CONTENTIOUS ISSUES IN MARXIAN VALUE AND RENT THEORY: A SECOND AND LONGER LOOK

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This paper is a response to criticism leveled by Graham Ive at an earlier article of mine on urban rent theory.[1] I have resisted the temptation to answer his various specific points directly and have chosen instead to address the overall concern of Ive's critique: comprehending Marxian value and rent theory as a whole. Ive has thrown down the gauntlet by saying that "any attempt to come to terms with the Marxist theory of value is simply abandoned." This paper is an attempt to pick up that challenge and to investigate the purpose of Marx's value and rent theories, as well as some controversial problems in each: particularly the reification of the value system, the concept of exploitation, the transformation problem, and the category of absolute rent. These are things about which any geographer interested in Marxian theory should have some knowledge.

My previous paper dealt principally with rent as a market price phenomenon and the role of circulation and realization (effective demand) in the contemporary American city. Marxian analysis, on the other hand, emphasizes questions of production; hence, Ive chides that "circulation presupposes production." This is not to be denied. But if we are to understand Marx's value analysis (and not be forever precluded from discussing important issues of circulation) it is necessary to dispose of the error of conceptualizing the relation of production to circulation in terms of linear causality.[2] For it is equally true that under capitalism production presupposes circulation.

THE DIALECTIC RELATION OF PRODUCTION AND EXCHANGE

In Volume I of Capital Marx outlines some preconditions for capitalist production, an essential one being the development of a system of commodity exchange.[3] As, in addition, human labor-power becomes a commodity -- i.e. wage-labor -- capitalist production is born.[4] Under a fully developed system of commodity exchange, commodities take on the form of exchange values, as well as being objects of utility or use-values. Exchange values are the measure of socially necessary labor time required to produce commodities. While exchange value is the result of the conditions of production, it requires the process of exchange to determine the socially-necessary labor time to produce any commodity.[5] At the same time as the market is levelling individual differences to an average necessary labor time, it is also registering demand, since if there is no use-value for a commodity, it cannot have any exchange value, regardless of the hours of labor time expended on its production.[6] Hence, for (exchange) value to be realized in a commodity, it must not only be produced but successfully exchanged; a commodity has only <u>potential</u> value until it is exchanged. Marx, then, does not think of production and circulation as cause and effect, but as standing in dialectial opposition, inseparable and mutually dependent. As Emmanuel puts it: "Exchange is not...something that complements production at a level external to the latter and at most a condition for capitalist production; it is an <u>essential moment</u> in that production."[7]

If this seems to be belaboring a point, it is nevertheless true that certain Marxists are prone to a kind of fetishism of Marxian categories in which production is conceived of in isolation and reified to the point where labor mystically injects value into commodities regardless of exchange. This fundamental error is significant not only because it precludes a serious discussion of circulation and realization,[8] but because the reification of production reappears in different form as the reification of the labor theory of value and of the concept of exploitation -- topics to which we will return shortly. Unfortunately, the idealization of categories, whether bourgeois or Marxian, is an obstacle to the development of useful critical analysis.

This is not meant to deny that production plays the central role in Marx's analysis. Production embodies the labor-process, which is the "everlasting Nature-imposed condition of human existence."[9] Furthermore, since in "acting on the external world and changing it, (man) at the same time changes his own nature,"[10] the labor-process is the dynamic force of human history and the conditions of production under which it is carried out the measure of human development. For any society, the "mode of production of material life conditions the social, political and intellectual life process in general."[11] Thus Marx rejected the notion of bourgeois ideology and utopian socialism that the essential relations of capitalism lie in the world of exchange, and looked instead to the relations of production for the moving force of that social system. He looked beneath the apparent freedom and equality of commodity exchange, especially the exchange between wage-labor and capital, to the unfreedom and inequality of production, where capital rules over labor.[12] Although wage-labor is formed and comes into contact with capital in the market, the relationship between the two takes on an entirely different character in production, and it is this relationship that is the fundamental structuring force of the capitalist mode of production: its social relations, its specific form of exploitation in the appropriation of surplus value by capital, and its driving force in the extraction and reinvestment of surplus value in the process of capital accumulation.

THE LABOR THEORY OF VALUE AS MODE OF ANALYSIS

Marx uses the labor theory of value to show the contradiction between the social relations of the market, where equality of exchange prevails, and the social relations of production, where inequality allows the appropriation of surplus value by the capitalists. This contradiction between appearance and underlying structure is central to Marxist analysis. Unfortunately, Marxists often become confused into thinking that prices are the surface appearance, and labor-time values are the underlying structure of capitalism. On the contrary, values are only another level of the appearance of equal exchange, and must also be penetrated to the underlying inequality of production. That is, value theory is the mode of analysis <u>through which</u> Marx unveils the fundamental social production relation of wage-labor and capital. It is that relation and not the system of labor values of commodities which is the basic structuring element of the capitalist mode of production. Paul Mattick makes this point clearly: "The obvious fact that everything is based on labor is of no interest of Marx. What concerns him is why social labor relations <u>appear</u> as value relations.... For Marx value and price relations are not 'economic' relations but social class relations which appear as economic relations under (capitalism).... From this point of view, <u>price and value are equally festishistic categories</u> for the underlying capital-labor relation."[13] (my emphasis)

This idea may be surprising since we are used to identifying Marx with the labor theory of value, an error common to bourgeois economists and Marxists alike. But Marx neither invented the labor theory of value nor did he think it was "true" in some absolute sense. Rather he believed that it was possible to understand a social system by looking at it through its <u>own categories</u>, or, as Mattick says, asking why human relations appear as value relations under capitalism. Thus Marx took the labor theory of value as it had come down to him from Adam Smith and Ricardo and by taking it to its logical conclusions turned it into a method by which to critique capitalism. He did this by "solving" an apparent contradiction in Ricardo's formulation of the theory of value, i.e., if value is measured in labor time, what is the value of labor. Marx's solution was to distinguish between the value of commodities produced by labor and value of the commodity that the laborer sells, his labor-power.[14] These two are not the same and the difference between the value that the worker receives for the sale of his labor-power and the value created by that labor-power during the working day is <u>surplus value</u>. Here Marx reveals the form of capitalist exploitation and the origin of profit (surplus labor time has always been appropriated by the ruling classes but only under capitalism does surplus-labor appear as surplus *value*).[15]

Marx's advance over earlier socialist critiques was in specifying that capitalist exploitation is not a matter of cheating in exchange, because all commodities (including labor-power) exchange for their fair values and still surplus value arises. This is because the capitalist pays the exchange value of labor-power (the socially necessary labor time to reproduce labor) but he gets the *use-value* of that labor-power, its capacity to create new commodities, new exchange values.

