Marx's Theory of Rent: A Speculative Reading

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In the first passage of the first chapter on rent (Chapter XXXVII, Part VI, Vol. III), Marx forewarns his readers not to judge his writing simply empirically.[1] He first makes an assumption in his usual emphatic tone that 'agriculture is dominated by the capitalist mode of production' and clarifies its real implication: '[the capitalist mode of production] rules all spheres of production and bourgeois society, so that its prerequisites, such as free competition among capitals, the possibility of transferring them from one sphere of production to another, a uniform level of the average rate of profit, etc., are fully matured.'[2] He adds immediately, 'The form of landed property which we consider here is a specifically historical one.' Also, he alerts us, this 'form' was '*altered*' (Marx's emphasis) through capital and the capitalist mode of production itself and evolved out of the 'feudal land ownership' or 'small peasants' agriculture.'[3] 'For the results of our analysis,' he asserts, 'the objection, that other forms of landed property and of agriculture have existed or still exist, is quite irrelevant.'[4] The object of his ire is, once again, those economists whose empiricism blinds them to the 'historical' nature of the form of landed property and makes them treat it as 'an eternal category.'[5] This historical form is not accidental: it 'demands the expropriation of the rural laborers from the land and their subordination' to a capitalist farmer.[6] In this way, he goes back to the Volume One of *Capital* and its celebrated chapter on primitive accumulation.

But, unlike that chapter, Marx here is not trying to map the historical processes through which this transition happened. 'The analysis of landed property in its various historical forms belongs outside of the limits of this work' – the chapter begins with this disclaimer.[7] Marx wants to talk about this history only if it helps him understand how 'a portion of the surplus-value produced by the industrial capital falls into the hands of the land owner.'[8] This is also the reason why he makes the assumption about the dominance of the capitalist mode in agriculture. In a way, it sounds like a tautology: the problematic and the

[1] Karl Marx, *Capital: A Critique of Political Economy. III: The Process of Capitalist Production as a Whole*, Tr. Ernest Untermann, Ed. Frederick Engels (Chicago: Charles H. Kerr and Company, 1909), 720-21.
[2] *Ibid*, 720.
[3] *Ibid*, 720-21.
[4] *Ibid*, 721.
[5] *Ibid*.
[6] *Ibid*.
[7] *Ibid*, 120.
[8] *Ibid*.

assumption are feeding into each other. But then, as David Harvey observes, 'Rent…troubled Marx deeply.'[9] The chapters on rent, Harvey comments,' lack 'the usual magic of [Marx's] touch' and seem like a 'minefield.'[10] Coming from a loyalist like Harvey, it speaks a lot. We also have another loyalist as witness – Frederick Engels. And from his account we come to know why at places the 'usual magic' seems missing. The manuscript of Volume 3, Engels wrote in his editor's preface, was more a draft than a final product and highly uneven in its writing style, argumentation, and structure because of Marx's failing health and increasing workload as a political organiser:

> The beginnings of the various sections were, as a rule, pretty carefully elaborated, or even polished as to style. But the farther one proceeded, the more sketchy and incomplete was the analysis, the more excursions it contained into side issues whose proper place in the argument was left for later decision, the longer and more complex became the sentences, in which the rising thoughts were deposited as they came.[11]

Engels also informed that Marx could not finish his actual plan for the part on rent, for which he studied and took long notes of the changes in the real estate in Russia after the Emancipation Reform in 1861: 'this country was to play the same role in the part on ground rent that England did in volume I in the case of industrial wagelabor.'[12]

Though deemed incomplete and sometimes self-contradictory, Marx's theory of rent has attracted a lot of attention over the years. Two of these interpretations deserve special mention – David Harvey's and Enrique Dussel's – for their emphases on two relatively less discussed aspects of the theory. Harvey's *Limits to Capital* (1982) is pioneering in its deployment of the concept of space in Marxian thought as well as for initiating a conversation between critical geography and political economy. But his chapter on rent is more remarkable for bringing forth an implication of Marx's theory which got little or no attention in the earlier Marxian literature – the 'commodity' status of land and the connection between rent and 'fictitious capital.' Dussel's *Towards an Unknown Marx* (originally written and published in Spanish in 1988) reads through the *Manuscripts of 1861-63* – which contained an early draft of Volume 3 and a second draft of Volume 1 – in order to show how Marx was trying to bring together different concepts and theories within a comprehensive system – 'the process of capitalist production as a whole.'[13] Rent, in Dussel's reading, appears as a major break-through in terms of delineating certain concepts such as the price of production, market value, cost price, market price and cost of production which work as the bridge between the theories of production and distribution.

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[9]David Harvey, *The Limits to Capital* (Oxford: Basil Blackwell, 1982), 330.
[10]*Ibid*.
[11]Frederick Engels, 'Preface' in Karl Marx, *Capital*, 11.
[12]*Ibid*, 16.
[13]Enrique Dussel, *Towards and Unknown Marx: A Commentary on the Manuscripts of 1861-63* (London and New York: Routledge, 2001).

