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Capitalist Mode of Production and Ground Rent: Aspects of Marx's Theory Starting from Smith's and Ricardo's Analysis

Introduction

In this text my interest will focus on theoretical questions bearing on ground rent and emerging from the work of Karl Marx as they relate to the pre-existing (classical economic) analyses of Adam Smith and David Ricardo.

I shall accordingly seek to demonstrate through an exposition of Marx's views that although, for example, it is generally asserted that in relation to differential rent Marx follows Ricardo, in reality it would be equally true to say that he follows Smith.

Before proceeding I should note that in the first instance when I refer to *ground rent* I mean the rent paid by the occupier of a section of ground or substratum to the person exercising proprietorship over it in recompense for his occupation of that section.

Rent + occupier + exercising proprietorship are historical categories, variable both in themselves (in form and content) and in their intercombination, in accordance with the *historical epoch*, that is to say with the prevailing *mode of production* (MoP).

The historical framework to my analytical investigation relates chiefly to the historical epoch of the capitalist system (of capitalism), that is to say to the historic system of production whereby class power and exploitation are organised under the rule of the capitalist mode of production (CMP).

In particular I aim to examine theoretical questions having to do with ground rent and the CMP.[1]

In the interests of better comprehending the positions (Marxist or classical) I am to be analysing and – in relation to those positions – the historically determined character of rent itself under the rule of capital, we must commence (in this too applying the Marxist analysis) from the historic starting point (and

[1] Obviously the implication is that the CMP and the capitalist system are not synonymous and that under the rule of the CMP, non-capitalist modes of production are constituted (grow up) (Economakis 2000).

generating source) of rent, ground rent under the feudal system of production.[2]

Note: It is necessary however, before proceeding, to give my basic definitions of the mode and relations of production. My view is that the "pure" mode of production is the particular, immutable (but variable historically) combination of relations embodied in the relations of production (which comprise the matrix of a mode of production) as their essential content. This particular combination defines which of the three constituent structures of a historical mode of production (economic, juridical and ideological) is dominant, within the decisive, in the last instance, economic structure. There are three elements that go together to comprise the relations of production: *proprietorship*, *possession* and the use of the means of production. Use of the means of production is defined as denoting a specific capability or skill in handling them during their employment. Proprietorship as an economic relationship (that is, as comprising the essential content of the relations of production) consists in mastery of the means, objects and results of the productive process. In distinction from formal legal proprietorship, proprietorship as a (real) economic relation presupposes possession of the means of production, i.e. management in terms of control of the productive process and appropriation of the results of utilisation of the means of production. That is to say, proprietorship as an economic relationship (dominion) exists in homology (coincidence – correspondence) with the relation of possession (management). In the event of non-homology (non-coincidence – non-correspondence), proprietorship is not an economic but is (or may be) mere a formal or legal relation. (See Economakis 2000).

1. Feudal mode of production: forms, content of rent and transition

The feudal mode of production (FMP) is the mode of production under the rule of which the feudal system (feudalism) is organised as a specific system of production.

The "pure" FMP matrix is characterised specifically by the homology of use with possession (partial or total) of the means of production by the class bearer of labour (serfs), which implies the non-homology of the relations of

[2] We restrict our analysis to the feudal system, as a model, without forgetting the Asiatic system (Asiatic despotism), i.e. the system of production organised under the rule of the Asiatic mode of production (AMP): see also below in the Marxist analysis. As far as the distinction between AMP and Feudal Mode of Production (FMP) is concerned, suffice it to say that while in the FMP the flow of ground rent goes from farming family to local feudal lord, in the AMP ground rent from land (in the form of imposts) flows from community to central government. For further details see Milios 1997, p. 255–81.

proprietorship and possession in the class bearer of proprietorship (feudal lords). In these class conditions of non-correspondence between proprietorship and possession, the proprietorship of the feudal lord remained mere formal, since nobody had control of the objects and the results of the productive process, i.e. real (economic) proprietorship, and the serfs were able to survive without working for the feudal lords. They worked for the benefit (also) of the feudal lord only as a consequence of extra-economic coercion (Harnecker no publication date, Poulantas 1982-b, Economakis 1998-b). From the structure of the FMP itself two social classes are constituted as bearers of the relationships of the matrix of this mode of production: the class of feudal lords and the class of serfs (Economakis 2000).

The labour of the class of serfs, for the benefit of the class of feudal lords was the ground rent paid by the occupant (and user) of the land to the possessor of (formal) proprietorship over it.

Historically, ground rent under the feudal system made its appearance in three different forms: *rent in labour*, *rent in kind* and *rent in money*.

1.1. Rent in labour

Known as “enforced labour” or “statute labour”, it is “the most simple and primitive form of rent”. In this form, and on the basis of natural economy,[3] “the direct producer, using instruments of labour (plough, cattle, etc). which actually or legally belong to him, cultivates soil actually owned by him during part of the week, and works during the remaining days upon the estate of the feudal lord without any compensation from the feudal lord”[4] (Marx internet: vol. 3, ch. 47, Marx 1991, p. 925, 928, 929).

Extra-economic coercion is therefore expressed as immediate supervision by the landowner or his representatives (Marx internet: vol. 3, ch. 47, Marx 1991, p. 930–1) and “unpaid surplus labour” appears as rent, not as profit. The serf's remaining work time is divided into time for the production of necessary means of subsistence and for reproduction of the terms of his labour (his “wage” in terms of capitalist production)[5] and into “a surplus above his indis-

[3] That is, of economy in which “the conditions of the economy are either wholly or for the overwhelming part produced by the economy itself, directly replaced and reproduced out of its gross product” and which is based on “the combination of rural home industry with agriculture” (Marx internet: vol. 3, ch. 47, Marx 1991, p. 931).

[4] It is “no matter whether the landlord be a private person [FMP] or the state [AMP]” (Marx internet: vol. 3, ch. 47, Marx 1991, p. 930).

[5] “That the product of the serf must here suffice to reproduce his conditions of labour, in addition to his subsistence, is a circumstance which remains the same under all modes of production. For it is not the result of their specific form, but a natural requisite of all con-

pensable necessities of life" and reproduction. "This surplus [...] the germ of what appears as profit under the capitalist mode of production, is [...] wholly determined by the amount of ground-rent, which in this case is not only directly unpaid surplus-labour, but also appears as such. It is unpaid surplus-labour for the 'owner' of the means of production, which here coincide with the land" (Marx internet vol. 3, ch. 47, Marx 1991, p. 926).
This form of surplus labour arising on the basis of underdevelopment of the productive forces "it will naturally absorb a relatively much smaller portion of the direct producer's total labour than under developed modes of production, particularly the capitalist mode of production " (Marx internet: vol. 3, ch. 47, Marx 1991, p. 929).

1.2. Rent in kind

It "is the prevailing and dominant form of ground-rent" and therefore "it is [...] always more or less accompanied by survivals of the earlier form" (Marx internet: vol. 3, ch. 47, Marx 1991, p. 930).
The transformation of rent in labour into rent in kind is predicated on development of the productive forces on the basis of the natural economy. Although this transformation, "changes nothing from the economic standpoint in the nature of ground-rent" which "consists [...] in that rent is the sole prevailing and normal form of [...] surplus-labour" and which "is further expressed in the fact that it is the only surplus-labour, or the only surplus-product, which the direct producer, who is in *possession* of the labour conditions needed for his own reproduction, must give up to the [formal] *owner* of the land", nevertheless, the form of surplus labour undergoes a significant change. The "surplus-labour needs no longer be performed in its natural form". This also means that extra-economic coercion becomes more indirect "driven rather by force of circumstances [...] through legal enactment rather than the whip" (Marx internet: vol. 3, ch. 47, Marx 1991, p. 930–1).
However, this change in the form of surplus labour already represents an important step towards change in the "essential" or "natural" content of rent from land, foreshadowing revolutionary changes which that culminate finally in dissolution of feudal relations of production on agricultural land.
Just as the "labour of the producer for himself and his labour for the landlord are no longer palpably separated by time and space [...] it is by no means nec-

tinuous and reproductive labour in general, of any continuing production, which is always simultaneously reproduction, *i.e.,* including reproduction of its own operating conditions" (Marx internet: vol. 3, ch. 47, Marx 1991, p. 926).

essary for rent in kind, which represents the surplus-labour, to fully exhaust the entire surplus-labour of the rural family. Compared with labour rent, the producer rather has more room for action to gain time for surplus-labour whose product shall belong to himself, as well as the product of his labour which satisfies his indispensable needs" (Marx internet: vol. 3, ch. 47, Marx 1991, p. 931).

Thus, although rent from land continues to be the predominant form of surplus labour, to be "still a direct surplus product" (Marx 1991, p. 773), at the same time it is not necessarily to be equated with this surplus labour (this surplus product), since: "Surplus-production [...] has already become a self-understood rule here"; which means that "this form will give rise to greater differences in the economic position of the individual direct producers" or that there is "at least the possibility for such a differentiation [...] and the possibility for the direct producer to have in turn acquired the means to exploit other labourers directly" (Marx internet: vol. 3 – ch. 47, Marx 1991, p. 931).

1.3. Rent in money

This form (which must be distinguished from the rent – similar in form but dissimilar in content – acquired in conditions of rule of the CMP, see below) is "the form of dissolution of the type of ground-rent [...] as the normal form [...] of the unpaid surplus-labour" (Marx internet: vol. 3, ch. 47, Marx 1991, p. 934) and it "arises from a mere change in form of rent in kind". The serf pays the landowner[6] "instead of the product, its price to the landlord" (Marx internet: vol. 3, ch. 47, Marx 1991, p. 932).

Despite the fact that neither the structural characteristics of the mode of production (serf "possessor of the land", feudal lord "[formal] owner of his [serf] most essential condition of production" – land) nor the content of the rent in its "in kind" variant ("excess corv e-labour, that is, unpaid labour for which no equivalent is returned" to the direct producer, i.e. not obligatory identification of ground rent with surplus labour but ground rent as a regular form of "unpaid surplus labour") have been transformed (Marx internet: vol. 3, ch. 47, Marx 1991, p. 933–4), the new form heightens the – for feudal productive relations – disintegrative consequences for the preceding form and so propels them into a new phase.

