

## KARL MARX ON THE RENT OF LAND

THE THIRD volume of Marx's *Capital* was, as Frederick Engels explains in his preface, drafted between 1863 and 1867. It was not prepared for the press and published until 1894 when Engels completed this task eleven years after the author's death. The first volume, published in 1867, had therefore a long start of it, and most of those who profess to be Marxians base themselves on that or on popular summaries of it, and are unacquainted with the third volume which in some respects profoundly modifies the inferences to be drawn from the first.

The third volume bears the sub-title: "The process of Capitalist Production as a Whole." Part VI of it is headed: "Transformation of Surplus Profit into Ground-Rent" and occupies 227 pages in the translation by Ernest Untermann published by Charles H. Kerr & Coy. (Chicago). The following is a summary.

In the chapter dealing with "preliminaries" Marx refers back to what he has said in the first volume, that the capitalist mode of production presupposes free labourers (i.e. no longer bondsmen, serfs, or slaves) and, "on the other hand, the expropriation of the mass of the people from the land." By "capitalist production," it will be remembered, he means a form of society in which people are exploited, in which surplus value arises. He adds: "To this extent the monopoly of landed property is a historical premise, and remains the basis, of the capitalist mode of production, just as it does of all other modes of production, which rests on the exploitation of the masses in one form or another" (p. 723).

Thus it appears that Marx considers that every form of exploitation is based not merely historically but as a living fact upon land monopoly. This is not a mere chance remark, for the same thing is said over and over again. "The private ownership of the land, and with it the expropriation of the direct producers from the land—the private property of some, which implies lack of private property on the part of others—is the basis of the capitalist mode of production" (944). On p. 956 he refers to the "fact that large property in land is a prerequisite and condition of capitalist production, seeing that it separates the labourer from the means of production." "The fact that the earth received the form of private property is a historical requirement for this mode of production" (1,029).

The treatment and the numerous illustrations appear to relate mainly to agricultural land, but it is evident that Marx considers that the same principles apply to all land. "We include also water, etc., in the term land, in so far as it has an owner and belongs as an accessory to the soil." "Landed property is conditioned on the monopolization of certain portions of the globe by private persons, for the purpose of making these portions the exclusive spheres of their private will and keeping all others away from it" (722). He makes it clear also that in speaking of the land owner he regards him only in that capacity, separating his position in that respect from his position as an owner of capital. "The renting capitalist pays to the land owner, the owner of the soil exploited by him, a sum of money at definite periods fixed by contract, for instance annually (just as the borrower of money capital pays a fixed interest), for the permission to invest his capital in this particular sphere of production. This sum of money is called *ground-rent*, no matter whether it is paid for agriculture soil, building lots, mines, fishing grounds, forests, etc." (725).

He goes on to explain that "capital may be fixed in the soil, may be incorporated in it either in a transient manner, as it is by improvements of a chemical nature, fertilization, etc., or more permanently, as in drainage

canals, irrigation works, levelling, farm buildings, etc." This capital may be designated land-capital, and it belongs to the category of fixed capital. "The interest on the capital thus incorporated in the soil and the improvements thus made in it as an instrument of production may form a part of the rent paid by the capitalist farmer to the land owner, but it does not constitute that ground-rent, strictly speaking, which is paid for the use of the soil as such, whether it be in a natural state or cultivated" (725). Where permanent improvements are made in the land by the tenant they revert to the owner of the land on the expiration of the lease, and when a new contract is made the land owner "adds the interest for the capital incorporated in the soil to the real ground-rent" (726). "This is one of the secrets of the increasing enrichment of the land owners" (726) and it "is at the same time one of the greatest obstacles to a rational development of agriculture, because the capitalist renter avoids all improvements and expenses, for which he cannot expect any returns during the time of his lease" (727). He observes that the reversion of the improvements to the land owner appears even more plainly "when land is used as building lots." "The fact is that if this system is permitted to exercise its full effects for some time longer, the entire ownership of houses as well as of country real estate will be in the hands of the great landed proprietors" (728).