Much of these delineations will later be included in different chapters in the published version of Volume 3, including the ones on rent. But since 'rent' is the second last topic that Marx discusses in this version, the concepts start appearing much earlier in the text, giving the impression that the theory of rent is riding on an already defined framework. Dussel's intervention, thus, has an historical value in showing Marx's intellectual trajectory, in which the Third Volume in the *Manuscript of 1861-63* precedes the final version of the First Volume (1867) – the only volume which came out under Marx's supervision. The concepts discussed in the Manuscript of Volume 3, therefore, leave their impression quite firmly in the published First Volume – an important point to remember while talking about the relationship between production and distribution.

These two interpretations of rent by Harvey and Dussel have a point in common. They both insist that rent is the most complex category that Marx had to deal with while thinking of the capitalist system as a whole. The challenge was, of course, to accommodate rent in the labour theory of value. Dussel is more upfront and elucidatory about this problematic. He refers to a letter written by Marx to Engels (August 1862) which shows how much stake was involved. It was the last hurdle in gifting the world with a masterpiece: 'All I have to prove theoretically is the possibility of absolute rent, without infringing the law of value.'[14] In the letter, he was convinced that Ricardo and Smith could not get this far because of their mistake of supposing an identity between cost prices and values of commodity. Dussel shows how Marx, taking clues from Johann Rodbertus, the German Ricardian socialist, approached this task by taking up the question of competition for the first time in treating capital in general. ''Competition' is the movement of the totality of capital,' Dussel explains, 'within which prices are *levelled*, *equalized* (*ausgleichen* means to level, make equal), and so, an 'average level' (*Durchschnittsniveau*) is produced in all branches of production.'[15] Undoubtedly, the assumption made in the beginning of the first chapter on rent in Volume 3 – the one on the prevalence of the capitalist mode of production in agriculture where competition facilitates free movement of capital across different sectors and ensures a 'uniform level of the average rate of profit' – follows from this decision to incorporate 'competition' as a conceptual category.

If Dussel locates 'competition' as a central moment in Marx's theory of rent, for Harvey it is the ambiguous status of land as a commodity which aggravated Marx's 'trouble' with the concept. A commodity is supposed to have value, i.e., crystallised socially necessary labour time. If land – or, for that matter, any natural phenomenon like a waterfall – is not produced by labour, it cannot have value. Rent as a return on land thus becomes baseless. Marx does mention that the rent is paid to the landlord in a fully monetised economy with a legally bound structure of exchange relations, viz., the contract. 'But,' writes Harvey, 'he is

[14] Marx cited in Dussel, *Op. Cit.*, 82.
[15] Dussel, *Op. Cit.*, 84. The German words in the brackets are Marx's.

equally aware that this legal basis decides nothing and that the full explanation of rent has to render compatible a payment made ostensibly to land with a theory of value that focuses on labour.'[16] Harvey reads Marx's struggle with this predicament through the other component in the initial disclaimer by Marx – the historical specificity of rent in its current form. In Harvey's reading – and quite accurately so – this specificity resides in the history of landed property and it can only be excavated by identifying the 'truly capitalist form of landownership.'[17] In so doing, Harvey recognises the 'difficulty' of spotting 'the [historical] logic of a necessary transformation of landed property into its capitalistic form.'[18] Finally, he argues that a solution to the problem can be achieved by focusing on the fictitiousness of land as a commodity without value under exchange relations. In a section on land market and fictitious capital, he explains:

> The theory of ground-rent resolves the problem of how land, which is not a product of human labour, can have a price and exchange as a commodity. **Ground-rent, capitalized as the interest on some imaginary capital, constitutes the 'value' of the land.** What is bought and sold is not the land, but title to the ground-rent yielded by it. The money laid out is equivalent to an interest-bearing investment. The buyer acquires a claim upon anticipated future revenues, a claim upon the future fruits of capital. Title to the land becomes, in short, a form of fictitious capital….[19]

This argument, quite enticing and remarkably adventurous, has attained a definitive status over the last few decades. In many ways, it can be seen as a pioneering attempt to bring the questions of the concrete virtuality of the production of space, and the dominantly speculative nature of contemporary capitalism. The popularity of this argument also comes from its capacity to be used as a metaphorical framework for any kind of 'value-less' transaction bypassing the immediate dialectic between labour and capital. A recent publication on re-conceptualisation of value and labour in the 'digital age,' for example, has a section titled 'Rent and the Commons' with articles on extraction of surplus value over profit, enclosure of the intellectual commons by the popular search engines, ground-rent of advertising space in the internet, etc.[20] There is almost a consensus now that the advent of neoliberal capitalism has blurred the distinction between profit and rent (and interest and rent) with its virulently monopolistic form.

However, there are voices of disagreement. Brett Christophers has argued against this over-metaphorisation of rent and land by pointing out the limitations of Marx's (and

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[16]Harvey, *Op. Cit.*, 331.
[17]*Ibid*, 333.
[18]*Ibid*, 346.
[19]*Ibid*, 367. My emphasis.
[20]Eran Fisher and Christian Fuchs (eds.), *Reconsidering Value and Labour in the Digital Age* (London: Palgrave Macmillan, 2015).