Given that the serf's payment to the landowner is made in money an "excess of products in their natural form no longer suffices; it must be converted from

[6] Who also "may be either the state [AMP] or a private individual [FMP]" (Marx internet: vol. 3, ch. 47, Marx 1991, p. 932).

its natural form into money-form". For that to be able to happen at least part of his production "must now be converted into commodities, must be produced as commodities" (Marx internet: vol. 3, ch. 47, Marx 1991, p. 932–3).

But the commodity form of part of the production of the serf is a crucial point of articulation in two different directions: towards the past (or the prerequisites for the transformation of rent in kind into rent in money) and towards the future (or the consequences of the transformation of rent in kind into rent in money).

As regards the past the "transformation of rent in kind into money-rent [...] presupposes a considerable development of commerce, of urban industry, of commodity-production in general, and thereby of money circulation. It furthermore assumes a market-price for products"; a transformation "which is only possible generally when the world-market, commerce and manufacture have reached a certain relatively high level" (Marx internet: vol. 3, ch. 47, Marx 1991, p. 933, 935).

As for the future, the consequence of the transformation of rent in kind into rent in money, and the further evolution of rent in money, is that there is a change in character of the mode of production. "It loses its independence, its detachment from social connection. […] With money-rent prevailing, the traditional and customary legal relationship between landlord and subjects who possess and cultivate a part of the land, is necessarily turned into a pure money relationship fixed contractually in accordance with the rules of positive law"[7] (Marx internet: vol. 3, ch. 47, Marx 1991, p. 933–4).

This purely monetary link between serf and feudal lord meant that the "possessor engaged in cultivation [...] becomes virtually a mere tenant" (Marx internet: vol. 3, ch. 47, Marx 1991, p. 934). To "mere" in the sense of relaxation of the ancient and established personal relations of possession of the immediate producer along with his land.

The procedure for the definitive overturn of the FMP has progressed to the borderline point of class conflict of the bearers of labour (serfs) and of pro-

[7] "Everything starts from the development of commodity production itself in the framework and on the *basis* of feudal relations of production, a development which impels feudal landowners to replace older forms of rent with money rent. They thereby contribute themselves, however, to the disintegration of their own relations of production. (..). For money rent tends to eliminate the *personal* relations which constituted the very essence of feudal relations of domination and exploitation, the symbol of feudal landownership, and to replace them with impersonal and material relationships, with the cash nexus. The way is now open for land to become a commodity, i.e. a material reality and a prerequisite for the gradual eviction from production of the personal obligations which had hitherto been associated with it." (Godelier 1987, p. 34).

prietorship (feudal lords) over the *relationship of occupation*, elevating into prominence (depending on the balance of class forces on the historical ground of the social formations) two basic scenarios for agriculture of transition to/absorption into the capitalist system.[8]

First possibility: The serfs continue to occupy the land, extracting formal proprietorship from the feudal lord. The homology of possession + proprietorship (= real – economic – proprietorship) + use, which is the general rule in the greater part of Europe (Economakis 2000), transforms the serf "into an independent peasant with complete ownership of the land he tills" (Marx internet: vol. 3, ch. 47, Marx 1991, p. 934). I shall not however concern myself here with the theoretical questions on land rent related to this outcome of transition-incorporation.

Second possibility: The landowners "expropriate more and more the old peasant possessors", i.e. they seize possession of the land from them, "to substitute capitalist tenants in their stead" (Marx internet: vol. 3, ch. 47, Marx 1991, p. 934). This is the historical outcome which will concern me here: the immediate consolidation of the CMP on agricultural land.[9] This process of violent expropriation of the means of production from the direct producer serfs and their corresponding transformation into landless proletarians (owners only of their own labour power) has as its characteristic paradigm the English case of so-called "primitive accumulation" which unfolded between the 15th and 18th centuries (Marx internet: vol. 1, ch. 27, Marx 1990, p. 877–95),[10] and which "is nothing else than the historical process of divorcing the producer from the means of production" (Marx internet: vol. 1, ch. 26, Marx 1990, p. 875).[11]

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8 A transitional or intermediate system, the "share-cropping" (or "metayage") and a circumstantial one, the "management of estates", with which we shall not at present concern ourselves. In this connection see Marx internet: vol. 3, ch. 45 & 47, Marx 1981, Economakis 2000.

9 "If the capitalist mode of production always presupposes the expropriation of the workers from the conditions of labour, in agriculture it presupposes the expropriation of the rural workers from the soil and their subjection to a capitalist who pursues agriculture for the sake of profit. It is thus completely immaterial for our presentation if we are reminded that other forms of landed property and agriculture have existed or still exist besides this" (Marx 1991, p. 751–2).

10 Enclosure of the commons – plunder of the church and state lands – clearing of estates (in the Scottish Highlands), "were just so many idyllic methods of primitive accumulation" (Marx internet: vol. 1, ch. 27, Marx 1990, p. 877–95).

11 "The economic structure of capitalist society has grown out of the economic structure of feudal society. The dissolution of the latter set free the elements of the former.
The immediate producer, the laborer, could only dispose of his own person after he had ceased to be attached to the soil and ceased to be the slaver, serf [...] But, on the other hand, these new freedmen became sellers of themselves only after they had been robbed

These capitalist tenants had their origins on the one hand in the class of serfs "old peasant possessors" of the land which in the framework of non-identification of rent from land and surplus labour (as early as the previous form of landed rent, that in kind) had acquired the means to exploit outside labour. Thus the "transformation of rent in kind into money-rent is [...] not only inevitably accompanied, but even anticipated, by the formation of a class of property-less day-labourers, who hire themselves out for money" (Marx internet: vol. 3, ch. 47, Marx 1991, p. 934). On the other hand they came from non-rural capitalists who "now carry over to the countryside and agriculture the capital acquired in the cities" (Marx internet: vol. 3, ch. 47, Marx 1991, p. 935).[12]

But what are the results of the emergence of the CMP on the content of (money) rent (according to Marx)?

2. Capitalist mode of production and the content of rent

The fundamental feature of the matrix of the ("pure") CMP is the homology of the relations of proprietorship and possession in the class bearer of proprietorship (capitalists), which implies the non-homology of use with ownership of the means of production for the class bearer of labour (labourers). In these class conditions of correspondence between proprietorship and possession but non-correspondence between proprietorship + ownership and use, the proprietorship of the capitalist is real (economic) and the labourers cannot survive without being obliged to labour for the capitalist class. They work for the benefit of the capitalist without extra-economic coercion being required for this (Harnecker no publication date, Poulantzas 1982-b, Economakis 2000). From the structure of the CMP itself two social classes are thus constituted

of all their own means of production, and of all the guarantees of existence afforded by the old feudal arrangements. […]
In the history of primitive accumulation, all revolutions are epoch-making that act as levers for the capital class in course of formation; but, above all, those moments when great masses of men are suddenly and forcibly torn from their means of subsistence, and hurled as free and "unattached" proletarians on the labor market. The expropriation of the agricultural producer, of the peasant, from the soil, is the basis of the whole process" (Marx internet: vol. 1, ch. 26, Marx 1990, p. 875–6).

12 "Finally, it should be noted in the transformation of rent in kind into money-rent that along with it capitalised rent, or the price of land, and thus its alienability and alienation become essential factors, and that thereby not only can the former peasant subject to payment of rent be transformed into an independent peasant proprietor, but also urban and other moneyed people can buy real estate in order to lease it either to peasants or capitalists and thus enjoy rent as a form of interest on their capital so invested" (Marx internet: vol. 3, ch. 47, Marx 1991, p. 938). On the price of land also see below.

which are bearers of the relations of the matrix of this mode of production: the class of the capitalists and the class of the labourers (Economakis 2000).
Thus the landowner becomes a third party, outside the mode of production. "When the capitalist tenant farmer steps in between landlord and actual tiller of the soil, all relations which arose out of the old rural mode of production are torn asunder. The farmer becomes the actual commander of these agricultural labourers and the actual exploiter of their surplus-labour, whereas the landlord maintains a direct relationship, and indeed simply a money and contractual relationship, solely with this capitalist tenant" (Marx internet: vol. 3, ch. 47, Marx 1991, p. 935).
Landownership itself (as a relation) becomes external to the predominant mode of production, expressing simply a legal relationship and not an economic production relationship (Rey 1973, p. 20, 60, 88, 93, Milios 2000, p. 296, Economakis 2000). "Nothing is settled with the legal power of these persons [the landowners] to use and misuse certain portions of the globe. The use of this power depends entirely on economic conditions, which are independent of their wills. The legal conception itself means nothing more than that the landowner can behave in relation to the land just as any commodity owner can with his commodities". If "one of the great results of the capitalist mode of production [is] that [...] it transforms agriculture [...] into a conscious scientific application of agronomy [...] [the other is] that [...] it completely separates the land as a condition of labour from landed property and the landlord, for whom moreover this land represents nothing but a certain monetary tax that his monopoly [of land] permits him to extract from the industrial capitalist, the farmer. It undoes the connection to such an extent that the landed proprietor can spend his entire life in Constantinople, while his landed property remains in Scotland. [...] The rationalization of agriculture, which enables this to be pursued for the first time on a social scale, and the reduction of landed property to an absurdity – these are the great services of the capitalist mode of production" (Marx 1981, p. 753–55).
So despite the conversion of landownership into "uselessly and absurdly superfluous" (Marx 1981, p. 755), "superfluous and harmful" (Marx 1981, p. 760) for the CMP, insofar as it "presupposes that certain persons enjoy the monopoly of disposing of particular portion of the globe as exclusive spheres of their private will to the exclusion of all others" (Marx 1991, p. 752) the relationship of legal proprietorship of land implies or brings about economic results which are none other than the payment i.e. the rent – measured in money

– which the capitalist tenant occupying the land must remit to the landowner who is its legal proprietor.[13]

But change (class transformation) both in the substance of the bearer of legal proprietorship, and thus in the recipient of the rent, and of the agent of occupation of the land and thus in the payer of the rent, brings about a corresponding transformation in the very content of the rent.