Having established the form of economic exploitation under capitalism it is well to note that economic exploitation is only one result of the wage labor-capital relation, and not necessarily the most important one. The wage labor-capital relation is revealed to be simultaneously: (1) a relation of distribution of the social product; (2) a relation of power of one class over another especially over the labor-process; (3) a relation among things, where the products of human labor come to have power over the producers, and in which human labor itself becomes a special commodity; and (4) a process of alienation in which the product of one's labor are conceived by another and belong to another, and the labor-process and the laborer are subdivided endlessly by the division of labor.[16]

Thus a wealth of Marxian "sociology" springs from the apparently "economic" relations of production and cannot be separated from them. This achievement is what separates the Marxian line of analysis from any other theory of exploitation. The importance of the *Marxian* formulation of the labor theory of value is that it integrates a host of social, historical and economic phenomena in a logically consistent and illuminating way, something which no "economic" theory before or since has done.[17] This is not an achievement lightly passed over or abandoned; hence the justifiably angry response of Marxists to such nonsense as Paul Samuelson's statement that the *Capital*, Volume I's value system is merely an "unnecessary detour" to Volume III's system of prices, a "digression into surplus value."[18] Samuelson simply does not understand Marx.

Nonetheless, it is essential that we *do* understand Marx. The labor theory of value is a mode of analysis, not an eternal verity. Marx did not believe in some natural "law of value" or that measuring values in labor-time was the just thing to do. It is simply the way value is measured under a system of commodity exchange. Labor values are a capitalist category, not a Marxian one, and the law of value is a capitalist law, not a socialist one. Marx was careful not to fall into the utopian socialist error of idealizing capitalist categories of justice and then seeking to transcend capitalism on this basis.[19] Rather, he wished to see a new society emerge (and thought he had identified the historical forces leading to such a new society) which would transcend both capitalism and its kind of justice. The "solution" to capitalist exploitation is not to restore the full value produced by labor to laborers, but for the workers to end the system of exchange and of exchange value altogether, and capitalist production with it. (It is thus the height of irony to find certain Communist countries actually espousing a system of prices based on labor-time values). Marxism is not a theory of exploitation, but a theory of capitalism's historical movement.

THE TRANSFORMATION PROBLEM: THE RELATION BETWEEN PRICES AND VALUES

Once we understand what is revealed by Marx's value theory, it is still necessary to vindicate the logical consistency of that analysis, i.e., to answer Samuelson's challenge that the value system is an invention of Marx and cannot be logically linked to the price and profit system observable in the market. This brings us to the notorious "transformation problem" of converting values into prices, the Gordian knot of Marxist economics for a century.[20]

The problem of the transformation can be posed in different ways and the choice of presentation has much to do with the choice of answer. First, in Marxian terms it can be stated as follows: imagine a simple value system of production in which only living labor (variable capital) participates. Commodities exchange at their values according to the amount of socially necessary labor time used in their production. The value of labor-power is everywhere equal, as is the rate of surplus value.[21] Since only variable capital, v, is used in production, constant capital, c, is equal to zero, and the rate of surplus value, s/v, is constant, the rate of profit defined as $s/c+v$ simply equals s/v and is therefore also equal in all branches of production. Now introduce constant capital into production, where constant capital only transfers its existing value to the product and creates no new value (or surplus value). If the organic composition of capital, defined as the ratio of constant to variable capital, c/v,[22] is everywhere the same, the rate of profit will still be equal in all branches of production. If, however, the organic composition of capital differs in various lines of production, the rate of profit must vary also. But this violates the basic condition of capitalist production that profits are equalized due to the competition among capitals. If we are to meet this condition it is necessary to transform the value system, which yields unequal profits on equal capitals into a price of production[23] system which yields equal profits on equal capitals.

The problem of the transformation is to find an invariant unit of measure (a numeraire) between the two systems, labor time values and prices of production; that is, an element of both systems whose value is equal to its price. Otherwise, as Samuelson chides, the transformation is simply an "erase and replace" trick between two mutually exclusive systems.[24] Marx chose as his invariant element the department or branch of production which had an organic composition of capital equal to the average (arithmetic mean) organic composition of capital for the economy as a whole. As a result of his particular solution Marx also concluded that certain key aggregates of the value and price systems are invariant, i.e., the sum of values equals the sum of prices and the sum of surplus value equals the sum of profits.[25] Consequently, Marx envisioned the transformation literally as a process by which the competition among capitalists redistributed surplus value from areas of excess (low organic compositions of capital) to areas with a below average surplus (high organic composition of capital). (This imagery will prevail in Marx's discussion of rent, as we shall see.) Unfortunately, Marx's solution to the transformation does not appear to be strictly correct, and in the debate over the problem, a conviction has often been held by Marxists that the aggregate equalities between prices and values and surplus value and profits must hold in order for there to be a correct solution to the transformation and a viable Marxian value theory. This has been a significant and debilitating error.

Marx's mistake in his calculation of the transformation, as originally pointed out by von Bortkiewicz, was his failure to transform the inputs of constant capital from values to prices as well as the outputs.[26] Since all constant capital inputs in one line of production are produced in another line, a full solution requires the transformation of the entire input-output matrix of the economy simultaneously. For a problem of this complexity, Marx's simple average line of production will not ordinarily suffice as an invariant.[27] Given the inadequacy of Marx's solution there has been ample opportunity for everyone from von Bortkiewicz to Samuelson to stick in an oar and further muddy the turbid waters.

