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The Basic Theories of Karl Marx

Marx's Theory of Rent

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The labour theory of value defines value as the socially necessary quantity of labour determined by the average productivity of labour of each given sector of production. But these values are not mathematically fixed data. They are simply the expression of a process going on in real life, under capitalist commodity production. So this average is only ascertained in the course of a certain time-span.

There is a lot of logical argument and empirical evidence to advance the hypothesis that the normal time-span for essentially modifying the value of commodities is the business cycle, from one crises of over-production (recession) to the next one.

Before technological progress and (or) better (more 'rational') labour organisation etc. determines a more than marginal change (in general: decline) in the value of a commodity, and the crisis eliminates less efficient firms, there will be a coexistence of firms with various 'individual values' of a given commodity in a given branch of output, even assuming a single market price. So, in his step-for-step approach towards explaining the immediate phenomena (facts of economic life) like prices and profits, by their essence, Marx introduces at this point of his analysis a new mediating concept, that of market value. The market value of a commodity is the 'individual value' of the firm, or a group of firms, in a given branch of production, around which the market price will fluctuate. That 'market value' is not necessarily the mathematical (weighted) average of labour expenditure of all firms of that branch. It can be below, equal or above that average, for a certain period (generally less than the duration of the business cycle, at least under 'free competition'), according to whether social demand is saturated, just covered or to an important extent not covered by current output plus existing stocks. In these three cases respectively, the more (most) efficient firms, the firms of average efficiency, or even firms with labour productivity below average, will determine the market value of that given commodity.

This implies that the more efficient firms enjoy surplus profits (profits over and above the average profit) in case 2 and 3 and that a certain number of firms work at less than average profit in all three cases, but especially in case 1.

The mobility of capital, i.e. normal capitalist competition, generally eliminates such situations after a certain lapse of time. But when that mobility of capital is impeded for long periods by either unavoidable scarcity (natural conditions that are not renewable or non-substitutable, like land and mineral deposits) or through the operation of institutional obstacles (private property of land and mineral resources forbidding access to available capital, except in exchange for payments over and above average profit), these surplus profits can be frozen and maintained for decades. They thus become rents, of which ground rent and mineral rent are the most obvious examples in Marx's time, extensively analysed in Capital Vol.III.

Marx's theory of rent is the most difficult part of his economic theory, the one which has witnessed fewer comments and developments, by followers and critics alike, than other major parts of his 'system'. But it is not obscure. And in contrast to Ricardo's or Rodbertus's theories of rent, it represents a straight-forward application of the labour theory of value. It does not imply any emergence of 'supplementary' value (surplus value, profits) in the market, in the process of circulation of commodities, which is anathema to Marx and to all consistent upholders of the labour theory of value. Nor does it in any way suggest that land or mineral deposits 'create' value. It simply means that in agriculture and mining less productive labour (as in the general case analysed above) determines the market value of food or minerals, and that therefore more efficient farms and mines enjoy surplus profits which Marx calls differential (land and mining) rent. It also means that as long as productivity of labour in agriculture is generally below the average of the economy as a whole (or more correctly: that the organic composition of capital, the expenditure in machinery and raw materials as against wages, is inferior in agriculture to that in industry and transportation), the sum total of surplus-value produced in agriculture will accrue to landowners + capitalist farmers taken together, and will not enter the general process of (re)distribution of profit throughout the economy as a whole.

This creates the basis for a supplementary form of rent, over and above differential rent, rent which Marx calls absolute land rent. This is, incidentally, the basis for a long-term separation of capitalist landowners from entrepreneurs in farming or animal husbandry, distinct from feudal or semi-feudal landowners or great landowners under conditions of predominantly petty commodity production, or in the Asiatic mode of production, with free peasants.

The validity of Marx's theory of land and mining rents has been confirmed by historical evidence, especially in the 20th century. Not only has history substantiated Marx's prediction that, in spite of the obstacle of land and mining rent, mechanisation would end up by penetrating food and raw materials production too, as it has for a long time dominated industry and transportation, thereby causing a growing decline of differential rent (this has occurred increasingly in agriculture in the last 25-50 years, first in North America, and then in Western Europe and even elsewhere). It has also demonstrated that once the structural scarcity of food disappears, the institutional obstacle (private property) loses most of its efficiency as a brake upon the mobility of capital. Therefore the participation of surplus-value produced in agriculture in the general process of profit equalisation throughout the economy cannot be prevented any more. Thereby absolute rent tends to wither away and, with it, the separation of land ownership from entrepreneurial farming and animal husbandry. It is true that farmers can then fall under the sway of the banks, but they do so as private owners of their land which becomes mortgaged, not as share-croppers or entrepreneurs renting land from separate owners.

On the other hand, the reappearance of structural scarcity in the realm of energy enabled the OPEC countries to multiply the price of oil by ten in the 1970s, i.e. to have it determined by the oilfields where production costs are the highest, thereby assuring the owners of the cheapest oil wells in Arabia, Iran, Libya, etc. huge differential minerals rents.

Marx's theory of land and mineral rent can be easily extended into a general theory of rent, applicable to all fields of production where formidable difficulties of entry limit mobility of capital for extended periods of time. It thereby becomes the basis of a marxist theory of monopoly and monopoly surplus profits, i.e. in the form of cartel rents (Hilferding, 1910) or of technological rent (Mandel, 1972). Lenin's and Bukharin's theories of surplus profit are based upon analogous but not identical reasoning (Bukharin, 1914, 1926; Lenin, 1917).

But in all these cases of general application of the marxist theory of rent, the same caution should apply as Marx applied to his theory of land rent. By its very nature, capitalism, based upon private property, i.e. 'many capitals' - that is competition - cannot tolerate any 'eternal' monopoly, a 'permanent' surplus profit deducted from the sum total of profits which is divided among the capitalist class as a whole. Technological innovations, substitution of new products for old ones including the fields of raw materials and of food, will in the long run reduce or eliminate all monopoly situations, especially if the profit differential is large enough to justify huge research and investment outlays.

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