"During reproduction, just like during the accumulation of capital, it is not merely a question of replacing on the former scale or on a new extended scale (during accumulation) *the same mass* of use values but of replacing the *value* of the capital expended while sustaining the normal level of profit (surplus-value)" (Marx 1982, p. 575). Thus, in order to function as a capitalist, the capitalist tenant must derive from the capital he has invested in land the average (or normal) rate of capitalist profit: whatever the average rate of profit might be with the given balance of class forces of that particular conjuncture. This means that the capitalist tenant can remit as rent to the landowner who is its legal proprietor only that portion of capitalist profit that exceeds the average rate of profit on capital.

According to Marx: "Thus, the nature of rent is also transformed, not merely in fact and by chance, as occurred in part even under earlier forms, but normally, in its recognised and prevailing form. From the normal form of [...] surplus-labour, it descends to a mere excess of this surplus-labour over that portion of it appropriated by the exploiting capitalist in the form of profit [...]. It is only the excess portion of this surplus-value which is extracted by him from the agricultural labourer by direct exploitation, by means of his capital, which he turns over to the landlord as rent. How much or how little he turns over to the latter depends, on the average, upon the limits set by the average profit which is realised by capital in the non-agricultural spheres of production" (Marx internet: vol. 3, ch. 47, Marx 1991, p. 935). "All ground-rent is surplus-value, the product of surplus labour" (Marx 1991, p. 773–4).

Capital, of course, does not find itself up against the monopoly of land ownership only in the sphere of agricultural production, though in the present analysis I shall confine myself mainly to rent from ownership of agricultural land

[13] "At certain specified dates, e.g. annually, this farmer-capitalist pays the landowner, the proprietor of the land he exploits, a contractually fixed sum of money [...], for the permission to employ his capital in this particular field of production. This sum of money is known as ground-rent, irrespective of whether it is paid for agricultural land, building land, mines, fisheries, forests, etc. It is paid for the entire period for which the landowner has contractually rented the land to the farmer. Ground-rent is thus the form in which landed property is economically realized, valorized" (Marx 1991, p. 755–6).

and only secondarily to rent from mines and from real estate. Nevertheless, generalising the Marxist viewpoint I can say that *what the capitalist gives the landowner in the form of rent is the part of surplus-value that remains above and beyond the average rate of profit on capital and is derived from direct capitalist exploitation of workers*. If any such surplus exists.[14] In my view that is not exactly, and/or not always, the case. But more of that later.

3. So-called differential rent

Taking it for granted that the capitalist tenant will be paying as rent to the landowner only one part of his profits, such that in any event he will be reaping the average rate of profit, let us investigate exactly what the size of the surplus above and beyond the average rate of profit, or "surplus-profit" (Marx internet: vol. 3, ch. 47, Marx 1991, p. 936), is dependent on, which is also equal to the size of the rent appropriated by the landowner, and what is its "nature".

The analysis by the classic theorists of political economy (Smith and Ricardo) of the size of the surplus turned on two critical factors. Firstly on differences in fertility and location between different tracts of land. Secondly on differences in the amount of capital invested in those different tracts.

It is a question of what Marx calls *differential rent*, in two variants: *differential rent of the first type* and *differential rent of the second type* respectively. Differential rent is expressed through the conversion into rent of the additional profit that emerges from the *difference between the market price* (determined generally speaking by the production price of the capital invested in the worst land, which is equal to the expenses of production plus the average rate of profit) *and the production price of the separate capital that is invested in a piece of land*. (Marx 1991, p. 779–881).

In the words of Smith "RENT, considered as the price paid for the use of land, isnaturally the highest which the tenant can afford to pay in the actual circumstances of the land. In adjusting the terms of the lease, the landlord endeavours to leave him no greater share of the produce than what is sufficient to keep up the stock from which he furnishes the seed, pays the labour, and purchases and maintains the cattle and other instruments of husbandry, together with the ordinary profits of farming stock in the neighbourhood. This is evidently the smallest share with which the tenant can content himself without

[14] "Natural fertility sets one limit here, as a point of departure or basis. The development of the social productivity of their [of the immediate producers] labour sets the other limit" (Marx 1991, p. 773).

being a loser, and the landlord seldom means to leave him any more. Whatever part of the produce, or, what is the same thing, whatever part of its price is over and above this share, he naturally endeavours to reserve to himself as the rent of his land, which is evidently the highest the tenant can afford to pay in the actual circumstances of the land" (Smith 1979, I.xi.a. p. 1).

So, according to the same writer: "Such parts only of the produce of land can commonly be brought to market of which the ordinary price is sufficient to replace the stock which must be employed in bringing them thither, together with its ordinary profits. If the ordinary [market]price is more than this, the surplus part of it will naturally go to the rent of land. If it is not more, though the commodity may be brought to market, it can afford no rent to the landlord. Whether the price is or is not more depends upon the demand […] high or low rent is the effect [of high or low price]" (Smith 1979, I.xi.a. p. 6, 8).

Differential rent is thus the effect and not the cause of the difference in market price minus the production price of individual capital.

If the "corn which is produced by the greatest quantity of labour [= the corn produced on the worst land] is the regulator of the price of "corn, then "rent[15] does not and cannot enter in the least degree as a component part of its price" (Ricardo 1996, p. 77).[16]

Up to now:

In both its expressions, excluding the question of demand, differential rent (as a quantity) correlates positively with differences in productivity of labour as between different sections of land (whether attributable to differences in fertility and position of the various locations – type one – or to the differing

[15] "i.e. differential rent; he [Ricardo] assumes that there is no other rent in existence besides this" (Marx 1991, p. 788). In this connection also see Marx 1982, p. 280.

[16] On the issue of the ground rent, us with other points in his work, Smith "abandons the terrain of the labour theory of value and replaces it with the *theory of production costs*". Moving on the other side of his theoretical contradiction, i.e. defining the value of the commodity "by the quantity of labour expended on its production", but "as the sum of wages, profit, and rent" (Rubin 1989, p. 194), maintains that: "There is in every society or neighbourhood an ordinary or average rate both of wages and profit [...] There is likewise in every society or neighbourhood an ordinary or average rate of rent [...] These ordinary or average rates may be called the natural rates of wages, profit, and rent [...] When the price of any commodity is neither more nor less than what is sufficient to pay the rent of the land, the wages of the labour, and the profits of the stock employed in raising, preparing [...] according to their natural rates, the commodity is then sold for what may be called its natural price.

The commodity is then sold precisely for what it is worth, or for what it really costs the person who brings it to market" (Smith 1979, I.vii. p. 1–5). For a critique of Ricardo, see Ricardo 1996, p. 77–8.

amounts of capital invested at the different sites – type two[17]) given that the productivity of labour correlates negatively with the production prices of the individual capitals.

In both variants of differential rent it seems, too, that the worst tract of land (in general) does not yield differential rent, as I have accepted that the production price of the capital invested in the worst land determines the market price (the price regulating the market). This is not exactly the view of Smith or Marx on the subject. But this point, too, I shall deal with later.

3.1. Differential rent in material and money terms

Differential rent "is always the difference between the produce obtained by the employment of two equal quantities of capital and labour" (Ricardo 1996, p. 71) "'on equal qualities of land'" (Marx 1981, p. 788).[18]

[17] The landowner will therefore be demanding de facto an additional rent for improvements which are being carried out not by himself but by the capitalist tenant on his land. In this connection Smith writes: "Those improvements […] are not always made by the stock of the landlord, but sometimes by that of the tenant" (Smith 1979, I.xi.a. p. 2). Along the same lines Marx writes: "A cultivated field is worth more than an uncultivated one of the same natural quality. Even the more permanent fixed capital incorporated into the earth, which is used up over a longer time, is in large measure the work of the farmer and in certain spheres often exclusively so. But as soon as the lease stipulated in the contract has expired – and this is one of the reasons why the landowner seeks to shorten the term of the lease to a minimum, as capitalist production develops – the improvements made to the land fall to the landowner as his property, as an inseparable accident of the substance, the land. When the new lease contract is concluded, the landowner adds interest on the capital incorporated into the earth to the ground-rent proper, whether he leases the land again to the farmer who made the improvements or to another farmer. His rent thus swells; or, if he plans to sell the land […] its value has now risen. He does not sell just the land, but rather the improved land, the capital incorporated into the earth, which has cost him nothing. […] Thus they [the landowners] put away in their own private purses the result of a social development achieved without their participation […]. But this is equally one of the greatest obstacles to the rational agriculture, since the farmer avoids all improvements and outlays which are not expected to give their full return during the duration of his lease […] This process still does not appear so clearly in agriculture proper as in the use of land for building. The overwhelming portion of the land used for building in England that is not sold as freehold is leased by the landlords for ninety-nine years, or for a shorter time if possible. When this period has expired, the buildings fall to the landlord, together with the land itself. […] in the case of land, the capital of others incorporated into it ultimately falls to the share of the landlord, and the interest on this swells his rent" (Marx 1991, p. 757–9. In this connection see Marx internet: vol. 3, ch. 46, Marx 1991, p. 910).

[18] "Surplus profit […] if produced in normal conditions and not as a by-product of fortuitous circumstances in the circulation process, is always produced as the difference between the product of two equal amounts of capital and labour, and this surplus profit is transformed into ground-rent if two equal amounts of capital and labour are employed on equal areas of land with unequal results" (Marx 1991, p. 788).

But let us give a simple example of differential rent, endeavouring further to analyse the theory of it as developed, above all, by Ricardo.

Let us then postulate a capital equal to 100 monetary units (mu), with all the fixed capital, for the sake of simplicity, depreciating in the course of one period of production and invested in the production of grain in the land E, which – moreover – given the demand, is the only land available for the cultivation of grain.

Let there be produced with this capital a gross product of 100Q of grain.

Let the average rate of profit on money capital be equal to 5%.

If the land E (the most fertile) were cultivated first, without the less fertile land being cultivated, because demand for grain has not imposed the necessity for cultivating less fertile ground, then the land E would not yield differential rent for the landowner who is its legal proprietor.

As Ricardo puts it: “On the first settling of a country, in which there is an abundance of rich and fertile land, a very small proportion of which is required to be cultivated for the support of the actual population, or indeed can be cultivated with the capital which the population can command, there will be no rent; for no one would pay for the use of land, when there was an abundant quantity not yet appropriated, and, therefore, at the disposal of whosoever might choose to cultivate it.