SRAFFA'S CONTRIBUTION

We will consider here two possible solutions, that of Piero Sraffa, the central figure of the neo-Ricardian (or neo-Keynesian) school, and that of David Laibman, a Marxist. First, what did Sraffa do and how does it relate to Marxism? In his *Production of Commodities by Means of Commodities*, Sraffa returned to the mainline of classical economics and attempted to solve the puzzle that had beset Ricardo, much as Marx had done.[28] Sraffa presented that puzzle as one of finding an invariant unit in which to measure the social product, so that one could then discuss how that product was distributed. Labor-time was the traditional unit of measurement (or value) of the social product, but as we have seen in the Marxian case, the equalization of the profit rate given unequal organic compositions of capital (or labor/commodity mixes) will cause prices to diverge from simple labor time values. Worse yet, for every rate of profit there will be a new set of relative prices, hence a new measure of total output. So it seems that a change in distribution between profits and wages changes the total product that is to be distributed.

Sraffa solves *this* problem as stated. He sets up a system of simultaneous linear production equations showing the fixed proportions of labor and commodities required to produce every commodity. This is, in fact, simply an n-sector equivalent of Marx's five-sector input-output matrix in Capital, Volume III, so it is possible to draw the conclusion that Sraffa is solving the transformation problem as Marx would have done. This has been argued for by Eatwell, who says that the problem for Sraffa, as well as for Marx, is to construct an "average" branch of production whose labor-time value is equivalent to its price in the transformed price system. Recall that the problem here for Marx's solution was his failure to account for changes in input values simultaneously with the transformation of output values. Sraffa gets over this difficulty by constructing his average branch of production so that the proportion of the input to the output of every commodity in the production of the "average" commodity is equal.[29] In other words, the same organic composition of capital used to produce the "average" commodity will be used to produce every input into that commodity and every input to those inputs and so on. Mathematically the construction of this average commodity, or what Sraffa calls the Standard Commodity, is formidable, but conceptually it is not unduly difficult to grasp.

Using Sraffa's Standard Commodity it is fully possible to make the transformation from labor-time inputs to prices, once a distribution between labor and capital has been set, i.e., once we know either the rate of profit, the wage rate, or the ratio of the two. The virtue of this formulation is that the distribution between wages and profits is clearly shown to be the independent variable and prices the dependent variables. Thus, concludes Joan Robinson, "it is possible to discuss the division between wages and profits of the value of net income without upsetting the value to be divided. Ricardo's puzzle is solved."[30] This is a great advance over Ricardo and over the neo-classical theory of distribution, which says that prices determine factor shares going to labor and capital, not vice versa.[31] But the question remains: is Marx's "puzzle" also solved?

SRAFFA CRITIQUED

Marxists are generally unconvinced by Sraffa.[32] There is no question that Sraffa's Standard Commodity is one solution to the transformation problem but is it the solution? Is there another solution more appropriate to express the tenets of Marxian theory? Another way of looking at this problem is to determine in what ways the Sraffan method has led or must lead to the conclusions of the neo-Ricardian school, what the differences are between that school and Marxian analysis, and to what degree the Sraffan tool is useful to Marxism. While I am convinced of the general inferiority of neo-Ricardian (especially Sraffa's) overall social-historical analysis, I am equally convinced that the critique of the neo-Ricardians is invaluable to clarifying the Marxian contribution, and that certain aspects of the neo-Ricardian critique of bourgeois theory can strength Marxism (and have already done so).

First, it must be granted that the publication of Sraffa's book breathed new life into the labor theory of value. Although there has been a long independent tradition of inquiry into the transformation problem of Marx, no satisfactory solution had been developed. As a result, not only were the labor theory of value and Marx more easily dismissed by bourgeois economists, Marxists themselves had taken to begging the question of the transformation by saying it was only a qualitative relation and need not be solved in a formal, quantitative fashion.[33] Sraffa showed that the problem of invariance could be handled in a logically consistent way.

Several common Marxist criticisms of Sraffa need to be considered in order to distill his basic failure from irrelevances. First, there is the question of how Sraffa treats labor. Lebowitz says that "in the world of Production of Commodities by Means of Commodities labor-power is not a commodity."[34] I do not think that this criticism can stand up, since, as Sraffa's title proclaims, all production is by commodities and labor is just one more term in the equations. Nor can it be said that Sraffa employs only a commodity standard of value, since he is at some pains to make the reduction of all commodities to dated labor inputs.[35] Sraffa's system is definitely a labor theory of value. There is some confusion as to whether Sraffa is measuring values in labor or the Standard commodity, but this arises from the fact that in order to convert simple labor-time values into prices, there must necessarily be a second unit of measure, the unit of conversion (or invariance), which is the Standard Commodity in this case. The problem with Sraffa is not the absence of a labor theory of value with labor as a commodity, but his failure to get outside such commodity relations. In keeping with our earlier remarks, it is well to remember that Marx's contribution is not the labor theory of value, but how he uses that theory within a larger structure of analysis.

A second criticism of Sraffa is that he removes the techniques of production from the social relations of production; that is, he, like the neo-classicals, holds that the product is first created in a technically fixed way and then labor and capital divide the spoils. One Marxist has said that the neo-Ricardians "like the neo-classicals consider production to be an asocial or natural process."[36] As it stands, this critique is too easy. First, Sraffa differs not at all from Marx in setting up the labor-time (value) system in terms of a fixed input-output matrix before solving the transformation. At any moment of production, technique can indeed be assumed fixed. Second, Sraffa is not so naive as to think that production is merely a problem of technology.[37] Quite the contrary, the crux of the neo-Ricardian assault of neo-classical economies is precisely against the latter's presumption that technology determines distribution and not vice-versa. (In fact, in one respect Sraffa's analysis is better than the Marxists' and that is the idea of the re-switching of techniques -- the explicit recognition that different techniques will be chosen by the capitalist from the available "set of blueprints" depending on the rate of profit. In this sense Sraffa shows technique to be directly dependent on social distribution.)