Marx thus emphasizes the essential distinction between ground-rent and interest, and expressly disagrees with the "harmony economists," such as Carey, who "have tried to represent ground-rent . . . as identical with interest" and so "obliterate the antagonism between landlords and capitalists" (729). He also exposes the attempt to confuse ground-rent with interest by treating ground-rent as interest on the purchase price of the land. The purchase price is the "capitalization of the ground-rent" actual or anticipated. "It is in fact the purchase price, not of the land, but of the ground-rent yielded by it, calculated on the ordinary rate of interest. But this capitalization of rent has for its premise the existence of rent, for rent cannot be explained and derived from its own capitalization. Its existence, independent of its sale, is rather the condition from which the enquiry must start" (730). Hence it follows "that the price of land may rise or fall inversely as the rate of interest rises or falls, if we assume that ground-rent is a constant magnitude" (730). As the rate of interest has a tendency to fall in the course of social progress "it follows that the price of land has a tendency to rise, even independently of the movement of ground-rent" (731). He observes further that the existence of a purchase price or value of land is used as a justification of private property in land, but "the same reason would, in that case, serve also to justify slavery" (732). He concludes this chapter by saying that "in proportion as the conditions develop in which agricultural commodities develop as commodities (values) . . . so does an increasing portion of the surplus-value assume the form of ground-rent" (749).

### DIFFERENTIAL RENT

The next chapter is devoted to general remarks on differential rent, which Marx illustrates by the case of a waterfall which supplies power to a manufacturer at a less cost than other manufacturers have to pay using steam engines. If the cost price in the factory driven by water power is £90 as compared with £100 in other competitive factories, then this surplus falls into the hands of the owner of the waterfall as £10 of ground-rent,

and "it would not matter if this capitalist should be the owner of the waterfall. He would in that case pocket the surplus profit of £10 in his capacity as land owner, not in his capacity as an industrial capitalist, just because this surplus is not due to his capital as such, but to a limited natural power separate from his capital, over which he has command, because he has a monopoly of it. And so it is converted into ground-rent" (757).

From this illustration Marx draws a number of general conclusions of which the following are the most important. Ground-rent "is due to the greater relative fertility of definite individual capitals invested in a certain sphere of production, as compared with investments of capital which are excluded from these exceptional and natural conditions favouring the productivity" (757). "This surplus profit would also exist if private property did not prevail." Private property in land "is the cause, not of the creation of this surplus profit, but of its transformation into ground-rent" (758), that is to say of its appropriation by the owner of the land.

Elsewhere Marx observes that after the abolition of the capitalist mode of production "the determination of value continues to prevail in such a way that the regulation of the labour time and the distribution of the social labour among the various groups of production, also the keeping of accounts in connection with this, become more essential than ever" (992). It would be interesting to know whether, and to what extent, his followers in Russia in keeping their accounts have taken account of the ground-rent which must inevitably arise from unequal situations and unequal natural endowment of land.

The next chapter deals with what Marx calls "the first form of differential rent." He begins by saying: "Ricardo is quite right when he writes the following sentences: 'Rent is always the difference between the produce obtained by the employment of two equal quantities of capital and labour.' . . . He should have added, 'On the same quantities of land' so far as ground-rent and not surplus profit in general is concerned" (760). Thus ground-rent arises "when two equal quantities of capital and labour are employed on equal quantities of land with unequal results."

A little later he says: "Ricardo is also right in the following sentence, provided it is limited to differential rent: 'Whatever diminishes the inequality in the produce obtained on the same or on new land, tends to lower rent; and whatever increases that inequality, necessarily produces an opposite effect and tends to raise it'" (761). The two general causes of unequal results are: Fertility and the Location of the Lands; and fertility and location "may work in opposite directions" (762). He also points out that another cause of inequality is "the distribution of taxes, according to whether it works uniformly or not; it always has the latter effect, for instance in England, when it is not centralized and when the tax is levied on the land, not on the rent" (761). This appears to be a recognition of the distinction between taxes levied according to area or use of land and taxes levied according to its value.

We need not follow the details of Marx's examination of differential rent under varying conditions of cost of production and market price of the product. They lead to the general and familiar conclusions "that the price of production of [on] the worst soil, which yields no rent, is always the regulating market price" (770) and that differential rent of the first class arises "from the limited area of the best lands, and from the circumstance that equal capitals must be invested in unequal soils, which yield unequal products with the same capital" (771).