”On the common principles of supply and demand, no rent could be paid for such land, for the reason stated why nothing is given for the use [...] of the gifts of nature which exist in boundless quantity. [...] If all land had the same properties, if it were unlimited in quantity, and uniform in quality, no charge could be made for its use, unless where it possessed peculiar advantages of situation” (Ricardo 1996, p. 69).

The market price (T_M), price per unit Q, would be determined in that case by the production price (T_{PE}), price per unit Q, on the land E, where

$$T_{PE} = 1mu/Q + 0.05mu/Q = 1.05mu/Q.$$

For $T_M = \hat{O}_{PE}$, the income of the capitalist tenant on the land in money terms would be equal to $100Q \bullet 1.05mu/Q = 105mu.$

His profit in money terms would be equal to

$$105mu – 100mu = 0.05mu/Q \bullet 100Q = 0.05 \bullet 100mu = 5mu.$$

But if demand for grain increases, the less fertile land A is drawn into circulation and the more fertile land E will now yield differential rent to the landlord who is its legal proprietor.

As Ricardo, again, puts it: “It is only, then, because land is not unlimited in quantity and uniform in quality, and because in the progress of population, land of an inferior quality, or less advantageously situated, is called into cultivation, that rent is ever paid for the use of it. When in the progress of society, land of the second degree of fertility is taken into cultivation, rent immediately commences on that of the first quality, and the amount of that rent will depend on the difference in the quality of these two portions of land" (Ricardo 1996, p. 70). This differential rent is deducted from the product of the more fertile land. In any other eventuality "there must be two rates of profit on agricultural capital" (Ricardo 1996, p. 71).

Let us then postulate that on land A capital equal to 100mu is invested, for just 80Q, gross product, of grain to be produced.

Moreover, let the average rate of profit on money capital continue to be equal to 5%.

Land A will not yield differential rent to the landowner who is its legal proprietor.

Differential rent will be produced on land E, equal, in material terms to

$$100Q – 80Q = 20Q.$$

Thus both capitalist tenants receive 80Q, gross product, in grain.

The market price ($\hat{O}_{M}$) in this case is determined by the production price ($\hat{O}_{\text{PÁ}}$) on the worst land Á, where

$$\hat{O}_{\text{PÁ}} = 1.25\text{mu/Q} + 0.0625\text{mu/Q} = 1.3125\text{mu/Q}.$$

For $T_{M} = \hat{O}_{PA}$, if the capitalist tenant of land E did not produce differential rent, his income in money terms would be equal to

$$100Q \bullet 1.3125\text{mu/Q} = 131.25\text{mu}.$$

His profit in money terms would be equal to

$$131.25\text{mu} – 100\text{mu} = 0.3125\text{mu/Q} \bullet 100Q = 0.3125 \bullet 100\text{mu} = 31.25\text{mu}.$$

His rate of profit on money capital would be 31.25%. The capitalist tenant of the land would realise a surplus – higher than the average – or additional profit.

But the capitalist tenant of land E produces differential rent equal, per unit Q, to

$$T_{M} – \hat{O}_{PE} = 1.3125\text{mu/Q} – 1.05\text{mu/Q} = 0.2625\text{mu/Q}.$$

Thus the income, the profit and the profit rate on money capital for the capitalist tenant of land E, all remain stable, as before the entry into production of land A, and are

$$80Q \bullet 1.3125\text{mu/Q} = 105\text{mu},$$

$$105\text{mu} – 100\text{mu} = 0.0625\text{mu/Q} \bullet 80Q = 0.05 \bullet 100\text{mu} = 5\text{mu}$$

and 5%, respectively.

Nevertheless his gross product has diminished in material terms:

$$80Q - 100Q = -20Q.$$

The capitalist tenant of land A does not remit differential rent to its landowner proprietor.

His income in money terms will amount to

$$80Q \bullet 1.3125mu/Q = 105mu.$$

His profit in money terms will amount to

$$105mu - 100mu = 0.0625mu/Q \bullet 80Q = 0.05 \bullet 100mu = 5mu.$$

His rate of profit on money capital will be 5%.

Thus, for an equal capital on land of equal size, of differing fertility, capitalist tenants of land E and land A received, after deduction of the differential rent, equal overall takings, profits and rates of profit.

The landowner who is the legal proprietor of land E receives 0.2625mu/Q or the 31.25% "initial" rate of profit of the capitalist tenant of land E is scaled down by 26.25 units, that is the surplus above and beyond the average rate of capitalist profit.

His overall differential rent in money terms amounts to

$$20Q \bullet 1.3125mu/Q = 131.25mu - 105mu = 26.25mu.$$

The differential rent of 26.25mu is an additional profit from the fertile land E, which is not attributable to the monopoly on landownership generally but given the regulative function of the less fertile land, the owner of the more fertile land is able to take advantage of this.

Through its increasing the productivity of labour (for a given amount and given technical composition of capital), the fertile land E merely expresses "a special case of relative surplus-value" (Emsley 1998, p. 14).

"The battle of competition is fought by the cheapening of commodities. The cheapness of commodities depends, all other circumstances remaining the same, on the productivity of labour" (Marx 1990, p. 777). The "relative surplus-value factor comprised by the high productive-potential land" E (whatever the reasons for it) increases the productivity of labour, at the same time cheapening the grain commodity. With an individual production price lower than the market price, capital invested in land E will "realise an extra surplus-value, or surplus-profit" (Marx internet: vol. 3, ch. 10, Marx 1991, p. 279). Because of the monopoly on landownership, this additional profit acccrues to the landowner-proprietor of land E rather than to its capitalist tenant. Thus the rate of profit for the capitalist on the fertile land remains stable at its average levels.

Marx writes in this connection: "Differential rent has the peculiarity that landed property here merely intercepts the surplus-profit which would other-

wise flow into the pocket of the farmer, and which the latter may actually pocket under certain circumstances during the period of his lease. Landed property is here merely the cause for transferring a portion of the commodity-price which arises without the property having anything to do with it *(indeed, in consequence of the fact that the price of production which regulates the market-price is determined by competition)* and which resolves itself into surplus-profit" (Marx internet: vol. 3, ch. 45, Marx 1991, p. 889, my italics, G.E.E).
To the extent that the differential yields of the land are reproduced, there will also be reproduction of the possibility of additional – above-average – profits for the owners or occupiers of the more fertile lands.

3.2. Differential rent and diminishing returns
We saw that according to Ricardo if inferior-quality land is used in cultivation, differential rent begins immediately to make its presence felt on superior-quality land. We might suspect, for a start, that his logic suggests the concept of a single-directional hierarchical fertility-location order (in a *descending* fertility-location *line* running from fertile-favourable locations to infertile-unfavourable locations) as a causal factor in differential rent.
Thus Ricardo writes: "It may perhaps be found, that by doubling the original capital employed on […] [more fertile land] the produce will not be doubled [though it will increase more compared with the investment on less fertile land in two orders] […]
In such case, capital will be preferably employed on the old land, and will equally create a rent; for rent is always the difference between the produce obtained by the employment of two equal quantities of capital and labour [...] for there cannot be two rates of profit. [...]
In this case, as well as in the other [that is through investing in land either of the same fertility or of lesser fertility], the capital last employed pays no rent. [...]
If, then, good land existed in a quantity much more abundant than the production of food for an increasing population required, or if capital could be indefinitely employed without a diminished return on the old land, there could be no rise of rent; for rent invariably proceeds from the employment of an additional quantity of labour with a proportionally less return" (Ricardo 1996, p. 71–2).
And in brief: "Rent increases most rapidly, as the disposable land decreases in its productive powers" (Ricardo 1996, p. 77).
Thus, according to Ricardo, *the so-called diminishing returns from the soil* are the prime cause of differential rent.

Let us look at an example based on the logic and the data which he himself cites (see Ricardo 1996, p. 81).

Let us suppose that equal amounts of capital are used successively on four (equal) sections of land. If these successive sections yielded 100, 90, 80 and 70 (quantities of the product) in the course of their utilisation, we would have:

70 and 100 = 30 100
70 and 90 = 20 90
70 and 80 = $\underline{10}$ 80
60 (differential rent) $\underline{70}$
340 (product)

The procedure is as follows. The initial investment of capital in the most fertile section of land yielding 100 does not bring in differential rent to its landowning proprietor. Increase in demand necessitates new investment in the section of land that ranks second in fertility, that yielding 90. The capitalist tenants will pay out differential rent amounting to 100–90 on their first investment, and they will not pay differential rent on their second investment. Demand will rise further and will necessitate utilisation of the section of land ranking third in fertility. The new investment yields 80. The capitalist tenants will pay differential rent amounting to 100–80 on the first investment, 90–80 on the second, and will not pay differential rent on the third. Demand rises even further, such that the section of land ranking fourth in fertility has to be cultivated. This new investment yields 70. The capitalist tenants will pay differential rent amounting to 100–70 on the first investment, 90–70 on the second, 80–70 on the third, and will not pay differential rent on their fourth investment. The overall differential rent finally comes to 60. The product appropriated by the capitalists comes to 70 • 4 = 280. The overall product comes to 60 + 280 = 340.

Is it inevitable that there will be this downward line in the extraction of differential rent?

Let us suppose that we have four (equal) sections of land. For the given level of demand, the investment of capital will take place on the least fertile section, yielding 70. Why does it take place on the least fertile section? Because the other sections, for whatever reasons, are not available for farming. There is nil differential rent from the investment on this section. Demand increases and the next section of land, that ranking third in fertility, is rented for cultivation. The new investment yields 80. The capitalist tenants will pay differential rent amounting to 80–70 on their second investment, and they will not pay differential rent on their first investment. Demand increases further, necessitating utilisation of the section of land ranking second in fertility. The new investment yields 90. The capitalist tenants will pay differential rent amounting to 90–70 on their third investment, 80–70 on their second and will not pay differential rent on their first investment. Demand increases even further, so that the most fertile land has to be brought under cultivation. The new investment yields 100. The capitalist tenants will pay differential rent amounting to 100–70 on their fourth investment, 90–70 on their third, 80–70 on their second, and will not pay differential rent on their first investment. Overall differential rent once again comes to 60. The product appropriated by the capitalists comes to 70 • 4 = 280.