Harvey's) notion of fictitious capital itself.[21] According to him, the binary between real (produced by labour) and fictitious capital does not hold in today's time and land should be treated as any other commodity which is bought and sold in the market. Apart from the neoclassical simplicity of the argument, it provides a hurried reading of Marx and, ironically, gets itself implicated in the same binary that it wants to challenge. But Christophers is not alone in his disagreement. The other person who would be unhappy with Harvey's conceptualisation of rent as 'interest on imaginary capital' is Marx himself. 'The mistaking ground-rent for the interest form,' he writes in the same introductory chapter on rent in Volume 3, 'which it assumes for the buyer of the land – a mistake due to a complete unfamiliarity with the nature of ground-rent – must lead to the most absurd conclusions.'[22] Marx's reservation against this identity between rent and interest has an ethical aspect as it can be used to trivialise primitive accumulation and justify enclosure and private property. Not only that, the 'same reason would, in that case, serve also to justify slavery, since the returns from the labour of the slave, whom the slave holder has bought, represent merely the interest on the capital invested in this purchase.'[23] This is the same ethical consideration which propels him to defend the law of value despite the existence of ground rent: 'because what matters is the labour objectified in value, living labour: the *human being* itself.'[24]

But apart from that, Harvey's theory of rent as capitalised interest does not answer the real question: Why does rent exist at all? 'To derive from the sale and purchase of ground-rent a justification for its existence signifies to justify its existence by its existence,' Marx remarks.[25] Evidently, Harvey, though earnest in his attempt, comes up with a tautological response to Marx's original problematic, because he confuses between price and value. If we reread the first and the second lines of the passage cited above, we shall see that he is using 'price' and 'value' interchangeably. The implication of this confusion is far-reaching. Dussel points out that the first step that Marx takes in the *Manuscripts* to situate the 'problem' of rent is to reject the idea that average price is equal to the value.[26] Though Harvey's book predates Dussel's original work in Spanish by at least six years, there are many passages in the chapters on rent in Volume 3 itself where these points are discussed in great detail. One such chapter is the Chapter XXXVIII – the second chapter in the part on rent – titled, quite sparsely, 'Differential Rent. General Remarks.'[27] If we take Engels' observation seriously, it is one of those chapters in the beginning where Marx shows more

[21] Brett Christophers, 'For Real: Land as Capital and Commodity', *Transactions of the Institute of British Geographers* 41 (2016), 134-48.
[22] Marx, *Op. Cit.*, 731.
[23] *Ibid*, 732.
[24] Dussel, Op. Cit., 82.
[25] Marx, *Op. Cit.*, 732.
[26] Dussel, *Op. Cit.*, 82.
[27] Marx, *Op. Cit.*, 749-60.

clarity of thought and neatness of organisation. Even if that is not the case, this chapter along with the first one titled 'Preliminaries' is remarkable in its analytical rigour, though many of Marx's interlocutors (including Harvey) have paid negligible attention to these two chapters and have started directly with the classification of differential and absolute rents from the subsequent chapters. In the rest of this paper, I shall engage in a close reading of the Chapter XXXVIII in order to facilitate a conversation between Harvey and Dussel. In spite of the apparent confusion between value and price, Harvey is an important figure within the Marxian scholarship – not only because he re-introduced the concept of space in *Capital* and, thus, re-imagined the theory of accumulation; but also, because he is a relentless commentator of contemporary capitalism, and we may derive some great pointers about it from his discussion of the land market as a site of speculation. Having him speak to Dussel who is unique in his take on the categorial innovations engendered by the different versions of *Capital* will allow us to think in a new direction about some of the most controversial chapters in *Capital*. In this exercise, I shall try to avoid a shortcut: the almost common-sensical association between rent and monopoly capital (as if rent is a symptom of a special case of capitalism). Hopefully the following pages will be of some help to dispel the myth of common sense and steer the discussion on rent towards a more creative direction.

2.

Like the previous chapter called 'Preliminaries,' the Chapter XXXVIII starts with an assumption about ground-rent: 'products paying such a rent, that is, products a portion of whose surplus-value and general price resolves itself into ground-rent, are sold at their prices of production, like all other commodities.'[28]The concept of 'prices of production' appears for the first time in Volume 3 in the heftily titled Chapter IX, 'Formation of a General Rate of Profit (Average Rate of Profit) and Transformation of the Values of Commodities into Prices of Production,'[29] where it is defined as the sum of the cost price and average profit. Cost price, as we know, is the value of a commodity minus surplus value – or the sum of the costs of constant and variable capital – which 'necessarily appears' to the capitalist as 'the actual cost of the commodity' because of his illusion of thinking himself as the 'actual producer.'[30] Marx explains once again in Chapter XXXVIII what prices of production (selling prices of commodities) entail: 'the elements of [the commodities'] cost (the value of the consumed constant and variable capital) plus a profit, which is determined by the average rate of profit and calculated on the total capital advanced, whether

[28] *Ibid*, 749-50.
[29] *Ibid*, 182-203.
[30] *Ibid*, 39.