#### THE SECOND FORM OF DIFFERENTIAL RENT

The next five chapters are devoted to what Marx calls "the second form of differential rent." He commences with the question: "But could it make any difference, perhaps, whether masses of capital of unequal productivities are invested successively on the same piece of land?" (787). The analysis is somewhat prolix and tedious, but the result of it may be summarized quite briefly.

It is an obvious fact that in practice we do not find equal quantities of capital and labour employed on lands of differing productivity. On the contrary, the best land usually has more labour and capital employed on it than on an equal area of poorer land. The reason is that it will pay the capitalist to go on employing more capital and labour on the better land until he reaches the point (to use modern terminology) at which the last dose of capital and labour produces no more than would be obtained by employing that amount of capital and labour upon marginal land (the poorest land in use). When that point is reached in respect of every piece of land a condition of equilibrium is attained, and it is a matter of indifference whether a little more capital and labour is employed on marginal land or on better land. The interest on capital and the wages of labour are equalized by competition, and cannot in any case be higher than the amount earned by the last dose of capital and labour whether applied to marginal land or to better land. The surplus above this marginal return earned by the earlier doses of capital and labour on the better lands is rent. This explains why the central areas of cities yield very high rents, or, as Marx puts it, "the more the capitalist mode of production develops, the more develops also the concentration of capital upon the same area of land, and the higher rises the rent calculated per acre" (809). And Engels in an interpolated passage adds: "The more capital is applied to a certain soil, and the higher the development of agriculture and of civilization in general is in a certain country, the more do rents rise per acre and per total amount of rental, and the more immense becomes the tribute paid by society to the great landowners in the form of surplus profits. . . . This law explains the wonderful vitality of the class of great landlords" (841). Engels, however, forgetting that rent is determined by location as well as by fertility, goes on to indulge in the rash prophecy that there are enough prairie lands left "to ruin all the great landlords of Europe and the small ones into the bargain" (843).

It is a convenient method of economic analysis to examine the two forms of differential rent separately, but in practice in any except the rudest society they must inevitably subsist together.

We can now return to the observation which Marx makes on his first quotation from Ricardo. If we consider a piece of land above the margin of production and assume that it is fully developed so that the last dose of labour and capital yields no more than the same amount of labour and capital would yield on marginal land, then it is true that the rent of the superior land is equal to the difference between what the whole quantity of labour and capital employed on it would yield as compared with what the same quantity of labour and capital would yield on an area of marginal land sufficiently large to employ that quantity at the normal rates of interest and wages. In this sense Ricardo's statement is a correct and absolutely general statement of the law of differential rent, and does not require, and indeed is falsified by, the addition of the qualifying words, "on the same quantities of land."

## ABSOLUTE GROUND-RENT

The last part of Marx's analysis of rent is devoted to the question of "absolute ground-rent," that is to say whether it is possible for the worst soil in use to yield a rent. He prefaces the discussion by pointing out that the existence of absolute ground-rent would not interfere with the law of differential rent, but would simply mean that the amount of the absolute ground-rent would be added to the rent of each plot of superior land. He also points out that absolute ground-rent cannot be inferred from cases in which the tenant pays for marginal land a rent which is a deduction from normal wages or interest. There is no true rent in such cases but only "lease money," because true rent presupposes that normal wages and interest are paid. Neither can absolute ground-rent exist where all land has not been appropriated and brought under private ownership (as in the colonies), for in that case evidently one could obtain marginal land without paying rent for it (878).

The question is, where land is all privately owned, can absolute ground-rent emerge? Marx says that it can. His reasoning is tortuous and complicated, being embarrassed by the contrast which arises in his system between value and price of production (to unravel which is one of the objects of third volume of *Capital*) and by his theory of surplus value. But the essence of it appears to be that absolute ground-rent can only arise when the owners of land prevent land from being used. "The mere legal property in land does not create any ground-rent for the landlord. But it does give him the power to withdraw his land from exploitation until the economic conditions permit him to utilize it in such a way that it will yield him a surplus, whenever the land is used either for agriculture proper or for other productive purposes, such as buildings, etc. He cannot increase or decrease the absolute quantity of its field of employment, but he can do so with its marketable quantity. For this reason, as Fourier has already remarked, a characteristic fact in all civilized countries is that a comparatively considerable portion of the land always remains uncultivated" (879). If Marx had elaborated this idea, and if he had seen that expectation of future increases in land value provides the economic incentive to holding land out of use, he might have anticipated Henry George's theory of land speculation. His own conclusion is that "absolute rent can only be small under normal conditions" (896).