The overall product comes to 60 + 280 = 340.

We therefore have:

70 and 80 = 10 70
70 and 90 = 20 80
70 and 100 = 30 90
60 (differential rent) 100
340 (product).

Differential rent increases more rapidly when there is an increase in the productive powers of the soil.

In contradistinction to the Ricardian variant of differential rent, Marx writes: Differential rent "is equally strong when there is a transition from a better to a worse piece of land and when there is a transition from a worse to a better piece of land. In both cases this applies only on the precondition that the newly-cultivated piece of land is necessary, or that it simply suffices for the additional demand to be accommodated. If the newly-cultivated and higher-quality piece of land is capable of covering *greater* demand than the demand which has been added, then a part or, depending on the extent of the additional demand, the entirety of the lower-quality piece of land, is *removed from cultivation*.... Thus differential rent does not presuppose *a gradual deterioration in agriculture* but can just as well flow from *its gradual improvement*." (Marx 1982, p. 280–1).

"In this way we can abandon the erroneous conception of differential rent which still prevailed with West, Malthus and Ricardo and which assumed a necessary progression to ever worse soil, or an ever declining agricultural fertility [...] differential rent can arise with a progression ton ever better soil; it can arise if a better soil takes the lowest place instead of that which was formerly the worst; it can be linked with a steady advance in agriculture. *Its only precondition is the inequality of types of soil*" (Marx 1991, p. 798, my italics, G.E.E).

3.3. Market price, lower-quality land and differential rent

I have taken it, in principle, for granted that the market price of the product of land is determined by the production price of the capital invested in the worst land.

But we might well ask: Why is it that the market value (price) of the product of land is not determined by the " average value [price], hence of a value [price] midway between the two extremes" (Marx internet: vol. 3, ch. 10, Marx 1981, p. 279), as, for example, in industry?

According to the Smithian, Ricardian and Marxian approach (in which connection also see below) with the increase in population, demand for agricultural product tends continually to exceed supply, and in any case exceeds the supply available from the most fertile and favourably-situated lands. The pressure of demand leads to the cultivation on each occasion of the worst land. If the market price did not cover the production price of the worst land, this land would be withdrawn from cultivation. Unsatisfied demand would bring it back by raising the market price to the level of production price on that, the worst, land.

Would it not however be possible to formulate a similar line of argument for the output of a factory (the worst) in a branch of analogous products, such that this would determine the market price?

The answer, for Ricardo, is negative and this has to do with the specific "imperfection" of the productive coefficient for land "compared with the natural agents by which manufactures are assisted" (Ricardo 1996, p. 75), given, of course, the heightened "specific weight" of agricultural land in farm production. What is the imperfection? The *relatively limited extent* (by comparison with other coefficients, particularly technological ones) specifically of fertile agricultural land in the best position and generally of agricultural land.

In the formulation of V. I. Lenin: "The limited extent of the land creates – entirely irrespective of any specific type of land *ownership* – a certain kind of monopoly, and concretely: given that all the land is occupied by farmers, given that there is demand for all the grain that are produced on all the tracts of land, even on the worst and most distant from the market, it is obvious that the market price for grain will be determined by the production price on the worst tracts of land (or by the production price with the last and least profitable expenditure of capital). 'Average profitability' (..). is a vain arithmetical exercise, because the limited extent of the land impedes the actual formation of any such average profitability. For this "average profitability" to come into existence and to determine prices, it is necessary not only for every capitalist generally speaking to put capital in agriculture (..). but also for every capitalist always to be able – above and beyond the number of farming businesses already in existence – to establish new farming businesses. If this were the case, there would not be any difference between farming and industry and then no ground rent would be able to emerge. It is precisely the limited extent of land that ensures things are not like this" (Lenin 1986, p. 23).

However, is the market price of each specific agricultural product determined independently by the production price of the invested capital on the worst land for producing it?

Not exactly, at least according to Marx, who follows Smith.

We thus find ourselves at this point at one of what Marx called "one of Adam Smith's great services", explaining "how the ground-rent for capital applied to the production of other agricultural products, e.g. of flax, of dye-stuffs, in the independent stock-raising, etc, is determined by the ground-rent yielded by capital invested in the production of the staple crop". Of "the main plant crops [...] wheat [grain] since this is the major means of sustenance for modern, capitalistically developed nations" (Marx 1991, p. 752).

According to Marx: "no further progress has been made in this connection since his [Smith's] time" (Marx 1991, p. 752).

According, then, to Smith: "By the extension [...] of cultivation, the unimproved wilds become insufficient to supply the demand for butcher's meat. A great part of the cultivated lands must be employed in rearing and fattening cattle, of which the price, therefore, must be sufficient to pay, not only the labour necessary for tending them, but the rent which the landlord and the profit which the farmer could have drawn from such land employed in tillage. The cattle bred upon the most uncultivated moors, when brought to the same market, are, in proportion to their weight or goodness, sold at the same price as those which are reared upon the most improved land. The proprietors of those moors profit by it, and raise the rent of their land in proportion to the price of their cattle" (Smith 1979, I.xi.b. p. 8).

"It is thus that in the progress of improvement the rent and profit of unimproved pasture come to be regulated in some measure by the rent and profit of what is improved, and these again by the rent and profit of corn" (Smith 1979, I.xi.b. p. 9).

And again, "the rent and profit of corn, or whatever else is the common vegetable food or the people, must naturally regulate, upon the land which is fit for producing it, the rent and profit of pasture" (Smith 1979, I.xi.b. p. 14).

So: “It is in this manner that the rent of the cultivated land, of which the produce is human food, regulates the rent of the greater part of other cultivated land. No particular produce can long afford less; because the land would immediately be turned to another use. And if any particular produce commonly affords more, it is because the quantity of land which can be fitted for it is too small to supply the effectual demand.

In Europe, corn is the principal produce of land which serves immediately for human food. Except in particular situations, therefore, the rent of corn land regulates in Europe that of all other cultivated land” (Smith 1979, I.xi.b. p. 34, 35).

Nevertheless, for the chief staple to regulate the rent from land on the capital that is employed in producing other agricultural products, one basic prerequisite is necessary. The tracts of agricultural land that are used in the production of the staple must be such that cultivation can be switched from other crops to it and vice versa. “Even in the rice countries [in countries where the staple is rice], therefore, the rent of rice lands cannot regulate the rent of the other cultivated land, which can never be turned to that produce”, because a “good rice field is a bog at all seasons, and at one season a bog covered with water” and thus it “is unfit either for corn, or pasture, or vineyard, or, indeed, for any other vegetable produce that is very useful to men” (Smith 1979, I.xi.b. p. 38).[19]

So the lands on which the staple is cultivated generally determine (under the basic prerequisite of compatibility of the land with other basic activities in agricultural production) the rent from land yielded by capital which is employed in the production of other agricultural products, in the sense that they *regulate the lower limit of ground rent in terms of the fertility and location of the farming land.* Every use of land other than production of the main staple

[19] There is also according to Smith and another basic prerequisite for a product to evolve into a staple and that is the possibility of storing it. “The land which is fit for potatoes is fit for almost every other useful vegetable. If they occupied the same proportion of cultivated land which corn does at present, they would regulate, in the same manner, the rent of the greater part of other cultivated land” (Smith 1979, I.xi.b p. 40). Nevertheless: “It is difficult to preserve potatoes through the year, and impossible to store them like corn, for two or three years together. The fear of not being able to sell them before they rot discourages their cultivation, and is, perhaps, the chief obstacle to their ever becoming in any great country, like bread, the principal vegetable food of all the different ranks of the people” (Smith 1979, I.xi.b p. 42).

which does not secure this lower limit will lead to a turn (given the high effective demand for the staple) towards production of the staple.[20]

Thus, according to Smith and Marx, *it is not the worst land which independently determines the market price of any agricultural product apart from the staple*. Irrespective of its production price, the market price of any agricultural product apart from the staple must be such that on the worst agricultural land for the production of that product the capitalist tenant will pay to its landowner proprietor a ground rent at least equal to that from the agricultural land of equivalent fertility and position on which the chief staple is cultivated.

From this it also emerges however that: if the worst land for the cultivation of e.g. tomatoes is non-worst land for the cultivation of the chief staple, *the worst land* for the cultivation of tomatoes *will yield ground rent.*

There is something else that emerges from the above, and is particularly obvious in the case of uncultivated pasturelands. Uncultivated pasturelands are generally worse agricultural land than the worst agricultural land for the cultivation of grain. But *even this uncultivated land will yield ground rent* if the market price is uniform, e.g. for meat, and if a part of the meat production is based in stockbreeding on agricultural lands that can be converted into cultivable fields and so yield ground rent.

In further commentary on Smith's related analysis, Marx writes: "Adam Smith – and this is one of his merits – has already demonstrated that a quite different determination of prices is to be observed in cattle-raising, and, for that matter, generally for capitals invested in land which are not engaged in raising the principal means of subsistence, e.g., grain. Namely in that case the price is determined in such a way that the price of the product of the land – which is used for cattle-raising, say as an artificial pasture, but which could just as easily have been transformed into cornfields of a certain quality – must rise high enough to produce the same rent as on arable land of the same quality. In other words, the rent of cornfields becomes a determining element in the price of cattle [...] the price of cattle is in this manner artificially raised by the rent, by the economic expression of landed property, in short, through landed property. […]

[20] Marx finds "interesting the description Smith gives of how income from the chief plant staple has a determining influence on all the other strictly agricultural incomes (from stockbreeding, from timber production, from marketable plants, etc)., because the means by which they are produced are interchangeable. Rice is an exception to this, in the regions where it is the chief staple, because muddy rice-paddies cannot be transformed into grassy meadows, wheatfields, etc. or vice versa" (Marx 1982, p. 397).