consumed or not consumed.'[31] Again, in the next line, he insists on the identity between the production prices and 'the average selling prices' of the products which pay ground rent.[32] Thereafter he formulates the problematic in clear terms: 'how can a ground-rent develop under these conditions, how can a portion of the profit become converted into ground-rent, so that a portion of the prices of the commodities falls into the heads of the landlord.'[33]

We encounter two kinds of 'average' in this framing of the problematic: average profit and average selling price or the price of production. In order to appreciate the methodological ingenuity of the chapter, we need to find out how Marx comes up with these concepts. For that, we shall go back to Chapter IX where he discusses the prices of production exactly in this context – how average profit is determined. We may consider that, according to Dussel's reading of the *Manuscripts of 1861-63*, these concepts have actually been developed during Marx's deliberations on rent in the first draft of Volume 3.

In Chapter IX, Marx initiates his probe with the statement that the organic composition of capital is determined by first 'the technical relation of the employed labour-power [variable capital] to the mass of the employed means of production [constant capital]; secondly, on the price of these means of production [cost price].'[34] As we progress in the chapter, it becomes apparent that Marx is now more interested in delineating the distinction between individual capital and the total capital advanced. Individual capitals are mutually distinguishable by their different organic compositions. Let us have a look at the table Marx draws to explain this:

Capitals	Rate of Surplus Value	Surplus Value	Value of Product	Rate of Profit
I. 80c + 20v	100%	20	120	20%
II. 70c + 30v	100%	30	130	30%
III. 60c + 40v	100%	40	140	40%
IV. 85c + 15v	100%	15	115	15%
V. 95c + 5v	100%	5	105	5%

Marx imagines five spheres of production with equal amounts of capital advanced – 100 for each. Every sphere is distinguishable from each other by their different organic compositions. However, the rate of surplus value is the same for every sphere. The calculation of the surplus value is done on the basis of variable capital – the labour power

[31] *Ibid*, 750.
[32] *Ibid*.
[33] *Ibid*.
[34] *Ibid*, 182.

involved in production in each sphere. The value of product of each sphere is the sum of the cost price and surplus value. The rate of profit (the ratio of surplus value and total capital), subsequently, corresponds to the rate of extraction of surplus value (the ratio of surplus value and variable capital) and is different for each sphere according to their organic compositions. Marx then adds up the individual capitals to the total of 500 and calculates the average rate of profit as 22%. The average price is, therefore, the sum of individual cost price and the rate of profit, calculated to be 122 (100+22). If we compare values of individual products and the average price, we shall find that some are well above the price level and some are below, but, ultimately, total value is equal to five times the average price.

So far so good. The calculations seem extremely simple and intuitive. Everything has neatly fallen into places, mostly because of the round figure of hundred being the total cost price. But Marx does not want us to get a wrong impression: ‘In order not to arrive at entirely wrong conclusions, it is necessary to assume that not all cost prices are equal to 100.’[35] It is hardly the case, he explains, that the entire constant capital (c) is transferred to the product of one particular year. Constant capital, or the produced means of production, has two components – fixed and circulating capital. Marx asserts that the fixed part of the constant capital wears more rapidly than the circulating part, resulting the transfer of unequal quantities of value to the product in each period. The rate of profit, however, remains unchanged: ‘Whether the 80 c transfer the value of 80, or 50, or 5, to the annual product, whether the annual product is consequently 80 c + 20 v + 20 s = 120, or 50 c + 20 v+20 s = 90, or 5 c + 20 v + 20 s = 45, in all of these cases the excess of the value of the product over its cost-price is 20, and in every case these 20 are calculated on a capital of 100 in ascertaining the rate of profit.’[36] Again Marx draws a table, this time with non-uniform amounts of ‘used-up capital’, i.e., the portions of constant capital transferred to the value of each product.

Capitals	Rate of Surplus Value	Surplus Value	Rate of Profit	Used up C	Value of Commodities (Cost Price + Surplus Value)	Cost Price (Used up C + Variable Capital	
I. 80 c + 20 v	100%	20	20	50	90 (70+20s)	70 (50c+20v)	
II. 70 c + 30 v	100%	30	30	51	111 (81+30s)	81 (51c+30v)	
III. 60 c + 40 v	100%	40	40	51	131 (91+40s)	91 (51c+40v)	

[35] *Ibid*, 184.
[36] *Ibid*.

IV. 85 c + 15 v	100%	15	15	40	70 (55+15s)	55 (40c+15v)	
V. 95 c + 5 v	100%	5	5	10	20 (15+5s)	15 (10c+5v)	
390 c + 110 v		110	110%				Total
78 c + 22 v		22	22%				Average

In this new, modified table, Marx shows that whatever be the portion of constant capital transferred to the value of product, both the average surplus value and average profit remain the same as before, 22 and 22% respectively. Marx now draws the third table in the chapter which explains how one arrives at the notion of the price of production from the analysis laid down so far.

