Chapter 46. Building Site Rent. Rent in Mining. Price of Land

Wherever rent exists at all, differential rent appears at all times and is governed by the same laws, as agricultural differential rent. 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, 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. Adam Smith has set forth, as concerns land for building purposes, that the basis of its rent, like that of all non-agricultural land, is regulated by agricultural rent proper (Book I, Ch. XI, 2 and 3). This rent is distinguished, in the first place, by the preponderant influence exerted here by location upon differential rent (very significant, e.g., in vineyards and building sites in large cities); secondly, by the palpable and complete passiveness of the owner, whose sole activity consists (especially in mines) in exploiting the progress of social development, toward which he contributes nothing and for which he risks nothing, unlike the industrial capitalist; and finally by the prevalence of monopoly prices in many cases, particularly through the most shameless exploitation of poverty (for poverty is more lucrative for house-rent than the mines of Potosi ever were for Spain [38]), and the monstrous power wielded by landed property, when united hand in hand with industrial capital, enables it to be used against labourers engaged in their wage struggle as a means of practically expelling them from the earth as a dwelling-place.[39] One part of society thus exacts tribute from another for the permission to inhabit the earth, as landed property in general assigns the landlord the privilege of exploiting the terrestrial body, the bowels of the earth, the air, and thereby the maintenance and development of life. 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. A confusion of house-rent, in so far as it constitutes interest and amortisation on capital invested in a house, and rent for the mere land, is not possible in this case, even with all the goodwill of a person like Carey, particularly when landlord and building speculator are different persons, as is true in England. Two elements should be considered here: on the one hand, the exploitation of the earth for the purpose of reproduction or extraction; on the other hand, the space required as an element of all production and all human activity. And property in land demands its tribute in both senses. The demand for building sites raises the value of land as space and foundation, while thereby the demand for elements of the terrestrial body serving as building material grows simultaneously. [40]

That it is the ground-rent, and not the house, which forms the actual object of building speculation in rapidly growing cities, especially where construction is carried on as an industry, e.g., in London, has already been illustrated in Book II, Chapter XII, in the testimony of a big building speculator in London, Edward Capps, given before the Select Committee on Bank Acts of 1857. He stated there, No.5435:

> "I think a man who wishes to rise in the world can hardly expect to rise by following out a fair

> trade ...it is necessary for him to add speculative building to it, and that must be done not on a small scale; ...for the builder makes very little profit out of the buildings themselves; he makes the principal part of the profit out of the improved ground-rents. Perhaps he takes a piece of ground, and agrees to give £300 a year for it; by laying it out with care, and putting certain descriptions of buildings upon it, he may succeed in making £400 or £450 a year out of it, and his profit would be the increased ground-rent of £100 or £150 a year, rather than the profit of the buildings at which ...in many instances, he scarcely looks at all."

And parenthetically it should not be forgotten that after the lapse of the lease, generally at the end of 99 years, the land with all its buildings and its ground-rent — usually increased in the interim twice or three times, reverts from the building speculator or his legal successor to the original last landlord.

Mining rent proper is determined in the same way as agricultural rent.

> "There are some mines, of which the produce is barely sufficient to pay the labour and replace, together with its ordinary profits, the stock employed in working them. They afford some profit to the undertaker of the work, but no rent to the landlord. They can be wrought advantageously by nobody but the landlord, who, being himself the undertaker of the work, gets the ordinary profit of the capital which he employs in it. Many coal mines in Scotland are wrought in this manner, and can be wrought in

> no other. The landlord will allow nobody else to work them without paying some rent, and nobody can afford to pay any." (Adam Smith, Book I, Ch. XI, 2.)

It must be distinguished, 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 exists. 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. A vineyard producing wine of very extraordinary quality which can be produced only in relatively small quantities yields a monopoly price. The wine-grower would realise a considerable surplus-profit from this monopoly price, whose excess over the value of the product would be wholly determined by the means and fondness of the discriminating wine-drinker. This surplus-profit, which accrues from a monopoly price, is converted into rent and in this form falls into the lap of the landlord, thanks to his title to this piece of the globe endowed with singular properties. Here, then, the monopoly price creates the rent. 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. That it is only the title of a number of persons to the possession of the globe enabling them to appropriate to themselves as tribute a portion of the surplus-labour of society and furthermore to a constantly increasing extent with the development of production, is concealed by the fact that the capitalised rent, i.e., precisely this capitalised tribute, appears as the price of land, which may therefore be sold like any other article of commerce. The buyer, therefore, does not feel that his title to the rent is obtained gratis, and without the labour, risk, and spirit of enterprise of the capitalist, but rather that he has paid for it with an equivalent. To the buyer, as previously indicated, the rent appears merely as interest on the capital with which he has purchased the land and consequently his title to the rent. In the same way, the slave-holder considers a Negro, whom he has purchased, as his property, not because the institution of slavery as such entitles him to that Negro, but because he has acquired him like any other commodity, through sale and purchase. But the title itself is simply transferred, and not created by the sale. The title must exist before it can be sold, and a series of sales can no more create this title through continued repetition than a single sale can. What created it in the first place were the production relations. As soon as these have reached a point where they must shed their skin, the material source of the title, justified economically and historically and arising from the process which creates social life, falls by the wayside, along with all transactions based upon it. From the standpoint of a higher economic form of society, private ownership of the globe by single individuals will appear quite as absurd as private ownership of one man by another. Even a whole society, a nation, or even all simultaneously existing societies taken together, are not the owners of the globe. They are only its possessors, its usufructuaries, and, like *boni patres familias,* they must hand it down to succeeding generations in an improved condition.