”In this case, too, therefore, the differential rent, as distinct from the corn rent, is in favour of the worst land” (Marx internet: vol. 3, ch. 45, Marx 1991, p. 902).
Nevertheless, for the chief staple too, for grain let us say, is the market price always determined by the worst land?
For Marx this depends on the effect of the second kind of differential rent.
Following the analysis of Marx we may presume that demand for grain increases and that this increased demand can be covered through an increase in supply which emerges “only [...] from successive investments of capital [...] in the rent-bearing soils” (Marx internet: vol. 3, ch. 44, Marx 1991, p. 872).
Let us suppose that the worst land is land A and that the first to bring income is land B, which is equal in area..
With labour productivity remaining stable: “The additional investment of capital [on land B] demands an increase in the market-price above the hitherto prevailing price of production [of the worst land, A] [...] in order to make possible the increased production” (Marx internet: vol. 3, ch. 44, Marx 1991, p. 872).
Thus: “As soon as differential rent II comes into force through successive investments of capital, the limits of the rising price of production may be regulated by better soil; and the worst soil, the basis of differential rent I, may also yield rent” and, as F. Engels notes, although “the rent [...] on B would remain [...] as heretofore [...] by means of differential rent II, better soil, already yielding rent, may regulate the price and thus transform *all* soil, even hitherto rentless, into rent-bearing soil” (Marx internet: vol. 3, ch. 44, Marx 1991, p. 873–4).

3.4. Differential rent and underground resources

Having examined for the case of agricultural land, however summarily, some questions with a bearing on the relationship between market price, ground rent and the worst land, let us now turn to related issues in regard to resources located underground.
For Smith, the principles which determine income from mines are different from those which determine income from agricultural land.
He writes: “The most fertile coal-mine [...] regulates the price of coals at all the other mines in its neighbourhood. Both the proprietor and the undertaker of the work find, the one that he can get a greater rent, the other that he can get a greater profit, by somewhat underselling all their neighbours. Their neighbours are soon obliged to sell at the same price, though they cannot so

well afford it, and though it always diminishes, and sometimes takes away altogether both their rent and their profit. Some works are abandoned altogether; others can afford no rent, and can be wrought only by the proprietor" (Smith 1979, I. xi.c. p. 18).

For him: "The lowest price at which coals can be sold for any considerable time is, like that of all other commodities, the price which is barely sufficient to replace, together with its ordinary profits, the stock which must be employed in bringing them to market. At as coal-mine for which the landlord can get no rent, but which he must either work himself or let it alone altogether, the price of coals must generally be nearly about this price" (Smith 1979, I. xi.c. p. 19).

According to Smith it is thus the most profitable mine that regulates the price, the market price: a price which yields profits + rent + replacement of stocks. And for him the postulated distinction in relation to agricultural land is clear.

Nevertheless, it would not be a question of differential rent, because the only condition for the formation of such rent, (i.e. differential rent) is variation in the quality of the sections of the underground substrata of the land that are under active capitalist exploitation.

But beyond that the postulated distinction is by no means felicitous.

Smith maintains that the purchase price for coal is the price that can provide rent to the owner of the profitable mine, can supplant other mines – those that yield less than the normal profits to their capitalist concessionaire – and can force the legal proprietors of other sites to forego their rent and probably to work their mines themselves as capitalists.

On the basis of what I have argued up to this point, with the exception of the specific effects of the second type of differential rent, the market price for grain is the price that can provide rent to the owner of fertile and favourably situated agricultural lands, obviously supplanting (at least in respect to the cultivation of grain) those agricultural lands which yield less than normal (average) profits to their capitalist tenants, forcing the legal proprietors of other land to cultivate that land themselves as capitalists.

In short no clear distinction emerges between mines and agricultural land as far as differential rent is concerned.

In any case Smith tells us at the same time that the lowest possible market price for coal is that which yields normal profits and not rent. That is to say, it is the market price that is determined by the production price of the capital invested in the worst mine.

And the lowest possible market price, with the exception we referred to of grain, is that which yields normal (average) profits and not rent. That is to say, it is the market price that is determined by the production price of the capital invested in the worst (i.e. worst for the cultivation of grain) agricultural land.

The contradictions in Smith's analysis do not escape the attention of Ricardo, who observes: "After Adam Smith has declared that there are some mines which can only be worked by the owners, as they will afford only sufficient to defray the expense of working, together with the ordinary profits of the capital employed, we should expect that he would admit that it was these particular mines which regulated the price of the produce from all mines. If the old mines are insufficient to supply the quantity of coal required, the price of coal will rise, and will continue rising till the owner of a new and inferior mine finds that he can obtain the usual profits of stock by working his mine. [...] It appears, then, that it is always the least fertile mine which regulates the price of coal. [...] If the demand for coal should be diminished, or if by new processes the quantity should be increased, the price would fall, and some mines would be abandoned; but in every case, the price must be sufficient to pay the expenses and profit of that mine which is worked without being charged with rent. It is, therefore, the least fertile mine which regulates price. Indeed, it is so stated in another place by Adam Smith himself, " (Ricardo 1996, p. 331–2).

The least productive mine always regulates the price of coal, leaving out of account the specific effect of the second type of differential rent, which naturally has the same effects on underground strata as it has on agricultural land: differential rent even from the worst mine. But for Ricardo, as already noted, the worst piece of land cannot under any circumstances yield differential rent.

Smith writes further on this point: "As the price both of the precious metals and of the precious stones is regulated all over the world by their price at the most fertile mine in it, the rent which a mine of either can afford to its proprietor is in proportion, not to its absolute, but to what may be called its relative fertility, or to its superiority over other mines of the same kind" (Smith 1979, I. xi.c. p. 33).

And the following is the difference between the ground and what is under the ground: "It is otherwise in estates above ground. The value both of their produce and of their rent is in proportion to their absolute, and not to their relative fertility. The land which produces a certain quantity of food, clothes, and lodging, can always feed, clothe, and lodge a certain number of people [...]. The value of the most barren lands is not diminished by the neighbourhood of the most fertile. On the contrary, it is generally increased by it. The great num-

ber of people maintained by the fertile lands afford a market to many parts of the produce of the barren, which they could never have found among those whom their own produce could maintain. ” (Smith 1979, I. xi.c. p. 35).
Accordingly, for Smith it is demand that makes the difference.
The low level of demand in the case of precious stones and minerals does not allow of the extension of production such that even the worst mine would be included. Only the relatively more productive underground deposits can remain in operation, yielding rent (relative productivity). High demand, by contrast, in the case of goods which are basic necessities makes it possible for production to be extended to embrace even the worst land. Even the absolutely most barren agricultural land may be cultivated (absolute productivity).
As far as mines are concerned, the reality may well be as described, with one difference, however, which we have already pointed out. If demand sufficed only to bring into operation the relatively more productive mine, this mine would not – to say the least – yield differential rent. Therefore, also from the viewpoint of differential rent in particular, it could be the object of capitalist-type exploitation only by its legal owners.
But in any case it is not absolute but relative productivity (difference in quality) that determines differential rent. As observed critically (and quite properly) by Ricardo in connection with Smith's views on the subject: "it is the relative fertility of the land, which determines the portion of the produce, which shall be paid for the rent of land, as it is that the relative fertility of mines, determines the portion of their produce, which shall be paid for the rent of mines" (Ricardo 1996, p. 330).
So the "laws" which govern differential rent are in general the same both for agricultural land and for mines, writes (and) Marx, here clearly following the Ricardian and not the Smithian analysis (Marx 1991, p. 752). And he adds: "Wherever rent exists at all, differential rent appears at all times and is governed by the same laws, as agricultural differential rent" (Marx internet: vol. 3, ch. 46, Marx 1991, p. 908). Thus: "Mining rent proper is determined in the same way as agricultural rent" (Marx internet: vol. 3, ch. 46, Marx 1991, p. 910).
They are perhaps not exactly the same, because in the case of underground resources the prerequisites do not exist for the determining influence that the chief staple can impose on differential rent.

3.5. Differential (?) rent and real estate

Marx writes that: "Wherever natural forces can be monopolised and guarantee a surplus-profit to the industrial capitalist using them, be it waterfalls, rich mines, waters teeming with fish,[21] or a favourably located building site, there the person who by virtue of title to a portion of the globe has become the proprietor of these natural objects will wrest this surplus-profit from functioning capital in the form of rent [...] as concerns land for building purposes [...] the basis of its rent, like that of all non-agricultural land, is regulated by agricultural rent proper" (Marx internet: vol. 3, ch. 46, Marx 1991, p. 908).

Is this really true? Is (differential?) rent from real estate determined on the basis of the same "laws" that determine differential rent from agricultural land and from underground resources?

I consider that building land is rented and not sold or, as regards for example plots of land for residential building, that "landlord and building speculator are different persons, as is true in England" (Marx internet: vol. 3, ch. 46, Marx 1991, p. 909).

For a start, to the extent that there exists differential rent of the first type, it is obviously contingent not on the fertility of the land but purely on its position.

In this connection Marx writes: "This rent is distinguished [...] by the preponderant influence exerted here by location upon differential rent" (Marx internet: vol. 3, ch. 46, Marx 1991, p. 908).

Differential rent of the second type, to the extent – likewise – that it exists, is connected with investments of fixed capital.

Marx, again, writes in this regard: "Not only the population increase and with it the growing demand for shelter, but also the development of fixed capital, which is either incorporated in land, or takes root in it and is based upon it, such as all industrial buildings, railways, warehouses, factory buildings, docks, etc., necessarily increase the building rent" (Marx internet: vol. 3, ch. 46, Marx 1991, p. 909).

I believe that certain theoretical problems arise at this point.

Although "in the first instance" it is nothing more than "illusion [...] that land itself possesses value" (Marx internet: vol. 3, ch. 47, Marx 1991, p. 946), "in the second instance", socially, apart from location (and its consequences for demand), investments of fixed capital in land for residential, commercial or industrial buildings etc. do not reduce but on the contrary increase the social

[21] Smith writes in relation to this: "The sea in the neighbourhood of the islands of Shetland is more than commonly abundant in fish, which makes a great part of the subsistence of their inhabitants. But in order to profit by the produce of the water, they must have a habitation upon the neighbouring land. The rent of the landlord is in proportion, not to what the farmer can make by the land, but to what he can make both by the land and by the water. It is partly paid in sea-fish" (Smith 1979, I.xi.a. p. 4).

"value of land as space and foundation" (Marx internet: vol. 3, ch. 46, Marx 1991, p. 909) so also the social "production price" of land for building.