Capitals	Surplus Value	Value	Cost Price of Commodities	Price of Commodities (Cost Price + Rate of Profit)	Rate of Profit	Deviation of Price from Value
I. 80 c + 20 v	20	90	70	92	22%	+ 2
II. 70 c + 30 v	30	111	81	103	22%	- 8
III. 60 c + 40 v	40	131	91	113	22%	- 18
IV. 85 c + 15 v	15	70	55	77	22%	+ 7
V. 95 c + 5 v	5	20	15	37	22%	+ 17

With the help of this table, Marx defines prices of production: 'The prices which arise by drawing the average of the various rates of profit in the different spheres of production and adding this average to the cost-prices of the different spheres of production, are the *prices of production*.'[37] This table is quite different from the first table he drew where he was yet to define the prices of production – the price at which a commodity is sold at the market. The development of the concept required him to argue that portions of the constant capital remains unused in a particular year of production because of its fixed part wearing more

[37]*Ibid*. Marx's emphasis.

rapidly than the circulating part. But more importantly, as he observes himself, the prices of production are conditioned on the existence of an average rate of profit attained by the 'means of competition.'[38] Since the different spheres of production are part of the same industry, there has to be an average price of production (total price of production divided by the number of separate spheres) which will offset the deviations between the value and price (+ 2 - 8 - 18 + 7 +17 = 0). If we recall Dussel, discovery of this equalising power of competition was the turning point for Marx while he was writing on rent in the first draft of Volume 3 in 1862. This discovery also led him to the concept of average profit and, consequently, that of the prices of production.

Having set the premise, we can return to Chapter XXXVIII.

As I have mentioned earlier, Marx assumes that the agricultural products are also sold in the market at their prices of production and articulates the problematic of rent on the basis of that assumption. Interestingly, to solve this problem, he does not take recourse to any example from agriculture, but asks his readers to imagine that 'most of the factories of a certain country are driven by steam engines, while a certain smaller number of them are driven by natural waterfalls.'[39] Two points are to be noted here: (1) the comparison is between the steam engine – constant capital/produced means of production – and the *natural* waterfall; and (2) both the factories are producing the same product. The implications of the second point are such: both have the same average price of production and the same average profit. 'We have previously shown,' writes Marx, 'that this price of production is not determined by the individual cost-price of every single producing industrial, but by the cost-price required on an average for the commodity under the average conditions of capital in the entire sphere of production'[40] – the average cost price determined by the use of steam engine in this example. By invoking the notion of 'average conditions of capital,' Marx goes back to the concept of the 'socially necessary labour time' and connects it to the notion of 'market price' – a substitute term for price of production but essentially meaning the same thing, the supply price of the commodity – where 'the nature of value asserts itself in commodities,' not determined by the labour time necessary for an individual producer, but by the socially necessary labour time. The average, therefore, is social – so much so that, at one point in this chapter, Marx uses the expression 'the general social price of production.'[41]

With this set of observations, Marx proceeds to argue that 'the cost-price in the factories driven by water power' is less than that in the factories employing steam engine. Why? Because 'a smaller quantity of labour is required for their production, namely less labour

[38] *Ibid*, 186.
[39] *Ibid*, 750.
[40] *Ibid*.
[41] *Ibid*, 751.

materialised in the constant capital [since no steam engine].'[42] Also: 'It requires less living labour, because the water wheel need not be heated.'[43] The individual industrialist who can avail the use of the natural waterfall has to pay less for both constant and variable capital, thus bringing down both his cost price and the price of production below the social average which is unaffected by this use. This gap is defined as 'surplus profit' which is conditioned upon the difference between individual and general cost prices and prices of production respectively. But this gap, as Marx points out himself, is usual in case of any comparison between individual spheres and the totality of production, as we have seen in the tables above. 'To what circumstances does the industrial capitalist in the present case owe his surplus-profit, the surplus resulting for him personally from the piece of production regulated by the average rate of profit?' asks Marx.[44] The answer is remarkably simple: 'He owes it in the last resort to a natural power, the motive power of water, which is found ready at hand in nature and which is not itself a product of labour like coal, which transforms water into steam [in case of the steam engine].'[45] Since the water has no value, it does not add up to the cost-price or price of production and creates the gap between the individual and the average elements to be extracted by the capitalist producer as surplus profit.

Marx has not used the term 'rent' yet, but soon he will to show how this surplus profit has a specific character with relation to the other forms of surplus profit. He knows very well that there is a scope to misunderstand him regarding the supra-economic power of nature in churning out surplus over socially determined average profit. To dispel the almost metaphysical tone of the last passage, he asserts immediately that the producers with the steam engine also use unpaid natural powers which are 'quite as much monopolised by capital as the natural powers of social labour arising from co-operation, division, etc.': 'The manufacturer pays for the coal, but not for the faculty of the water to alter its aggregate state, of passing over into steam, not for the elasticity of the steam etc. The monopolisation of natural powers, that is of the increased productivity of labour due to them, is common to all capital working with steam engines.'[46] Once again, Marx insists on a more nuanced analysis than those using monopoly as a blanket explanation of the existence of ground rent: 'There must be still other modifying circumstances.'[47] He argues that the surplus profit in a particular sphere of production may arise from reduction in cost price due to technological innovation or greater productivity of labour, and subsequently, it will alter the general rate of profit by means of competition. 'But it is different with the surplus profit