In the following analysis of the price of land we leave out of consideration 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.

I. The price of land may rise without the rent rising, namely:

1) by a mere fall in interest rate, which causes the rent to be sold more dearly, and thereby the capitalised rent, or price of land, rises;

2) because the interest on capital incorporated in the land rises.

II. 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, whether the rent on the worst cultivated soil be large, small or non-existent. By rate we mean the ratio of that portion of surplus-value converted into rent to the invested capital which produces the agricultural product. This differs from the ratio of surplus-product to total product, for the total product does not comprise the entire invested capital, namely, the fixed capital, which continues to exist alongside the product. On the other hand, it covers the fact that on soils yielding differential rent an increasing portion of the product is transformed into an excess of surplus-product. The increase in price of agricultural product of the worst soil first creates rent and thereby the price of land.

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.

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. Since no fall in price has occurred, the second investment of capital yields a surplus-profit just as well as the first, and it likewise is transformed into rent after the expiration of the lease. The mass of rent rises here, because the mass of capital producing a rent increases. The contention that various successive investments of capital in the same piece of land can produce rent only in so far as their yield is unequal, so that a differential rent thus arises, is reduced to the contention that when two capitals of £1,000 each are invested in two fields of equal productivity, only one of them can produce a rent, although both fields belong to a better soil type, which produces differential rent. (The mass of rental, the total rent of a country, grows therefore with the mass of capital invested, without the price of the individual pieces of land, or the rate of rent, or even the mass of rent on individual pieces of land, necessarily increasing; the amount of rental grows in this case with the extension of cultivation over a wider area. This may even be combined with a decrease in rent on individual holdings.) Otherwise, this contention would lead to the other, namely, that the investment of capital in two different pieces of land existing side by side follows different laws than the successive investment of capital in the same plot, whereas differential rent is derived precisely from the identity of the law in both cases, from the increased productiveness of capital invested either in the same field or in different fields. The only modification which exists here and is overlooked is that successive investments of capital, when applied to different pieces of land, meet the barrier of landed property, which is not the case with successive investments of capital in the same piece of land. This accounts for the opposing tendencies by which these two different forms of investment curb each other in practice. No difference in capital ever appears here. If the composition of the capital remains the same, and similarly the rate of surplus-value, the rate of profit remains unaltered, so that the mass of profit is doubled when the capital is doubled. In like manner the rate of rent remains the same under the assumed conditions. If a capital of £1,000 produces a rent of x, then a capital of £2,000, under the assumed conditions, produces a rent of 2x. But calculated with reference to the area of land, which has remained unaltered, since, according to our assumption, the doubled capital operates in the same field, the level of rent has also risen as a consequence of its increase in mass. The same acre which yielded a rent of £2, now yields £4. [41]

The relation of a portion of the surplus-value, of money-rent — for money is the independent expression of value — to the land is in itself absurd and irrational; for the magnitudes which are here measured by one another are incommensurable — a particular use-value, a piece of land of so many and so many square feet, on the one hand, and value, especially surplus-value, on the other. This expresses in fact nothing more than that, under the given conditions, the ownership of so many square feet of land enables the landowner to wrest a certain quantity of unpaid labour, which the capital wallowing in these square feet like a hog in potatoes has realised. [Written in the manuscript here in brackets, but crossed out, is the name "Liebig".] But *prima facie* the expression is the same as if one desired to speak of the relation of a five-pound note to the diameter of the earth. However, the reconciliation of irrational forms in which certain economic relations appear and assert themselves in practice does not concern the active agents of these relations in their everyday life. And since they are accustomed to move about in such relations, they find nothing strange therein. A complete contradiction offers not the least mystery to them. They feel as much at home as a fish in water among manifestations which are separated from their internal connections and absurd when isolated by themselves. What Hegel says with reference to certain mathematical formulas applies here: that which seems irrational to ordinary common sense is rational, and that which seems rational to it is itself irrational. [Hegel, *Encyclopädie der philosophischen Wissenschaften in Grundrisse,* 1. Teil, *Die Logik.* In: *Werke,* Band 6, Berlin, 1840, S. 404. — *Ed.*] When considered in connection with the land area itself, a rise in the mass of rent is thus expressed in the same way as a rise in the rate of rent, and hence the embarrassment experienced when the conditions which would explain the one case are lacking in the other.