Hence "the production price" of a building plot is the price determined by costs + the average profit from improvements and installations (buildings, etc). on it.

If this is the case, however, may we not be up against a more general instance of specific effects of the second type of differential rent I have examined (increase in production price)?

Let us suppose that this is the case, i.e. that the factors behind differential rent correlate only positively and not negatively with the production prices of individual capitals, that many (capitalistically "produced") plots of land of varying quality are on offer in the real estate market, and that effective demand exists for them. Then the best building plot is of the highest "value" and has the highest social production price, so that the market price (rent remitted to the capitalist renter of the plot in payment for the service provided by the building plot to another third party, capitalists or workers) is determined not by the worst but by the best land, in each case. Which means that for two lots of the same area the higher differential rent is yielded by the worse plot. In other words the legal proprietor of the worse building plot in each instance receives the higher rent from the capitalist renter of the plot.

This is obviously an absurd conclusion.

And the absurdity of the conclusion consists in the hypothesis that a uniform market price can be established for real estate, as with the products of the earth and under the earth in general.

But if we retract the hypothesis of the uniform market price for real estate, we must also retract the hypothesis of determination through competition from the production price which regulates the market price. We thus find ourselves outside the theoretical framework of differential rent, although not outside the consequences of the factors which determine differential rent either of the first or of the second kind.

Nevertheless, income from real estate is certainly not determined on the basis of the same "laws" that determine differential rent from agricultural land or underground resources as Marx asserts.

But supposing, and correctly I believe, that the best building plot yields a higher rent to its legal proprietor that the rent produced by the worst building plot, we find ourselves in general agreement with the findings of differential rent. The best agricultural land or the best underground resources yield a higher rent to the legal proprietor than the rent produced by the worst agricultural land or the worst underground resources.

If our interpretation cannot be based on the theoretical schema of differential rent, on what can it be based?

My belief is that the answer lies in the direction of the interpretation of *monopoly type prices,* which are *nonetheless determined by factors such as differential rent types I* and II.

Rent from real estate, writes Marx in any case, “is distinguished [...] by the prevalence of monopoly prices in many cases” (Marx internet: vol. 3, ch. 46, Marx 1991, p. 908).

Where, monopoly price is market price above the price of production (Marx internet: vol. 3, ch. 45 & 46, Marx 1991, p. 899–900, 910).

The monopoly price is the market price which is not “bound” by the production price or the market price for which the production price does not necessarily constitute the “center of gravity”.

“When we refer to a monopoly price, we mean in general a price determined only by the purchasers' eagerness to buy and ability to pay, independent of the price determined by the general price of production, as well as by the value of the products” (Marx internet: vol. 3, ch. 46, Marx 1991, p. 910).

Thus, a building plot in a bourgeois residential district, without any investment of fixed capital, that is to say with negligible production price, purely on the strength of its position can draw a market price on rental much higher than a holding of the same size or many times larger with fixed capital invested in it (houses built on it) but located in a neighbourhood of tenement houses.

So on the subject of real estate the interpretative scheme of rent changes, something Marx did not perceive.

It is however worthwhile noting the Marxian distinction “whether the rent springs from a monopoly price, because a monopoly price of the product or the land exists independently of it, or whether the products are sold at a monopoly price, because a rent exist” (Marx internet: vol. 3, ch. 46, Marx 1991, p. 910).

In the case of the real estate “the monopoly price creates the rent” (Marx internet: vol. 3, ch. 46, Marx 1991, p. 910).[22]

[22] “On the other hand, the rent would create a monopoly price if grain were sold not merely above its price of production, but also above its value, owing to the limits set by landed property to the investment of capital in uncultivated land without payment of rent” (Marx internet: vol. 3, ch. 46, Marx 1991, p. 910).

4. So-called absolute rent[23]

I shall direct my analysis towards agricultural land and ask the question: Can the first-cultivated land and, with the exception of the special effect of differential rent of the second type, the worst agricultural land for cultivating, let us say, grain, become the object of capitalist exploitation *only* by the landlord who is its legal proprietor, given that he does not have the opportunity to derive the benefit of a rent from it?

Ricardo answers in the affirmative on the basis of the exposition I have offered. But Marx's answer is negative. The first-cultivated land, and also the worst land, can yield rent. Not differential rent but *absolute rent*.

According to Marx absolute rent is created exclusively by landownership on account of the monopoly it enjoys over the land. Absolute rent is derived from the totality of the land and flows from the surplus in the value of agricultural products over and above their production price. A prerequisite for *value* being able to be greater than the production price of agricultural products is the lower average (organic) composition of the capital invested in land than that of average social capital (i.e. the comparatively greater proportion of variable capital in the overall capital or, differently expressed, the comparatively smaller proportion of fixed capital in overall agricultural capital, in relation to the average social capital). This lower composition of agricultural capital leads to more surplus-value being produced in the agricultural economy than the corresponding surplus-value of capital of the same size with average social organic composition. This amounts to an excess of farm profit over average profit, i.e. the production not just of surplus-value but of excessive surplus-value in the sphere of agricultural production. The monopoly of landownership prevents this excessive surplus-value (functioning as a barrier to the diversion of capital from industry into the agricultural economy) from going into a general equalisation of the rate of profit, in this way securing as rent its excess over and above the average rate of profit. (Marx internet: vol. 3, ch. 45, Marx 1991, p. 882–907).

As Marx sees it, Ricardo fails to comprehend the concept of absolute rent because he equates value and cost price (for cost read production).

In this connection he writes: "With Ricardo's presumption that *cost price* = *value* the whole argument collapses. What is now absent is the *theoretical interest* that forces him to deny absolute rent" (Marx 1982, p. 283).

[23] This section is a rewording from Economakis, under publication, 2002.

4.1. The analytical framework of absolute rent

Here, as also above on the question of monopoly pricing, a serious theoretical problem arises.

It is the problem of *homogeny (symmetry) of values and production prices*, which relegates one to the Marxist analysis of “transformation of values into production prices”, presupposing the consideration of prices as *“figures akin to values, which moreover possess a tangible empirical substance corresponding to prices”*. The relevant transformation project in my opinion constitutes “an empiricist retreat” from the Marxian “theoretical system of the Critique of Political Economy in relation to classical (i.e. Ricardian) Political Economy” given that “it supposes: a) that there is a unit for measuring value (e.g. a working hour) which b) is commensurate with the unit for measuring prices (drachmas or whatever). (a) implies that we can in practice calculate values independently (by abstraction) of money. (b) – which is merely the opposite aspect of the same question – means that ‘abstract-social labour’ (or labour in general) belongs to the world of empirically observable and measurable objects, exactly like money” (Milios / Economakis 1999, p. 136–7).

For the purposes of subjecting it to criticism, I proceed to an exposition of Marx’s argumentation, cognizant that it represents a departure from his own theoretical system.

4.2. Composition of capital, rate of surplus-value and absolute rent

Marx asserts, then, that the composition of capital invested in agriculture is lower than its average social composition.

This hypothesis is based on the relative backwardness of agriculture, such that absolute rent, as emerging from the differences between (organic) composition of capitals in the agricultural and non-agricultural sectors, appears – in principle – to be a historically superseded category.[24]

On this subject Marx writes: The difference between value and cost price “stems from a difference which exists in the *organic* components of capital. Thus, all commodities whose value – in accordance with this organic composition – is *above* the cost price, show that they have been produced by a *relatively* less productive process. [...] This difference, which is of a *historical* character, may therefore cease to exist. The same reasoning which indicates that it is possible for there to be an *absolute rent* demonstrates its actuality, its

[24] In principle because “there are the peculiarities of agriculture which can on no account be ignored (..). For all these peculiarities, large-scale mechanical production in agriculture will never have *all* the distinctive features that it has in industry” (Lenin 1986, p. 41).

existence, as a simple historic fact, which can be a feature of a *certain* degree of development in agriculture and can disappear in a higher phase of its development.

"Ricardo by contrast denies that there is an absolute rent, because that presupposes an equal *organic composition* of capital in industry and in agriculture. He therefore denies the *low level* of labour productivity in agriculture compared to that of industry, a phenomenon existing for purely historical reasons" (Marx 1982, p. 283–4, also relevant is Marx internet: vol. 3, ch. 45, Marx 1991, p. 894, 899).

Nevertheless, even if we accept that the composition of capital in agriculture is lower than its average social composition, there is another type of issue, which I shall present through a simple example.

Let us postulate that:

in agriculture: 70c + 30v + 30s = 130 value,

in industry: 80c + 20v + 40s = 140 value,

where c stands for constant capital, v for variable capital and s for surplus-value.

Assuming – for mathematical simplicity – that all constant capital wears out in each production process, what does this simple example tell us: That even though the composition of capital in agriculture is lower than that in industry (7/3 = 2.3 as against 8/2 = 4), for capitals of the same size (= 100) the higher rate of surplus-value in industry (200%) compared with agriculture (100%) means that the value of the gross industrial product exceeds the value of the gross agricultural product.

Is it reasonable for us to assume, as I do, that there is a higher rate of surplus-value in high (organic) capital composition industry and a lower rate of surplus-value in low (organic) capital composition agriculture?

I believe that it is. For a given amount of capital, as noted by P. Sweezy, "a rising organic composition of capital goes hand in hand with increasing labour productivity [...] rising productivity tends to bring with it a higher rate of surplus value" (Sweezy 1970, p. 100–1).[25] (I should add, however, that: the rate

[25] Examining the law of the falling tendency in the rate of profit, Marx postulates that the rate of surplus-value remains stable in circumstances of differing (organic) compositions of capital (see Marx internet: vol. 3, ch. 13, Marx 1991, p. 317–38). This means that with an increase in the (organic) composition of capital "the labourer benefits equally with the capitalist in the increased productivity of his labour" (Sweezy 1970, p. 101). Any such possibility seems to have been excluded by Marx in Volume 1 of *Capital* – "The [...] [real wages] never rise proportionally to the productive power of labour" (Marx internet: vol. 1, ch. 24, Marx 1990, p. 753) – but not in Volume 3: "A general rate of surplus-value

of surplus-value is a contested issue of class struggle of a specific conjuncture and in the historical arena of a given social formation).
Marx observes the rise in the productivity of labour accompanying the rise in the organic composition of capital without examining the immediate consequence of this increased productivity: the increase in the rate of surplus-value.
Thus, substantiation of absolute rent on the basis of differences in the (organic) composition of capital demands a very specific combination of outcomes (compositions of capital and rates of surplus-value) making possible an overabundance of surplus-value in the sphere of agricultural production.
So even if we follow the argumentation of Marx, which in relation to this point is based on the Ricardian (non-Marxian) concept of value (as a measure synonymous – or at any rate commensurable – with "normal price", i.e. what Marx calls "production price"), once again the conclusion that Marx comes to concerning the origins of absolute rent is anything but a self-evident one.

