Part Six

The Transformation of Surplus Profit into Ground-Rent

Chapter 37: Introduction

The purpose of this chapter is to deal with those preliminary issues that Marx feels are important before beginning the analysis proper.

I The object of enquiry[1]

Marx sets out at the beginning that here he is interested in an analysis of landed property only insofar as it is dominated by the capitalist mode of production, i.e. that 'rural production is pursued by capitalists, who are distinguished from other capitalists [...] simply by the element in which their capital and the wage labour that it sets in motion are invested.'[2] If this is the case then this also presupposes that capitalist production dominates production in general and that there exists: (**1**) the free competition of capitals; (**2**) the free transferability of capital from one sector to another; (**3**) an equalised average rate of profit.[3]

Hence, under these assumptions, the 'three classes that make up the framework of modern society'[4] confront one another in agricultural production:

- direct cultivation is carried out by *wage-labourers*, employed by:
- the *capitalist*, who 'pursues agriculture simply as a particular field of the exploitation of capital',[5] and who in turn pays ground-rent[6] to
- the *landowner*, the proprietor of land.[7]

II Capital fixed into the land

The capitalist farmer fixes capital into the land: this fixed capital may take the more transient form of improvements in fertility through, for example, the application of fertiliser, or in more permanent form through an alteration in the land's physical nature (for example, drainage, irrigation, levelling, physical construction in form of buildings, etc.).[8] These capital investments 'transform the earth from a mere raw material into earth-capital.'[9]

But these improvements pass to the landowner once the contracted lease-period expires;[10] when the new lease-contract is realised, the landowner 'adds interest on the capital incorporated into the earth',[11] and his rent

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[1] Where I insert my own subheadings they appear, as here, in sans-serif type.

[2] Karl Marx, *Capital* volume 3 (Harmondsworth, 1981) [hereafter C3], p. 751.

[3] We are thus disinterested in the question of the form of the transition from pre-capitalist agricultural relations of production – be these feudal or based on small peasant agriculture – and the effect of this on capitalist agricultural production; we take capitalist agricultural production here as fully-formed, and pure, so to speak.

[4] C3, p. 756.

[5] C3, p. 755.

[6] Marx notes (C3, p. 755) that 'ground-rent is a contractually fixed sum of money', 'just like [...] interest'.

[7] Thus, '[g]round-rent is [...] the form in which landed property is economically realised, [which is to say] valorised.' C3, p. 756.

[8] Marx notes that the interest paid on this fixed capital investment, while it may fall to the landlord as part of the rent paid by the capitalist, does not enter into ground-rent properly understood.

[9] 'A cultivated field is worth more than an uncultivated one of the same natural quality.' C3, p. 757.

[10] This phenomenon is particularly developed in the case of land used for building, where, after the expiry of the period of the lease, both the land and the buildings built on it pass to the landlord. In all cases, Marx notes, this is why it is in the interest of the landowner to shorten land-leases as much as possible.

[11] C3, p. 757.

increases; if she sells the land, its value is augmented. 'This is one of the secrets [...] of the increasing enrichment of the landowners [...] as economic development progresses.'[12]

(Marx now makes an interesting comment. In a given mode of production, the forms of property that exist within it find their existential justification insofar as they 'possess[...] a transitory historical necessity'; landed property. however, 'is distinguished [...] by the fact that at a certain level of development it appears[13] superfluous and harmful even from the standpoint of the capitalist mode of production.'[14])

III The determination of the price of land

Land, even uncultivated land, is, of course, bought and sold; but what determines its price – how, indeed, in the case of uncultivated land, on which no labour has been expended, and which, as a consequence, has no value, can it even have a price? Marx argues that the price of a given piece of land is its ground-rent capitalised at the prevailing rate of interest. 'If a capitalist pays £4,000 for land that yields an annual rent of £200, he draws the average annual interest of 5% on the £4,000 in just the same way as if he had invested this capital in interest-bearing securities or had lent it out directly at 5% interest.'[15] In this way, '[...] capitalised ground-rent presents the appearance of the price or value of land, so that the earth is bought and sold just like any other commodity [...].'[16] This capitalisation, by which the purchase-price of land is determined, is 'irrational',[17] but, despite this, concealed beneath it is a real relation of production; what is 'irrational' is that it is the ground-rent that is the premise of the price (value) of the land, and not the other way around: the '[...] capitalisation of the rent [...], presupposes the rent itself; whereas the rent cannot be conversely derived and explained from its own capitalization. Its existence, *independent of the sale*, is rather the presupposition proceeded from.'[18]

If the price of land is given by the capitalisation of rent at the prevailing interest rate, then the price of land will rise as the interest rate falls. Hence, given, as we saw in part three of this volume, that the rate of profit displays a long-term tendency to fall, and, given that the rate of profit governs the interest rate[19], we would expect the interest rate also to display a long-term tendency to fall, and the price of land a long-term tendency to rise.[20]

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12 C3, p. 757. It is also the reason the capitalist farmer 'avoids all improvements [...] which are not expected to give their full return during the duration of the lease', and represents 'one of the greatest obstacles to a rational agriculture'.

13 'Appears' (*erscheint*), and not 'is'.

14 C3, p. 760.

15 C3, p. 760. Thus, in its purchase and sale, what is exchanged is a claim on future income; as in the case of financial assets ('pieces of paper'), insofar as this future income *is yet to be produced*, the sale and purchase land may be viewed as the sale and purchase of 'fictitious capital'.

16 C3, p. 762.

17 Marx uses the word *irrationell*; according to Hans Ehbar (*Annotations to Karl Marx's 'Capital'*, http://content.csbs.utah.edu/~ehrbar/akmc.pdf, p. 2551), indicating not that something 'cannot be explained, or […] does not follow reason, but [that] it is something whose explanation is so unobvious and misleading that those engaged in […] surface relations are prevented from understanding what is really going on. It fosters illusions instead of rational behaviour.'