[42] *Ibid*.
[43] *Ibid*, 752.
[44] *Ibid*, 753.
[45] *Ibid*.
[46] *Ibid*, 753-54.
[47] *Ibid*, 754.

of industrial capitalist who uses water power,' he adds.[48] The explanation that offers at this stage takes us to back to the specifically historical nature of rent implicated in private property:

> [This surplus profit] arises from the greater natural power of production of labour in conjunction with some other natural power, which natural power is not at the command of all capitals in this sphere, whereas such a thing as the elasticity of steam is. The application of this other natural power does not follow as a selfunderstood matter, whenever capital is invested in this sphere. It is a monopolised natural power, which like a water fall, is only at the command of those who can avail themselves of particular pieces of the globe and its opportunities.[49]

This is a particularly important argument. Three conditions need to be fulfilled in order to secure surplus profit of this kind: (1) the local existence of a natural resource: 'Water power is found only locally in nature;' (2) the impossibility of its production by labour and capital; and (3) somebody's monopoly control over its localised existence.[50] 'Now let us assume,' Marx writes, 'that the waterfalls with the land on which they are found are held in the hands of persons, who are considered the owners of these portions of the globe, who are land owners.'[51] These landowners may permit the capitalist the use of the waterfall in his production in exchange of a payment. Surely that payment will come from the surplus profit generated from the use of the waterfall: 'Under these circumstances the surplus-profit is transformed into ground-rent, that it falls into the hands of the owner of the waterfall.'[52] The entirety of the surplus profit does not go to the landlord, only a portion; the rest is enjoyed by the industrial capitalist. In that case, the capitalist who works with the waterfall 'is just as well off, or probably better, as all other capitalists of his sphere of production, who work with steam.'[53]

This is the first time when Marx uses the term 'ground rent' in this chapter – which shows clearly that the existence of ground rent is conditioned on the existence of a group of people who have a monopoly control over a piece of the globe which has some 'natural power' attached to it. The existence of rent, therefore, has both a historical and a geographical context, intertwined in the laws of private property and social average. But, the existence of private property, Marx cautions us, is not the source of the surplus profit: 'it merely enables the landowner, who has the possession of the waterfall, to coax this surplus profit out of the pocket of the industrial capitalist into his own.'[54] Like in all the

[48] *Ibid*, 755.
[49] *Ibid*, 755.
[50] *Ibid*, 756.
[51] *Ibid*.
[52] *Ibid*, 757
[53] *Ibid*.
[54] *Ibid*, 758.

other spheres of production, it is the labour power materialised in the constant capital and employed as the variable capital which remains the source of the extra profit: 'The natural power is not the source of the surplus profit, but only its natural basis….'[55] An analogy is drawn here with a familiar conceptual relation from the chapter on commodity in the First Volume: 'In the same way the use-value is the general bearer of the exchange-value, but not its cause.'[56] The translation of the use value into exchange value is happening under the condition of private property, but merely as a context, as a mediating factor. In the same way, the existence of the landowner is also incidental to the analysis: they do not form a class which participates in the production of value. The rent may go to anybody, any individual or institution, with the control over a particular piece of land at a particular time.

The difference with Ricardo's theory of differential rent is clear now. Ricardo identifies the 'natural prowess of land' as the source of rent. He wants to distinguish between this natural prowess and all the capital invested in the land because, in his opinion, the revenue arising from the capital should be classified as interest, and not as rent. His theory also has the capitalist and the rentier as two classes with oppositional interests who have to confront each other to secure their respective revenues. In fact, as Ricardo would want us to believe, the landlord presents a threat not only to the livelihood of the capitalist, but also to the survival of the capitalist system as well, since, with increasing rent, the share of the profit in total revenue will fall and initiate a collapse of the system.

Marx counters Ricardo on all of these points. Even though Marx uses the term 'natural powers,' in his version, it is not the source of rent, but its material basis, in the same manner as use value is the material basis of exchange value. Marx also does not offer a pure distinction between natural powers and capital; rather, in his theory, the existence of natural powers brings down the cost price by employing less constant capital. The interests of the industrial capitalist and the landlord are not necessarily oppositional in Marx's case, as he shows that the capitalist is still better off by paying only a portion of his surplus profit to the rentier. The point about the falling rate of profit does not arise in this case. Although Marx discusses the law of the falling tendency of the rate of profit, it has nothing to do with rent, as the latter does not affect the average profit. In the case of the falling tendency, technological innovation and/or other factors bring a change in the average conditions of production, which, in turn, alters the rate of the profit. In case of the waterfall, Marx asserts again and again that its use is not going to affect the average conditions, but only the individual cost price of the capitalist who can avail such use.