The problem here is not that there is no relation between technique and distribution in Sraffa, but that the only relation is a purely economic one. For neo-Ricaridans, capital and labor have two meanings; on the one hand they are quantitative inputs into production and on the other hand they are qualitative claims on the produce of society.[38] Both labor and capital are simultaneously commodities and economic claims. The relation between capital and labor is thus technical and economic, and the two things are well integrated. This is a great advance over the neo-classical analysis, but it is as far as the neo-Ricardians can go.

A third criticism is of Sraffa's theory of profits and this takes the implications of his economism a step farther. In Sraffa's system it is hard to know who is exploiting whom.[39] Even the pre-eminent neo-Ricardian Joan Robinson has argued against Sraffa and for Marx on the primacy of the rate of exploitation over the rate of profit.[40] One looks in vain for a theory of surplus value underlying profits in Sraffa. Worse yet, Sraffa's view that the rate of profit might be explained in terms of the interest on money capital[41] brings one very close to justifying the social role of profits along the lines of bourgeois laureate Paul Samuelson, who declares: "if workers do not save -- do not 'abstain', do not 'wait' -- they will be unable to provide raw materials needed for the labor to work with."[42] Samuelson is simply confusing the valid proposition that society must save (not consume) and reinvest part of its produce in new capital goods in order to grow with the apologetic that profits are a necessary or desireable means to that end. Socialist growth is not the same thing as capitalist accumulation.

But saving Sraffa from the clutches of Paul Samuelson requires more than casting aside the veil of profits as a functional claim on the economic product and showing that labor is exploited by capital. The economistic theory of the neo-Ricardians can only go as far as its economics can carry it. At its most radical, it is only a theory of economic exploitation. As Rowthorn points out, however, this kind of merely economic exploitation is not incompatible with a sophisticated neo-classical theory of general equilibrium.[43] Once again Samuelson rises to the occasion to declare proudly that "The tools of bourgeois analysis could have been used to discover and expand this notion of exploitation..."[44] And indeed they could explain the notion of exploitation as Samuelson and the neo-Ricardians conceive of it, but they could not be used to understand the Marxian notion of the labor-capital relation in all its ramifications as a theory of social relations and of history.

This brings us full circle to the earlier discussion of Marx's theory of exploitation, which can be applied just as well to the neo-Ricardian analysis. The neo-Ricardian theory is a theory of distribution, not of production, and of economic exploitation, not of social and historical movement. This kind of theory may be useful for showing that there is exploitation in capitalism, but it can never get beyond mere moralizing that this fact is "bad". The logical response is to propose a more "just" distribution within capitalism, precisely the kind of utopian socialist position Marx was trying to avoid. There is no hint here of the Marxian project of freeing human labor from the "laws" of value and accumulation.

For Marx capital and wage labor are not just economic claims, but social relations. It is these relations that structure capitalist society and makes it something distinct, a particular historical form. What makes neo-Ricardian economics a lesser theory is not any one of a host of isolated deficiencies, since these often vanish on closer inspection, but rather the lack of a means of integrating economics into a social theory. They lack, in short, the Marxist concept of a mode of production.[45]

A MARXIAN SOLUTION TO THE TRANSFORMATION

Keeping in mind Marx's focus on the capital-labor relation, let us return to the technical aspects of the transformation problem. Sraffa has provided one solution and many others have been proposed, from Bortkiewicz to Morishima. The difficult problem is which, if any, of these transformations preserves the structure of Marxian analysis. As Laibman points out, there are as many invariance postulates as there are aggregates, properly defined, of the value-price systems.[46] He gives serious attention to four such postulates:

(1) total values equal total prices (total value invariance);

(2) total surplus value equals total profits (surplus value invariance);

(3) total variable capital equals total wages (variable capital invariance);

(4) value added in prices equals value added in value terms (current labor invariance).

Laibman makes the considerable contribution of showing that in general two or more of these conditions cannot hold simultaneously, as they did in Marx's proposed solution, without additional restrictive assumptions, but that a correct solution to the transformation does not depend in any way on such a condition. This frees Marxian treatments of the transformation from an analytic dead-end, the erroneous belief that all important aggregates (especially nos. 1 and 2) must be invariant, when in fact the problem is only one of finding a unit of conversion from values to prices.[47]

In an ingenious geometric presentation, Laibman solves the transformation by means of rate-of-exploitation invariance (an inverse of no. 3). This means that the rate of exploitation in real terms, the hours of surplus labor time to hours of necessary labor-time is unchanged by the transformation from values to prices. Laibman argues that this solution alone focusses on the crucial capital-labor relation in the real terms in which the laborer sees it; it thus makes the transformation solution not just a quantitative technical relation but also a qualitative social relation: "the study of the transformation, qualitative and quantitative, from values to prices of production is also a vital component of the study of the capitalist production relation itself, as that relation appears in value form..."[48] "The transformation problem is isolated by holding constant the real forces determining a given value situation: technology and the balance of power between the capitalist and workers."[49] The great virtue of this approach is that it builds a price system on the two essential data of the value system: labor time inputs into commodities, and the ratio of necessary to surplus labor time -- the datum underlying the rate of surplus value.

SRAFFA RECLAIMED?

Compare this with Sraffa's method. Sraffa, like Marx, begins with a labor-time value system, but his solution takes as its invariance condition not the rate of surplus labor-time but the total social product (i.e., total values equal total prices). The crucial element of Marxian analysis, the power of capital to get surplus labor-time from the worker, gets lost in the shuffle. Only one essential datum of the labor-time system is used by Sraffa: the second basic unit of the transformation, the Standard commodity, is just a complex combination of the previously entered data on labor-time inputs.

Eatwell has argued, however, that it is possible to get Sraffa back around to the rate of surplus value through the back door. This involves the additional step of expressing the wage in units of the Standard commodity[50] (thus the wage, a price phenomenon, is converted back into labor-time units and the ratio of the wage to total output in labor-time units is the rate of surplus labor-time). The origin of profit in surplus value is not quite so "clearly revealed" by this method as Eatwell would have us believe, but if it is revealed at all, which seems conceptually feasible, Eatwell has made an important step in advancing the Sraffan analysis and in making Sraffa palatable to Marxists. I believe that this reconciliation among certain individuals in the two camps will be taken even further, and that the Sraffan methodological baby need not be thrown out with the neo-Ricardian distribution theory bath water. Nonetheless, the earlier criticism of neo-Ricardian economism still holds and can only be vitiated by the neo-Ricardians transcending their own limitations through a dialogue with Marxism. Certain individuals will be able to do this, but the basic doctrinal split will undoubtedly remain since this debate is only the latest version of a traditional conflict between Marxian historical socialism and distributional-ethical socialism.