18 C3, p. 761 (italicisation added).

19 A surprising admission on Marx's part given his argument (in Chapter 22) that the only determinant of the rate of interest was the interplay of the demand for and supply of money capital.

20 Marx also notes (C3, p. 761) that, aside from being determined by the profit rate, 'the interest rate has a tendency to fall as a result of the growth of money capital for loan [...].' This too pushes up the price of land over the long term.

21 C3, p. 763.

IV Ground-rent and lease-price

Marx distinguishes between ground-rent proper on the one hand, and lease-price on the other: the latter is what the farmer actually pays to the landowner for the right to cultivate the land (and which, capitalised, determines the price of land); the lease-price thus *includes* ground-rent, but also includes 'foreign component[s]:'[21] in addition to the interest on capital incorporated into the land, lease-price may include a deduction from average profit, or from normal wages (or both).[22]

In the case of a deduction from profit, a part of the capitalist farmer's normal profit is paid to the landowner for right to invest her capital in land. The capitalist farmer is compelled by circumstances[23] to invest her capital in agricultural production, and this condition of compulsion may be exploited by the landowners: the Corn Laws allowed landowners to charge increasingly higher lease-prices, with which higher grain prices could never keep up. 'The farmers were cheated in this way from 1815 to the 1830s.'[24]

Just as the capitalist farmer is compelled by the landowner's monopoly control over land to forego a part of average profit to be able to pay the lease-price for 'her' land, so too may she be compelled to pay the agricultural proletarians she employs a wage below that normally prevailing.

Marx concludes by making the following important observation.

> In considering the forms of appearance of ground-rent, i.e. the lease-price that is paid to the landowner under this heading for the use of the soil, whether for productive purposes or those of consumption, we must keep in mind, finally, that the prices of things that have no value in and of themselves – either not being the product of labour, like land, or which at least cannot be reproduced by labour, such as antiques, works of art by certain masters, etc. – may be determined by quite fortuitous combinations of circumstances. For a thing to be sold, it simply has to be capable of being monopolised and alienated.[25]

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Marx concludes the chapter by identifying three errors (really, the same error expressed in three different ways) which obscure the nature of ground-rent and which need to be avoided in the analysis.

1 A confusion between the form that rent takes according to the level of social development. '[T]he appropriation of rent is the economic form in which landed property is realised';[26] that this is common to *all* forms of rent, occludes the nature of the social development on which it is premised.

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[21] C3, p. 763.

[22] And, as Marx notes, in the case of the *absence* of ground-rent proper, deductions from profit and wages may make up the lease-price in its entirety.

[23] '[B]y dint of [...] upbringing, training, tradition, competition and other circumstances.' C3, p. 764.

[24] C3, p. 765. Marx is at pains to point out here that he is dealing with circumstances in which there is 'agricultural rent in countries of developed capitalist production.' (C3, p. 764) He contrasts this state of affairs with 'conditions in which ground-rent, the mode of landed property corresponding to the capitalist mode of production, has a formal existence, even though the capitalist mode of production itself does not exist, the tenant himself is not an industrial capitalist, and his manner of farming is not a capitalist one [...]', as exists, for example, in Ireland, where 'the tenant is generally a small peasant [,] [w]hat he pays the landowner for his lease often absorbs not only a portion of his profit, i.e. his own surplus labour, which he has a right to as the owner of his own instruments of labour, but also a portion of the normal wage, which he would receive for the same amount of labour under other conditions [, and where] the landowner [...] who does nothing at all here to improve the soil, expropriates from him the small capital which he incorporates into the soil for the most part by his own labour [...].' (C3, p. 763)

[25] C3, p.772.

[26] C3, p. 772. '[T]he legal fiction by virtue of which various individuals have exclusive possession of particular parts of the globe [...].'

2 'All ground-rent is surplus-value, the product of surplus labour.'[27] But to explain the source of surplus labour does not explain the form in which a part of it manifests itself. This requires a specific analysis.[28]

3 What determines the level of ground-rent is not the activity of the landowner but rather the course of social development.

The development of commodity production increases the demand for foodstuffs (and, importantly, for raw materials) in function of the relative growth of the non-agricultural population compared to the agricultural; but product of social labour can only appear as a commodity insofar as there are other commodities external to it – other products of social labour – for which it may be exchanged. Rent appears as *money*-rent only insofar as social production takes the form of *commodity* production, and there appears the development of a non-agricultural population as independent of the agricultural. Thus, even though rent appears as the ability of the landed population to appropriate a part of surplus labour to themselves through their monopoly control of land, it is the capitalist to whom falls the active role in the creation of surplus-value.

Thus the analysis of capitalist ground-rent presupposes a prior analysis of commodity production.[29]

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27 C3, pp. 772-3.

28 *Inter alia*, Marx makes an interesting point. The *subjective* condition for the production of surplus-value is that the direct producer work for more time than she needs to sustain herself. The *objective* condition is that she be *able* to do this, that the production of necessary means of subsistence not consume all of her labour-time. The limits to this are set by the conditions of natural fertility on the one hand and by the social productivity of labour on the other. This means that the total social-labour – necessary and surplus – dedicated to the production of food (and raw materials) must be sufficient to allow social labour to be dedicated to other production. This is in fact true for the production of any use-value: that part of social-labour dedicated to the production of any article is, viewed socially, necessary labour insofar as it produces the quantity to fulfil a social need (and, should production exceed this need, then the whole product will be exchanged as if the socially-necessary quantity actually had been produced).

29 Which is why Marx's analysis of ground-rent appears here, at the close of *Capital*.