However, the most interesting aspect of this general framework of rent is that it does not confine itself to agriculture alone. In fact, in this chapter, Marx does not talk about a

[55] *Ibid*, 757.
[56] *Ibid*, 758.

comparison between the industrial and the agricultural spheres of production. Instead, he compares two types of factories within the same sphere of production, one of which employs 'natural powers' and the other, machinery. This rendition, therefore, gives us a broader framework of rent where a monopoly control over a piece of globe which is favourable to production but does not have any value can create surplus profit. The question with which Marx begins – how can nature generate rent when it does not have any value – is now turned on its head. Nature can generate rent precisely because it does not have any value. In this schema, nature is marked by its capacity to produce an 'excess' over the average – the excess in the form of a surplus profit – but this 'excess' is not autonomous to the working of the capitalist system, or the social conditions of capitalist production. The natural excess is 'natural' only if there is a concept of the social average: 'Were it not for the fact that the different values are neutralised into prices of production, and the different individual prices of production into one average price of production regulating the market, the mere increase in the productivity of labour by the use of a waterfall would merely lower the price of the commodities produced with the waterfall, without adding anything to the share of profit contained in those commodities.'[57] This passage summarizes Marx's method succinctly: first, values of different magnitude are 'neutralised' into prices of production by adding the average profit with cost prices; secondly, the different prices of production are again 'neutralised' into an average price of production which 'regulates' the market. Both acts of neutralisation presume 'competition' as the equalising factor– the motive force of the market. Evidently, in this framework, rent is not necessarily a special case of monopoly capital; it exists comfortably and essentially within competitive capitalism whenever there is monopoly control over natural powers. The nuanced difference between monopoly capital and monopoly control within competitive capitalism is a fundamental contribution of the Chapter XXXVIII.

With this reading of Marx's theory of rent, which is inspired by Dussel's thesis about the discovery of competition, cost price and prices of production in the *Manuscript of 1861-63*, we may return to Harvey's argument about the land market.

3.

As we have noted before, Harvey uses the terms 'value' and 'price' interchangeably: 'Ground-rent, capitalized as the interest on some imaginary capital, constitutes the "value" of the land.' Though within quotes, Harvey does not clarify the meaning of the term 'value' in the rest of the section titled 'The Land Market and Fictitious Capital.' In all probability, he is drawing attention to the fictitious appearance of 'value' in the form of capitalised rent. We have already seen how, for Marx, it creates an ethical problem, as the whole process

[57] *Ibid*, 758.

bypasses the labour theory of value. Marx, however, does speak about the price of natural power (where land is a specific case; so is the waterfall) in the way Harvey describes it, and it emanates from the landowner's monopoly control over it: 'The ownership of land enables the landowner to catch the difference between individual profit and the average profit. The profit thus acquired, which is renewed every year, may be capitalised, and then it *appears* as the price of a natural power itself.'[58] The apparent price is calculated on the basis of an average rate of interest capitalised on the acquired annual surplus profit over a specific period in the future. However, Marx also adds, when the land changes hand, i.e., when the landowner transfers the monopoly control over to somebody else in lieu of this price, 'it does not enter directly into the general price of production of the commodities, although it would enter into the individual cost-price of the industrial capitalist.'[59] In other words, since the land does not have any value – and its price appears in the form of capitalised rent precisely because of that reason – the socially determined average price of production will remain unchanged.

This observation presents us with a question, which Harvey does not need to ask, because he does not approach the theory of rent from the perspective of an interplay of monopoly control and social average: how does this interplay work in the market for land as a commodity? Harvey observes that Marx did not offer any theory of the land market; he was more interested in devising a theory of the ground rent 'because this was where he considered the real theoretical challenge lay.'[60] Extrapolating a theory of the land market from the same framework, Harvey proceeds with the assumption that the landowners will actively pursue the development of a land market based on the speculative potential of capitalised rent: 'By actively pursuing the appropriation of values landholders can force production on the land into new configurations and even push surplus value production on a scale and with an intensity that might not otherwise occur.'[61] Here again, we may see that Harvey is talking in terms of value, and not in terms of price, which creates a fallacy. If the landholder is involved in speculation on the basis of capitalising rent (which does not have any component of labour and value), the desire to appropriate values may work against him, as it will change the average conditions of production and, as a result, will change both the individual prices of production and the social average. In that sense, how is it different from the use of natural power materialised in the steam engine, from which Marx separates the production process employing the waterfall so carefully? The distinction between these two processes is vital to the existence of rent itself. Otherwise, the rent as the margin between the individual and the average prices of production will not exist and will not be available for capitalisation in the long run.

[58] *Ibid*, 759. My emphasis.
[59] *Ibid*, 758-59.
[60] Harvey, Op. Cit., 367.
[61] *Ibid*, 368.

At one instance, it seems that Harvey is unconvinced himself of his formulation: he agrees that it is practically impossible to convince the landholders to sacrifice the high margin that they enjoy in the short run from the monopoly control over land.[62] In other words, the landholder will not agree too easily to do anything which will unsettle the average price of production. 'The situation changes materially,' Harvey argues, 'if interest-bearing capital circulates through land markets perpetually in search of enhanced future ground-rents and fixes land prices accordingly. In this case, the circulation of interest-bearing capital promotes activities on the land that conform to highest and best uses, not simply in the present, but also in anticipation of future surplus value production.'[63] This argument, again implicated in the confusion between value and price, refers to the concept of 'differential rent 1 (DR-1)' by Marx, where rent is defined as the difference between individual prices of production in the worst and best qualities of land with the equal amounts of investment of capital. In Harvey's reading, it reads almost identical to the Ricardian framework where the price (exchange value) is fixed at the margin (worst quality land). Both Harvey and Ricardo assume an identity between value and exchange value – the distinction between which is fundamental to Marx's theory of rent.