While the moralizing element of socialism will always be with us, this does not mean that analytic Marxism is perfect or cannot be considerably overhauled. I would therefore like to see a continuing Marxian synthesis based on a systematic critique of and assimilation of neo-Ricardian developments, since that school is generating considerable intellectual ferment with a good bit of useful overflow.[51]

MARXIAN RENT THEORY - MARX'S CRITIQUE OF RICARDO

Marx's concept of rent, especially his formulation of the category absolute rent, is completely embedded in value theory and must first be addressed in those terms.[52] This is not to say that Marx's treatment of rent is wholly satisfactory or that the concept of absolute rent cannot validly be used in ways other than Marx intended, but that the prior question is how Marx arrived at such a category as absolute rent.[53]

Marx takes up the Ricardian puzzle (yet another Ricardian puzzle!) whether "landed property and rent contradict the determination of the value of commodities by labor-time."[54] That is, he is concerned that the appearance of ground rent does not violate the labor theory of value. Marx's purpose here is to explain rent within the framework of his value theory and to refute previous theories which variously explained rent as cheating or interest on capital, or which abolished landed property or made of land a source of value.[55] Rent should be explicable in a fashion parallel to profits; rent, like profits, should derive from surplus-labor and depend on the power of the landowning class over labor and its product. That is, "landed property, like capital, constitutes a claim to unpaid labor, gratis labor. And just as with capital, the worker's materialized labor appears as a power over him..."[56]

Marx sets up the conditions of the problem of capitalist rent in its pure form as follows:[57]

> "The prerequisites for the capitalist mode of production therefore are the following: The actual tillers of the soil are wage-laborers employed by a capitalist, the capitalist farmer who is engaged in agriculture merely as a particular field of exploitation for capital, as investment for his capital in a particular sphere of production. This capitalist farmer pays the landowner, the owner of the land exploited by him, a sum of money at definite period fixed by contract, for instance, annually... for the right to invest his capital in this specific sphere of production. This sum of money is called ground-rent, no matter whether it is paid for agricultural land, building lots, mines, fishing grounds, or forests, etc... Ground rent, therefore, is here that form in which property in land is realized economically, that is, produces value. <u>Here, then, we have all three classes -- wage-laborers, industrial capitalists, and landowners constituting together, and in their mutual opposition, the framework of modern society</u>." (my emphasis)

Marx emphasizes that rent must be explained without reference to any imperfections in the market, any local monopolies or cheating, etc.. He of course realizes that rents do occur from any number of imperfections such as a substandard rate, below average rate of profit, or monopoly profits of capitalists due to a monopolistic market price.[58] But in keeping with the tenets of value theory, rent should arise in a context of a perfect market, where competition assures equalization of wages and profit rates in every line of production.

Marx's solution to the puzzle of rent evolves from a critique of Ricardo. In Ricardo's theory, the value of agricultural produce is determined by the cost of production on the worst plot of land, the one yielding a zero rent -- the marginal plot in neo-classical terms.[59] Rent only occurs on those plots which do not affect value.[60] But this formulation, says Marx, begs the question and saves the law of value only by trivializing the concept of rent. Ricardo is forced into this position, however, by two fundamental errors. First, his formulation of value theory is faulty. He confuses value and cost-price (price of production in Capital, Volume III terms) and concurrently surplus value and profits, because he fails to recognize explicitly the need to transform labor values into prices and surplus value into profits. Were rent not zero on the worst plot it would enter as a wedge between value and price -- that is, if agricultural products were sold at a price which was above their value in order that agricultural land should realize rent -- then value theory would be invalidated.[61] Not surprisingly Marx concludes that the way out of this dilemma and a solution to the rent puzzle lies in his reformulation of value theory in which the difference between value and cost-price is crucial.[62]

Ricardo's second error, in Marx's eyes, is to assume away landed property: "The Ricardian law would prevail just the same, even if landed property were non-existent."[63] But landed property is both a general historical precondition for capitalism and a specific precondition for the realization of capitalist rent, i.e., the legalized monopoly over space gives a certain class the power to extract part of the social product. But if this monopoly allows landowners to be paid any rent at all, then, Marx asks, why cannot it extract an even higher toll of the capitalist under certain circumstances?

Marx brings together the solution to the two errors of Ricardo to form his own theory of rent in a passage which is worth quoting at length:[64]

> "It is wrong to say, as Rodbertus does: If -- according to the general law -- the agricultural product is sold on an average at its value then it must yield an excess profit, alias rent; as though this selling of the commodity at its value, above its average price, were the general law of capitalist production. On the contrary, it must be shown why in primary production -- by way of exception and in contrast to the class of industrial products whose value similarly stands above their average price -- the values are not reduced to the average prices and therefore yield an excess profit, alias rent. This is to be explained simply by property in land. The equalization takes place only between capitals, because only the action of capitals on one another has the force to assert the inherent laws of capital. In this respect, those who derive rent from monopoly are right. Just as it is the monopoly of capital alone that enables the capitalist to squeeze surplus-labor out of the worker, so the monopoly of land ownership enables the landed proprietor to squeeze that part of surplus-labor from the capitalist, which would form a constant excess profit. But those who derive rent from monopoly

are mistaken when they imagine that monopoly enables the landed proprietor to force the price of the commodity above its value. On the contrary, it makes it possible to maintain the value of the commodity above its average price; to sell the commodity not above, but at its value.

Modified in this way, the proposition is correct. It explains the existence of differential rents and actually does not credit the ownership of land with any economic effect."

