902, 369-370), interestingly, argues that the “interest” of the landowning class “is strictly and inseparably connected with the general interest of society.” For the landlord, Smith (1902, 367-368) contends, increases in produce from the land, increases in the productive capabilities of workers, and increases in the number of workers employed, all (either directly or indirectly) result in a rise in rent, and therefore in wealth. Thus, in Smith’s theoretical construction, the self-interested landlord represents a boon to the society. However, Smith (1902, 370) acknowledges that reality does not live up to theory, explaining that landlords tend to lack an effective understanding of economic processes. Smith (1902, 370) attributes this to the nature of their station, observing that their revenue requires no “labor nor care,” but arrives as a passive income. Smith further argues that such a position results in “indolence,” which

“renders them too often, not only ignorant, but incapable of the that application of mind which is necessary in order to foresee and understand the consequences of any public regulation.” Smith identifies that although economic theory would favor the landlord’s self-interest, their social position renders them less inclined to pursue social good.

While many classical political economists, including David Ricardo, agreed with and embraced Smith’s construction of the economy as consisting of three classes, Marx came to a different conclusion. Rather, Marx [1844] (1959, 28), following in the footsteps of Turgot, contends that the distinction between owners of capital and landlords is false. While Smith effectively demonstrated that the similarities between agricultural laborers and industrial laborers held more importance than their differences, Marx (1959, 28) similarly posits that the division of propertied individuals into those who own capital or stock and those who own land obscures more than it reveals. Thus, in Marx’s analysis, the three classes condense into two: “property owners and propertyless workers.” In discussing the nature of rents, profits, and wages, Marx (1959, 6) offers another important break from Smith and the other classical economists. While in the economic theory of the time, rent and profit were conceptualized as “deductions” from wages (the value produced by labor), Marx (1959, 6) argues that the opposite is true: that wages are a cost—a “concession”—which the owners of the finished product “allow” to go to

the workers. The reversal of this dynamic better illustrates Marx's larger class analysis: the systematic exploitation of the propertyless class by the propertied. Marx (1959, 18) explains how following the exploitation of the laborer in the place of work (well documented in Marx's *Capital*), the worker is "set upon by other portions of the bourgeoisie," such as the landlord. Thus, while Smith establishes the landlord's revenue as passive, Marx identifies it as exploitative as well.

### **Contemporary Notions**

The discussion thus far has discussed how economists over the years slowly developed their understanding of landlords from a distinct class—as they existed under feudalism—towards a recognition of their capitalist nature. The following section seeks to clarify this process and establish what it means for contemporary conceptions of the landlord. For this undertaking, the work of institutional-evolutionary economists becomes central.

The founder of the evolutionary-institutional tradition, Thorstein Veblen, offers important insights directly applicable the transformations described above. Concerning the transition of landlords from a distinct, political class to a form of capitalist, Veblen (McCormick 2006, 12) offers us the notion of *emulation*. As understood by Veblen (McCormick 2006, 12), emulation is the process of imitating those who are perceived to be in some way superior. Rob Breyer (2004, 9), in

exploring the changes in the economic behavior of English landlords during the English agricultural revolution, notes that landlords began to embrace a “rate-of-return on capital mentality.” Given the emergence of the bourgeoisie during this era, the existing landlords found a new subject to emulate: the capitalist. While the Physiocrats sought to systematize the economy into three distinct classes, they failed to identify the ongoing *convergence* of the landowners and the owners of industry and manufacturing. Interestingly, their calls for a rationalization of the agricultural system, as commented upon by Blaug (1985, 25), reflect this exact process of emulation. The Physiocrats’ call for consolidating smallholdings and doing away with feudal obligations reflects a process of transforming landlords from a feudal, political figure, into a capitalistic, economically oriented force. Those landlords whom embraced this transition—who successfully emulated the emerging capitalist class—would find the most success in the new economy. Thus, the institution of the landlord evolved, with the *emulation of the emerging bourgeoisie* serving as the impetus for this evolution.

However, even once established and accurately identified as a new breed of capitalist—as accomplished by Marx—the landlord did not cease to evolve. To understand the currently dominate incarnation of this institution, one must introduce another concept from the evolutionary-institutional tradition: subreption. A complex and often misunderstood idea, contemporary evolutionary-

institutionalist economist William Dugger (1980, 901) deftly defines it as “the process whereby the function performed by one cluster of institutions becomes the means of another cluster of institutions.” One could fairly argue that this process occurred simultaneously with the process of emulation described above during the evolution of the feudal landlord. It emerges more prominently, however, in the transition from the simply capitalist landlord, to the *corporate landlord*. Dugger (1980, 898) identified an ongoing process—particularly in the U.S., though the analysis may be easily expanded to other contexts—whereby all manner of institutions become subrepted by corporate values and either reorganize themselves into corporatized institutions or become so intertwined with the dominant corporate interests that their ends become one and the same. Dugger (1980, 901) identified this new state of society as one of *corporate hegemony*.

Today’s landlords, by and large, have undergone this exact process. While the post-feudal landlords embraced capitalist behaviors and the “rate-of-return on capital mentality,” the shift from small capitalists to large corporations represents a distinct development. Being such a recent phenomenon, the academy has yet to produce substantial work on neither the quantitative nor qualitative aspects of this transition, which leaves our present inquiry with little data or existing literature to engage with. However, as is often the case, on-the-ground activists have preceded academics in studying this process. A collection of activist groups (Abood et al.

2018, 5) released a report detailing the growth of corporate landlordship in the U.S. As of 2017, the researchers identified \$19.2 billion USD worth of securitized single-family rentals totaling more than 200,000 individual homes. The report notes, with a large degree of confidence, that these numbers appear likely to grow considerably in coming years. This process of evolution, driven by a subreption of the small capitalist landlord by corporate values, represents a crucial development in the nature of the landlord. In today's world, its is the corporate landlord which will become—if it has not already—the dominant institutional manifestation of the landowner.

## **Conclusion**

This inquiry has sought to establish that the 'the landlord' has evolved over a span of history and also as a subject for consideration within the field of the History of Economic Thought. The institution of private property has tended to remain constant; however, the conceptualization of landlords as members of an identifiable class that specifically own *rent yielding property* has evolved as an institution. Originating in the feudal social order, in the main, landlords held positions that were primarily political, or rooted in theology and justified as tradition. As the English agricultural revolution progressed, the landowning class began to emulate the emerging bourgeoisie, embracing capitalistic behaviors and a

mindset that placed great emphasis upon a rate-of return on capital invested. Other countries, such as France, and soon the rest of the capitalist world, emulated this evolutionary tendency of the landlord taking on the character of a capitalist. In the literature, this process is documented—and possibly driven—by the economic thinkers such as the Physiocrats in France during the second half of the 18<sup>th</sup> century. As the capitalist landlord became more firmly established within the larger societies and economies, the classical economists, in particular Karl Marx, attempted to articulate their role and function, with Marx effectively identifying the convergence of the landlord with the capitalist. In thinking of evolution as a continuous process, and in contemporary times, we can observe the subreption of these capitalist landlords into a new form: the corporate landlord. In keeping the development of corporate hegemony in the U.S. and the capitalist world writ large, the corporatization of institutions appears as an unrelenting process. The scope of this inquiry does not include moralizing on the rightness of this process, nor considerations of the considerable harms which may accompany such an evolution. As such, prescriptions for change will be left for later inquiries. This inquiry has simply sought to bear out and document this ongoing evolution of a central figure in the economic and social order.

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