Harvey also claims that the landowners who treat the land as a 'pure financial asset' will ensure enhancement of ground rent by coercion or collusion with the capitalists: 'In the case of an active alliance between landowner and capitalist, the former takes on the role of developer who seeks to capture enhanced rents while the capitalist captures profit.'[64] In this remark, he refers to Marx's concept of 'differential rent 2 (DR-2)' where the surplus arises from employing two different amounts of capital in the same plot. Again, based on how Marx defines ground rent in its generality, the returns from such acts of 'developing' by the landowner will not necessarily contribute to the enhancement of rent. It is not clear from Harvey's account how the collusion between the landowner and the capitalist will lead to a neat distribution of the revenue into rent and capital, though there is no doubt that it will increase the total revenue from land. But will it not initiate a falling tendency of average profit (as well as that of average interest) with the increase in the share of constant capital? If that is the case, how can the landowner expect to capitalise future rents?

Though Harvey's reading of Marx is replete with such contradictions, it provides a useful response to this question. As he observes towards the end of his chapter, the speculations on land as a purely financial asset will involve a 'complex interaction of DR-1 and DR-2' which will distribute the relative advantages enjoyed by individual landowners (reflected in the margin between their individual prices of production and the social average) into all the plots, thus dissolving the possibility of sustenance of a surplus profit in the long run.

[62] *Ibid*.
[63] *Ibid*.
[64] *Ibid*.

This will result 'a nightmare of incoherency and periodic orgies of speculation' which will eventually bring an end to the capitalist system.[65] Harvey argues, 'Capital has only two lines of defence in such situations: monopolization or state control.'[66] The monopolisation of the land development process, i.e., concentration of large holdings in the hands of the few, will ensure a more systematic condition of speculation, but, as Harvey points out himself, it will occlude any possibility of differential rent, and will only create monopoly rent which is not conducive to accumulation. The role of the state in manipulating the 'land use regulation, land expropriation, land use planning and, finally, actual investment' proves to be more sustainable in terms of managing the speculative incoherency of the land market. Harvey, however, is in two minds about the practicality of this solution: 'While the state can undoubtedly put its stamp on geographical structures, it does not necessarily do so in ways that effectively bind the use of land to competition or the process of geographical re-structuring to the accumulation of capital. Too great a level of state involvement also begins to call into question the whole validity of property rights over the means of production in general as well as over the land.'[67] In my view, Harvey has undervalued the significance of the state greatly by assuming that it works as an impediment to competition – an assumption which clearly has a liberal lineage.

Marx talks about the state on one occasion in the part on rent – when he is talking about 'labour rent.'[68] Speaking of the direct producers who own their own means of production except the access to the land, he concludes that it is the simplest form of ground rent where the entire surplus value is appropriated in the form of rent by the feudal landlord. 'If the direct producers are not under the sovereignty of a private landlord,' writes Marx, 'but rather under that of a state which stands over them as their direct landlord and sovereign, then rent and taxes coincide, or rather, there is no tax which differs from this form of ground-rent…. The state is then the supreme landlord.'[69] This can be argued as a primary conceptualisation of a 'rentier state' which, as Harvey would also concede, is detrimental to the accumulation of capital in its fullest capacity. However, this argument has more significance that it lets out at the first glance. If we think about it, the state can and does act like a supreme landlord on many occasions, especially in dealing with the monopoly control over natural resources, which, in most cases, are directly owned by it. But more importantly, it does not have to act as an impediment to competitive capitalism in doing so. If we consider the case of special economic zones – one of the regular features neoliberal capitalism – we can see the same interplay of monopoly control and social average at work. The establishment of a special economic zone by the state as a seemingly deregulated space

[65] *Ibid*, 370.
[66] *Ibid*.
[67] *Ibid*, 371.
[68] Marx, Op. Cit., 917-22.
[69] *Ibid*, 918-19.

without labour laws and other constraints – brings down the individual cost prices of the corporations entitled to this special treatment with respect to the social averages. The collusion between the state and the corporations, therefore, capitalises of the surplus profit in the form of rent without running the risk of bringing the social average down with itself – an inverse of what Harvey has suggested in his reading. Also, the implication of this form of accumulation is not limited to the agriculture but can be extended to any sphere of production which depends on the state to exercise its monopoly control. Instead of calling it the ‘interest form of rent’ – a term with which Marx has fierce reservation – we may call it the ‘rent form of interest.’ Rather than thinking that the state has weakened under neoliberalism, this framework where the state has this unique control over the translation of surplus profit into rent may prove to be a more effective way to describe contemporary capitalism.