In addition to Ricardian differential rent, then, Marx adds a new category, absolute rent, which is defined as the difference between value and cost-price. Marx is quite specific that absolute rent arises in agriculture only because value is above cost-price in that sector due to its low organic composition of capital. This extra rent is realized because the monopoly power of landed property forms a barrier to the free movement of capital, preventing the competition among capitalists from lowering agricultural prices from value to cost-price. The "excess" surplus value in that sector thus passes to the landowners and not into the general capitalist fund. (Recall here that Marx is thinking in terms of his solution to the transformation with its concepts of the simple average organic composition of capital and a straightforward redistribution of surplus value into profits. We have already discussed why the relations involved here are more complex than Marx's construction. Still, the idea of the redistribution of surplus value is a useful metaphor that we will continue to use.)

CRITICISMS OF MARX'S PRESENTATION OF ABSOLUTE RENT

Nonetheless, Marx's strict identification of absolute rent with the gap between value and cost-price is generally unsatisfying. Emmanuel has raised one objection by asking the question: once the monopoly power of land is acknowledged to form a barrier to the movement of capital and can create absolute rent, what limits this monopoly power? Marx poses the same question in the oft-quoted passage: "But, it may be asked: If landed property gives the power to sell the product above its cost-price, at its value, why does it not equally well give the power to sell the product above its value at an arbitrary monopoly price?"[65] He goes on to admit that on a small island, with no imports, monopoly price would be limited only by demand, but he opts for the empirical refutation that such an absolute scarcity of land does not occur in European countries, since land is artificially withdrawn from use there to create scarcity.[66] His second counter-argument seems to be an historical one, that the products of agriculture sold at their value before capitalism but the barrier to entry of capital created by landed property has allowed these products to continue to be sold at their values (which, because of the low organic composition of capital is higher than cost-price) while all other industrial products sell at their transformed cost-prices due to the competition of capitals.[67] I do not find these arguments convincing. As Emmanuel points out, and Marx implicitly acknowledges above, monopoly prices in general are limited by such factors as imports and demand elasticity, as well as by competition among capitals. Why impose special conditions on the monopoly power of land that would not be imposed on a comparable monopoly of capital?

It may be helpful here to analyze in what ways the monopoly power of land is like that of capital and in what ways it is different. The conditions of the problem are this: the monopoly power of landed property allows landowners to appropriate surplus value, just as does the monopoly of capitalists as a class over the means of production other than land. Both landed property and capital are class monopolies. But the landowner differs from the capitalist in that he stands in a secondary position under capitalist production, receiving his share of surplus value as a tribute from the capitalist using the land. In this case, landed property and capitalist property work together to extract additional surplus labor.

Now the monopoly power of capital in general effects a redistribution of surplus value between sectors by demanding an average rate of profit, even in those sectors with a high organic composition of capital and subaverage surplus value; competition acts to bid up the prices of the latter products and bid down the price of products with a low organic composition of capital. Since the monopoly power of landed property arises for reasons which have nothing to do with the organic composition of capital, and are blind to such things, landed property can equally well achieve a transfer of surplus value as capital by either holding up prices in a low organic composition sector or forcing up prices in a high organic composition sector. Marx's condition of value above cost-price seems overly restrictive here. Furthermore, such a restriction would be intolerable when we shift from agricultural rent to urban locational rent, where there is a mix of industries with different organic compositions; in a closed urban economy it would foreclose the possibility of absolute rent altogether.

RECONCILING ABSOLUTE RENT WITH VALUE THEORY AND THE TRANSFORMATION

A first condition of value theory is that wages and profits be equalized. This is obviously an idealized formulation, but a necessary one which Marx always makes to get to the heart of capitalist relations. The question arises, however, whether an equally idealized assumption needs to be made about land. Land is different from capital in that it is immobile. Therefore we do not have a comparable phenomenon to the equalization of the general profit rate. Normally, however, there is competition among landowners that tends to eliminate excess rents, just as the competition among capitalists tends to eliminate excess profits. This assumption of perfect competition in land is always made by the neo-classicals and it limits us solely to the occurrence of differential rent, absolute rent being more the result of additional barriers than the mere existence of landed property (though what a significant barrier this is we will see later).[68] On the other hand, it may not be necessary to make this restrictive assumption, since landed property has the unusual character that the exercise of its additional monopoly power to create absolute rent, unlike the excess monopoly power of a capitalist, does not prevent the realization of an average rate of profit by capitalists operating in that line of production where absolute rent occurs. Thus absolute rent does not violate the first condition of equalization of wages and profit rates regardless of the amount or the sector it occurs in. Does this then make absolute rent compatible with the conditions of value theory, or is the more severe assumption of perfect competition among landowners also required? This question brings us back to the place Marx begins.

If we extend the conditions of perfect competition to require perfect competition among landowners as well as workers and capitalists, then absolute rent must be excluded, and we are left with Ricardo's formulation. If, on the other hand, absolute rent is allowed for as Marx intends, as a determinant of market price, the problem of the relationship between price and value becomes very complex. Although absolute rent will not affect the equalization of profit rates, it will raise price, thereby withdrawing surplus value from the pool available to capital (or alternatively, lowering wage rates with the same rate of profit as before). By thus lowering the total profit pool, absolute rent necessarily lowers the general rate of profit and thus alters the whole transformation from values to prices.[69] Marx explicitly recognizes the lowering of the rate of profit due to absolute rent,[70] but does not follow up on the implications of this for the transformation. Thus a fourth objection can be added to three previously mentioned ones to Marx's identification of absolute rent with the value-price gap: (1) the arbitrary limit this puts on monopoly power in a single sector; (2) the unnecessary limitation this imposes on the class monopoly of landed property to operate only in sectors of low organic composition of capital; (3) the overdetermined nature of Marx's transformation solution in which the sum of values equals the sum of prices and the sum of surplus value equals the sum of profits, and the average organic composition is a simple mean; (4) the problem of a rent-relative transformation in which the occurrence of absolute rent changes not only the immediate price in that sector, but the whole structure of transformed cost prices.