The second last chapter of this part of the volume contains some miscellaneous observations upon the rent of building plots, mining land, and other non-agricultural land. He says: "Differential rent appears every time and follows the same laws as agricultural differential rent, wherever rent exists at all" (897). The rent of mining land "is distinguished first, by the overwhelming influence exerted by location on differential rent (an influence which is very considerable in vineyards and in building lots of large cities); secondly, by the palpable passiveness of the owner" (898). Of the monopoly prices exacted for land in cities he says, "poverty is for house rent a more lucrative source than the mines of Potosi ever were for Spain" (898). "One section of society thus exacts from another a tribute for the permission of inhabiting the earth" (898). "The demand for building lots raises the value of the land as a building ground and foundation, and the simultaneous demand for elements of the terrestrial globe serving as building materials grows with it" (899). He also remarks "that it is the ground-rent, and not the house, which forms the actual object of building speculation in rapidly growing cities" (899).

He concludes by pointing out that the law of diminishing returns (though he does not use this phrase)

applies not only to agriculture but to other uses of land. "It is true that, compared to scattered handicrafts, great industries may concentrate large productive plants in a small space. But, even so, a definite space is always required at any stage of development, and the building of high structures has its practical limits. Beyond these limits any expansion of production demands also an extension of the land area" (907).

The last chapter entitled "Genesis of Capitalist Ground-rent" is mainly historical, dealing with rents in kind, labour rents, and share cropping, and calls for no special attention.

It is a pity that most of Marx's followers know so little of the contents of these chapters. If they had, they might have appreciated why the first demand of the Communist Manifesto was "Abolition of property in land and application of all rents of land to public purposes."

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## "PLENTY OF FOOD AND CHEAP LAND"

### Farmers Asked to Support Taxation of Land Values

"THE AGRICULTURAL problem should be tackled from the point of view that what we want is plenty of food and cheap land and not food scarcity and dear land."

This extract is from a pamphlet calling on farmers to support the rating and taxation of land values which has been issued to thousands of agriculturalists during the last few days.

The pamphlet is issued by the Henry George Fellowship of Ipswich of which Mr R. R. Stokes, M.P., is the President. It points out that the farmer is at present forced to pay an annual rent to the owners of the soil for permission to exercise his trade of producing the food the nation needs. He then has to borrow from money-lenders and the banks, in many cases so much that the interest absorbs almost the entire margin of profit.

"In the old days," the pamphlet states, "the lands of England were granted to the Barons and landowners by the King on the understanding that the funds required for the defence of the country and the needs of the Government should be provided by them in return for this privilege. Rates and taxes on the common people did not then exist. The landlords paid the taxes and there was no agricultural problem as we know it to-day.

"Bit by bit the landowners got out of their obligation, and the burden of running the country and of providing for the defence force has been shifted on to the backs of the common people, while the landowners retain all the advantages of land ownership.

"The time has now come to nationalise the privileges which the landowner has so long enjoyed, not by compensation for a value which the landowners never created by their mere ownership, but by taxing land values."

The pamphlet concludes by urging that 90 per cent of the total value of all land in Britain lies in urban areas and the site value of agricultural land is negligible except in the immediate vicinity of towns. The tax to be levied would therefore be very low.

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UNEMPLOYMENT AND THE LAND. Sixth Edition. By W. R. Lester, M.A. *id.*

CITIES HELD TO RANSOM. The Case for Land-Value Rating with numerous instances. By M. *id.*

WHAT IS LAND-VALUE TAXATION? By same. *id.*

THE CRYING INJUSTICE OF OUR RATING SYSTEM. By Fredk. Verinder. Second Edition. *id.*