4.3. Absolute rent, correlation of class forces and monopoly pricing

Is it possible for the discussion on absolute rent to be disentangled from the specialised (excessively technical) accretions of compositions of capital and rates of surplus-value or must one consider absolute rent as a theoretical category from the realm of the phantasmagorical or chimerical? (Rey no publication date, Vergopoulos no publication date, Harvey 1982).
Given that in the Marxist system any argumentation based on or implying that values and prices are commensurable and as such quantitatively comparable measures would have to be rejected (Bensch 2000), my view is that the Marxist theory of absolute rent should be accepted only if the category of absolute rent is incorporated into that of *monopoly pricing in its second Marxist theoretical representation*.
Agricultural products are sold at a monopoly price, because there is a rent created by the monopoly of landownership, if the relation of class forces permits it in the historical arena of a given social formation and in the specific conjuncture. Alternatively, rent can create a monopoly price because of the impediment landownership erects to not giving rent investment of capital in uncultivated land.
Given this condition of monopoly pricing, it is possible for the market price to be higher than the production price.

[...] in reality [...] is an actual premise of the capitalist mode of production" (Marx internet: vol. 3, ch. 10, Marx 1991, p. 275).

Rent of this kind, in contradistinction to differential rent, is purely *"political"*, because it is independent of any differences in fertility, location and capital investment in the land. *"Political" rent* is the potential economic outcome under conditions of bourgeois-landowner class conflict of the latter's legal proprietorship of the land (politically imprinted in the *state policy* on agriculture – see in this connection Emsley 1998 – and the agricultural land structures – see in this connection Economakis 2000).[26]

In the light of the above, I agree with S. Amin's position that: "To reiterate, there is no economic 'rationality' that can be placed above the class struggle" (Amin no publication date, p. 258).

In the light, again, of the above I can retain as the basic core of the relevant Marxist analysis the following position:

"Although landed property may drive the price of agricultural produce above its price of production, it does not depend on this, but rather on the general state of the market, to what degree market-price exceeds the price of production" (Marx internet: vol. 3, ch. 45, Marx 1991, p. 898).

It is a question of "the market (..). being shaped on the basis of existing class relations" (Vergopoulos 1975, p. 205).

4.4. Monopoly pricing and differential rent

If we accept the above reasoning, i.e. accept that it is possible for both the first-cultivated and the worst land for grain, always leaving out of account the special effects of differential rent of the second type, to yield rent, then we must accept that the rent (both in money terms and in material terms) everywhere rises proportionately to its amount of land not yielding differential rent. Thus the rate of profit for capitalist tenants remains uniform.

The market price is determined not by the production price on the worst land but by the production price on the worst land plus the "political" rent. This market price is a monopoly price.

Consequently, the best land yields not only differential rent but a rent which is the sum of differential and political rent.

In short, "political" rent reconstitutes the market price determined on the basis of differential rent, making it a monopoly price.

Given the differential rent, the addition of the political rent further increases the rent of the landowners in both material terms and, naturally, money terms.

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[26] "Political" rent cannot, therefore, be reduced to the types of monopoly mentioned by Marx: "natural monopoly", "artificial monopoly", "accidental monopoly" (Marx internet: vol. 3, Marx 1991)

Likewise, given the differential rent, the deduction of the political rent leaves the incoming (and the profits) of the capitalist tenants unaffected in money terms, but reduces their gross (and net) product in material terms.

Let us give an example.

Let us postulate the worst land A, which determines the market price and yields no differential rent.

Let us suppose that a given investment of capital produces 70Q, gross product, of grain with $\hat{O}_{\text{PÁ}}$ = 3mu/Q.

If $\hat{O}_{\text{PÁ}} = \hat{O}_{\text{M}}$ the capitalist tenant has income of 70Q • 3mu/Q = 210mu.

Let us suppose that the existence of “political” rent raises the market price by 0.5mu, such that $\hat{O}_{\text{M}}$ = 3.5/Qmu.

The landowner will receive as rent 0.5mu/Q • 70Q = 3.5mu/Q • 10Q = 35mu or in material terms + 10Q.

The capitalist tenant will take as income (3.5mu/Q • 70Q) – (0.5mu/Q • 70Q) = 70Q • 3mu/Q = 3.5mu/Q • 60Q = 210mu. In the market price 3.5mu/Q he will receive the same with money income before the imposition of political rent but in material terms

$$210\text{mu} : 3.5\text{mu/Q} = 60\text{Q, i.e. } (60\text{Q} - 70\text{Q} =) -10\text{Q}$$

less gross product.

5. The price of land

Having completed, even if with some gaps, our tour of the forms of rent under the domination (and direct imposition) of the CMP on agricultural (and not only agricultural) land, let us look briefly at certain questions related to the price of land under the rule of capitalism.

For Smith it “is considered as a [...] price of a property [or the selling price]” a multiple of its annual “purchase” (Smith 1979, I.xi.c. p. 20).

According to Smith: “The ordinary market price of land, it is to be observed, depends everywhere upon the ordinary market rate of interest. The person who has a capital from which he wishes to derive a revenue, without taking the trouble to employ it himself, deliberates whether he should buy land with it or lend it out at interest. The superior security of land, together with some other advantages which almost everywhere attend upon this species of property, will generally dispose him to content himself with a smaller revenue from land than what he might have by lending out his money at interest. These advantages are sufficient to compensate a certain difference of revenue; but they will compensate a certain difference only; and if the rent of land should fall short of the interest of money by a greater difference, nobody would buy land, which would soon reduce its ordinary price. On the contrary, if the advantages should much more than compensate the difference, everybody would buy land, which again would soon raise its ordinary price. When interest was at ten per cent, land was commonly sold for ten and twelve years' purchase. As interest sunk to six, five, and four per cent, the price of land rose to twenty, five-and-twenty, and thirty years' purchase. The market rate of interest is higher in France than in England; and the common price of land is lower. In England it commonly sells at thirty, in France at twenty years' purchase" (Smith 1979, II.iv. p. 17).

One first problem is accordingly the price of land as such and a second the relationship between land price and interest rates.

Given that the receipts from legal proprietorship of land are rent and not (gross) "purchase"—i.e. the product by virtue of its capitalist exploitation –, the price for acquisition of the legal ownership title cannot but be mentioned among the incomes to be expected from possession of legal rights. And these are the rent. Thus the price of land must inevitably have had as a basic point of reference a multiple (not of the annual "purchase" from its capitalist exploitation as maintained by Smith, but) of the rent which it is expected to yield.

According to Marx, it is thus "the [capitalised] ground-rent [...] that forms the purchase price or value of the land, a category that is *prima facie* irrational [...] since the earth is not the product of labour, and thus does not have value. [...] It is in actual fact not the purchase price of the land, but rather of the ground-rent that it yields, reckoned according to the prevailing rate of interest." (Marx 1991, p. 760–1).

The correlation between land price and interest rates for Smith is negative. High interest rates – low price of land. Low interest rates – high price of land.

Marx too accepts this negative correlation: "taking the ground-rent as a constant magnitude, the price of land will rise or fall in inverse ratio to the rate of interest" (Marx 1991, p. 761).

His view is that in the dynamic of capitalist development the tendency of the rate of profit, and so also of interest rates, to fall will produce a corresponding tendency for land prices to rise (Marx 1991, p. 761).

Given the negative relationship between the price of land (= capitalised ground-rent) and interest rates, Marx investigates the price of land, overlooking "all fluctuations of competition, all land speculation, and also small landed property, in which land forms the principal instrument of producers and must, therefore, be bought by them at any price" (Marx internet: vol. 3, ch. 46, Marx 1991, p. 911).

From this investigation he concludes among other things:
"The price of land may rise without the rent rising" either "by a mere fall in interest rate" or "because the interest on capital incorporated in the land rises" (Marx 1991, p. 911–12).
"The price of land may rise, because the rent increases.
The rent may increase, because the price of the product of the land rises, in which case the rate of differential rent always rises", where the rate of differential rent is "the ratio of that portion of surplus-value converted into rent to the invested capital which produces the agricultural product" (Marx internet: vol. 3, ch. 46, Marx 1991, p. 912).
"The rent, however, may also increase without a rise in price of the agricultural product. This price may remain constant, or even decrease.
If the price remains constant, the rent can grow only (apart from monopoly prices) because, on the one hand, given the same amount of capital invested in the old lands, new lands of better quality are cultivated, which merely suffice, however, to cover the increased demand, so that the regulating market-price remains unchanged. In this case, the price of the old lands does not rise, but the price of the newly cultivated lands rises above that of the old ones" (Marx internet: vol. 3, ch. 46, Marx 1991, p. 912).
Given the regulatory market price, even though the price of new lands rises to higher levels than the price of the old lands (these new lands yielding higher rent than the old lands) the price of the old lands remains stable, as they yield the same rent as before.
"Or, on the other hand, the rent rises because the mass of capital exploiting the land increases, assuming that the relative productivity and market-price remain the same. Although the rent thus remains the same compared with the invested capital, still its mass. for instance, may be doubled, because the capital itself has doubled. […]
The price of land, however, may also rise even when the price of the agricultural product decreases.
In this case, the differential rent, and with it the price of the better lands, may have risen, owing to further differentiations. Or, if this is not the case, the price of the agricultural product may have fallen by virtue of greater labour productivity but in such a manner that the increased production more than counterbalances this" (Marx internet: vol. 3, ch. 46, Marx 1991, p. 912, 914–15).

To this we add: Taking monopoly prices into account, the price of land may increase even if interest rates also increase, provided the “political” rent increases proportionately more than the increase in the interest rates.

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