I do not pretend to have the solution for a 3-class transformation. But it would only make sense if sufficiently restrictive assumptions were made so that a general rate of rent appeared on all branches of production,[71] as in a case of a closed urban system where, say, an artificial restriction is placed on the outward extension of the city, thereby creating a uniform increment of absolute rent (a non-zero margin at the edge of the city) on all land uses.[72]

It might seem that this problem can be avoided altogether by excluding absolute rent from the conditions of value theory and the transformation problem, declaring Marx wrong in his attempt to incorporate it there but correct in the proposition that the phenomenon of absolute rent can occur as easily, or even more easily, than any other monopoly. Unfortunately for this way out of the puzzle, it turns out that even differential rent has an absolute as well as a differential component. We take up this point now.

THE ABSOLUTE COMPONENT IN DIFFERENTIAL RENT

Marx is somewhat ambiguous on the meaning of differential rent. He defines it clearly enough at one point as the difference between the individual and average market price (or individual value and market value) in a branch of production, as distinguished from absolute rent, which is the difference between average value and cost-price.[73] This would mean that differential rent is simply the result of the deviations of individual profits from the average, something which occurs in any branch of industry, but becomes institutionalized in land-using industries because of the monopoly power of landed property. This formulation implies, however, that there can be negative differential rents where profits are below average; in fact, there must be negative differential rents if the sum of differential rents is to be zero and average cost-price not be affected. Where Marx is considering a combination of differential rent and absolute rent he allows differential rent to be negative, because the sum of rent is still positive.[74] This makes sense as long as total rent is positive or zero, but it appears absurd to speak of negative rent, which is what would be required if only differential rent existed. Hence in such a situation Marx shifts back to a Ricardian framework in which differential rent equals the differences between individual price and the price of the worst plot of land in (or out of) cultivation[75] (i.e., price is determined on the worst plot, not as an average of all plots). In this case, however, where all plots except the marginal one are receiving rent, the average market price is clearly greater than the cost-price. Thus Ricardian differential rent must affect price.

Emmanuel approaches the same problem somewhat differently, comparing the case of production where landed property exists with that where no one has exclusive rights (a common property resource in neo-classical terms). Every fisherman, for instance, has an equal chance of catching fish:[76]

> "Thus, it is not necessary for the price of fish to allow the general rate of profit to be realized by the least lucky of the fishing concerns for new capital to be invested in this branch. So long as the price allows an average rate of profit to the entire branch that exceeds the general rate by however little, new capital will flow into it, since every fresh entrepreneur may reasonably hope to obtain this average rate for himself. This competition prevents the price of fish from rising above this point, and so differential rent is impossible."

The process involved here can be conceptualized easily if we take a situation where property rights and differential rent exist and then take away the exclusive property rights. For example, someone owns a lake and rents 1 acre spaces exclusively to each fisherman, and then these barriers are removed. New fishermen will crowd onto the lake as long as the average fisherman catches enough fish to earn the normal rate of profit in the economy. If there are constant returns to scale (and no problems of depletion) the total number of fish caught will not change, but they will be distributed over a greater number of fishermen. In other words, total output and total surplus value have not changed, but more total capital has entered the industry. What has changed is that the surplus value which formerly went to the lakeowner as rent is now dissipated among capitalist fishermen.

All markets are essentially common property when firms are free to enter and try to realize the average rate of profit. Monopoly restrictions on entry, whether by patents or by ownership of land will raise the price and alter the profit structure. Marx is therefore wrong when he follows Ricardo by saying that "with the abolition of landed property and the retention of capitalist production, this excess profit arising from the differences in fertility would remain."[77] But Marx is right when he criticizes Ricardo and observes that landed property is from the beginning a monopoly and it is only this monopoly that allows landowners to extract surplus value.

What about urban locational rent? If we take the standard von Thünen-neo classical model of differential rent arising in the urban economy due to transport cost differences to the city center, wouldn't those differences still exist without landed property? Not if there were no other barriers to a free reallocation of locations, i.e., buildings and other fixed capital were perfectly flexible and users could move about costlessly according to a periodic random reallotment of sites. (Such assumptions are normally made by neo-classical theorists.) Then the urban locational case would correspond exactly to the previous fishery case.

The effect of differential rent can be divided into two components, a pure <u>differential</u> one arising from variations above and below the average market price, and an <u>absolute component</u> equal to the difference between the average price with rent and the cost price without rent. Again this absolute component affects not only the immediate price but also the general profit level and therefore the transformation. This absolute component could also probably be integrated into a generalized 3-class transformation in a closed urban economy, if we assume that the branches of production are distributed randomly throughout the city and thus each bears on the average the same rate of absolute rent. This is a restrictive assumption since different branches of production can bid differently as a group for sites they find favorable. If rent affects different branches differently, however, it is hard to see how rent can be integrated into the transformation.

This question of a satisfactory integration of rent and value theory must be left open for further consideration. My conclusions only go so far as to say that Marx did not successfully solve the rent puzzle, but that he laid the important foundation of recognizing the monopoly of space granted by landed property and the power which this monopoly gives to a class of landowners to extract surplus value from labor.

FOOTNOTES all "Idem"'s are supposed to be "Ibid"'s

[1] Walker (1974); Ive (in this issue).

[2] See Charles Bettelheim's critique of Emmanuel where he falls into this way of thinking, in Emmanuel (1972) Appendix I. Ive appears to make the same mistake.

[3] Marx (1967), Vol. I, Part I.

[4] Idem, p. 170.

[5] Idem, p. 39.

[6] Idem, p. 41.

[7] Emmanuel (1972), p. 327.

[8] The role of circulation and realization in modern urbanization needs to be investigated in depth. No such attempt is made here. See Walker (1974), Harvey (1973) and Lebowitz (1972).

[9] Marx (1967, I), p. 184.

[10] Idem, p. 177.

[11] Marx and Engels (1968), Preface, p. 182.

[12] Marx (1967, I), p. 176.

[13] Mattick (1972), pp. 267-268.

[14] Marx (1967, I), p. 193.

[15] Idem, p. 217.

[16] Marx (1967, I), Chaps. 7 and 14, passim.; see also Rowthorn (1974), pp. 76-82.

[17] Medio (1972), p. 321.

[18] Samuelson (1971), pp. 421-422.

[19] For a good discussion of this, see Tucker (1969), Chap. 2 and F. Engels (1972).