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. Let us assume that one quarter cost 60 shillings. Now, if the same acre, with the same capital, should produce two quarters instead of one, and the price of one quarter should fall to 40 shillings, then two quarters would cost 80 shillings, so that the value of the product of the same capital invested in the same acre would have risen by one-third, despite the fall in price per quarter by one-third. How this is possible without selling the product above its price of production or above its value, has been developed in the analysis of differential rent. As a matter of fact it is possible only in two ways. Either bad soil is excluded from competition, but the price of the better soil increases with the increase in differential rent, i.e., the general improvement affects the various soil types differently. Or, the same price of production (and the same value, if absolute rent is paid) expresses itself on the worst soil through a larger mass of products, when labour productivity has become greater. The product represents the same value as before, but the price of its aliquot parts has fallen, while their number has increased. This is impossible when the same capital has been employed; for in this case the same value always expresses itself through any portion of the product. It is possible, however, when additional capital has been expended for gypsum, guano, etc., in short, for improvements the effects of which extend over several years. The stipulation is that the price of an individual quarter falls, but not to the same extent as the number of quarters increases.

III. These different conditions under which rent may rise, and with it the price of land in general, or of particular kinds of land, may partly compete, or partly exclude one another, and can only act alternately. But it follows from the foregoing that the consequence of a rise in the price of land does not necessarily signify also a rise in rent, or that a rise in rent, which always brings with it a rise in the price of land, is not necessarily contingent upon an increase in the agricultural product.[42]

Rather than tracing to their origin the real natural causes leading to an exhaustion of the soil, which, incidentally, were unknown to all economists writing on differential rent owing to the level of agricultural chemistry in their day, the shallow conception was seized upon that any amount of capital cannot be invested in a limited area of land; as the *Edinburgh Review*, [Tome LIV, August-December 1831, pp. 94-95. — *Ed*.] for instance, argued against Richard Jones that all of England cannot be fed through the cultivation of Soho Square. If this be considered a special disadvantage of agriculture, precisely the opposite is true. It is possible to invest capital here successively with fruitful results, because the soil itself serves as an instrument of production, which is not the case with a factory, or holds only to a limited extent, since it serves only as a foundation, as a place and a space providing a basis of operations. It is true that, compared with scattered handicrafts, large-scale industry may concentrate much production in a small area. Nevertheless a definite amount of space is always required at any given level of productivity, and the construction of tall buildings also has its practical limitations. Beyond this any expansion of production also demands an extension of land area. The fixed capital invested in machinery, etc., does not improve through use, but on the contrary, wears out. New inventions may indeed permit some improvement in this respect, but with any given development in productive power, machines will always deteriorate. If productivity is rapidly developed, all of the old machinery must be replaced by the more advantageous; in other words, it is lost. The soil, however, if properly treated, improves all the time. The advantage of the soil, permitting successive investments of capital to bring gains without loss of previous investments, implies the possibility of differences in yield from these successive investments of capital.

Notes

38. Laing [*National Distress; its Causes and Remedies,* London, 1844. — *Ed.*], Newman [*Lectures on Political Economy,* London, 1857. — *Ed.*].

39. Crowlington Strike. Engels, *Lage der arbeitenden Klasse in England,* S. 307.

40. "The paving of the streets of London has enabled the owners of some barren rocks on the coast of Scotland to draw a rent from what never afforded any before." Adam Smith [An *Inquiry into the Nature and Causes of the Wealth of Nations,*] Book 1, Chapter XI, 2.

41. It is one of the merits of Rodbertus whose important work on rent [*Sociale Briefe an von Kirchmann*, Dritter Brief: Widerlegung der Ricardo'schen Lehre von der Grundrente und Begründung einer neuen Rententheorie, Berlin, 1851. — *Ed.*] we shall discuss in Book IV [i.e., *Theorien über den Mehrwert*. K. Marx. Engels, *Werke,* Band 26, 2. Teil, S. 7-102, *139-51*. — *Ed.*] to have developed this point. He commits the one error, however, of assuming, in the first place, that as regards capital an increase in profit is always expressed by an increase in capital, so that the ratio remains the same when the mass of profit increases. But this is erroneous, since the rate of profit may increase, given a changed composition of capital, even if the exploitation of labour remains the same, precisely because the proportional value of the constant portion of capital compared with its variable portion falls. Secondly, he commits the mistake of dealing with the ratio of money-rent to a quantitatively definite piece of land, e.g., an acre, as though it had been the general premise of classical economics in its analysis of the rise or fall of rent. This, again, is erroneous. Classical economics always treats the rate of rent, in so far as it considers rent in its natural form, with reference to the product, and in so far as it considers rent as money-rent, with reference to the advanced capital, because these are in fact the rational expressions.

42. Concerning the actual fall in the price of land when rent rises, see Passy. [H. Passy, Rente du sol. In: Dictionnaire de l'économie politique, Tome II.]