[20] For an overview of the transformation debate, see Laibman (1974) and Emmanuel (1972), App. 5.

[21] This assumption is generally accepted as realistic and will be retained throughout. See Emmanuel (1972), p. 220; Laibman (1974), p. 406; Robinson (1965), p. 180.

[22]It may also be defined as c/c+v; see Gillman (1955).

[23]These are competitive equilibrium prices, not to be confused with the actual market prices, which will reflect market imperfections and temporary deviations of supply and demand, etc.

[24]Samuelson (1971), p. 421.

[25]Laibman (1974), p. 408.

[26]Bortkiewicz (1966). Marx was apparently also aware of the inadequacy of this solution; see Samuelson (1971), p. 421.

[27]However, Shaikh has apparently shown that Marx's procedure is the first step of an iterative process converging on a correct solution. See Laibman, p. 424.

[28]Sraffa (1960); on the comparison between Marx, Ricardo and Sraffa, see Robinson (1965) and Eatwell (1974).

[29]Non-basics, i.e., commodities which are only outputs and not inputs, are excluded from the average commodity.

[30]Robinson (1965), p. 175.

[31]For a critique of neo-classical theory see Hunt and Sherman (1972) and generally the essays contained in Hunt and Schwartz (1972).

[32]See Rowthorn (1974); Medio (1972); Lebowitz (1974); Laibman (1974). For the contrary view among Marxists, see Hunt and Sherman (1972) and Schefold (1972).

[33]See Emmanuel's critique of Sweezy in Emmanuel (1972), p. 398. Samuelson's critique of Meek in Samuelson (1971), p. 417 and the way Mattick (1972) begs this question in an otherwise find article.

[34]Lebowitz (1974), p. 390.

[35]See Hunt and Sherman (1972), p. 36.

[36]Rowthorn (1974), p. 84; see also Lebowitz (1974), p. 393.

[37]But some of his followers are, which is what the Marxists object to. See Bharadwaj (1972) who refers to the "non-human world of technology," (cited in Rowthorn, p. 77).

[38]Emmanuel (1972) develops this proposition clearly in his Appendices II and V.

[39]Bose (1972), p. 218.

[40]Robinson (1965), pp. 176-181.

[41]Sraffa (1960), p. 33.

[42]Samuelson (1971), p. 407.

[43]Rowthorn (1974), p. 83.

[44]Samuelson (1971), p. 422.

[45]Rowthorn (1974), p. 76; on social structure and mode of production generally see Harvey (1973), pp. 289-293.

[46]Laibman (1974), p. 410.

[47] This error contributed to the mystification of the value system in general.

[48] Idem, p. 429.

[49] Idem, p. 426. See also Medio (1972), p. 331 and 343.

[50] Eatwell, p. 301. This is apparently what Robinson (1965) and Schefold (1972) mean by measuring value in terms of units of "commanded labor."

[51] See, e.g., the developments made by Schofeld (1972).

[52] In this sense, Graham Ive's criticism of me is well taken since I previously did not make such an attempt.

[53] Marx deals with rent in Capital (1967, III), pp. 614-813 and Theories of Surplus Value (1969, II), pp. 15-373.

[54] Marx (1969, II), p. 168.

[55] See following discussion and Idem, pp. 42, 163.

[56] Idem, p. 42; see also 43-44.

[57] Marx (1967, III), p. 618. See also generally the conditions set forth in Chap. 37, the introduction to Vol. III's discussion of rent (Part VI).

[58] Marx (1969, II), pp. 17, 38, 162, 37; (1967, III), p. 764.

[59] This is strictly true in neo-classical theory only if there are constant returns to scale and perfect competition.

[60] Marx (1969, II), p. 32. Interestingly, the neo-Ricardian Sraffa has also solved the Ricardian rent puzzle but on the same basis as Ricardo, allowing only differential rent. The conditions of production on the marginal plot enter into the Standard Commodity as a basic good. (See Sraffa, 1960, pp. 74-80). Incidently, Sraffa like Marx discovers differential rent II, the intensive margin.

[61] Marx (1969, II), p. 242.

[62] Idem, pp. 30-37, esp. 37.

[63] Idem, p. 103.

[64] Idem, p. 94.

[65] Idem, p. 332.

[66] Idem, p. 333. Marx comments often on this phenomenon of artifically created scarcity owing to the power of landowners to withhold land that would return a positive but inadequate return. On this point see Walker (1974).

[67] Marx (1969, II), p. 333; also 40-41 and 244: "This is an historical difference and can therefore disappear. The same chain of reasoning which demonstrates the possibility of the existence of absolute rent, shows its validity, its existence, as a purely historical fact, which belongs to a certain stage of development of agriculture and which may disappear at a higher stage." Marx is possibly right on this historical factor, but if absolute rent precludes the appearance of fully developed capitalism, is it not inconsistent to try to include it in a value theory construct which requires a fully-developed capitalism? This contradiction will plague us throughout the discussion.

[68] We should expect, however, that because of the immobility of land competition among landowners will be decidedly imperfect and the possibilities for realizing absolute rent will be correspondingly great. The significance of this fact in no way depends on whether absolute rent is "merely" a monopoly phenomenon outside of the conditions required for analyzing value theory. Graham Ive is quite wrong on this point.

[69] In a Marx or Sraffa transformation this statement holds, but in a Laibman transformation rent would influence the solution only by affecting the rate of surplus value, that is by changing the ratio of necessary to surplus labor time.

[70] Marx (1969, II), p. 275; also 41-42.

[71] Marx discusses the rate of rent at several points in Marx (1969, II).

[72] This is the type of model used by Farhi (1974). If land has been capitalized (see Walker, 1974), this rate of rent would be equal to the rate of profit, simplifying the problem.

[73] Marx (1969, II), pp. 255, 268-69, 293.

[74] Idem, p. 293.

[75] Emmanuel (1972), p. 218.

[76] Idem, p. 224.

[77] Marx (1969, II), p. 103. I make the same error in Walker (1974), p. 56. If such exploitation involves depletion or other counter-productive results, however, overall productivity could be lowered and with it the rate of profit in the absence of rent.

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