

The Anti-Samuelson

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BASIC PROBLEMS OF THE CAPITALIST ECONOMY

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Chapter 19: The Theory of Ground Rent (S's Chapter 28)

In Chapter 28, S undertakes to “show in detail” how the aggregated demand curve together with the supply curve “determines the distribution of income to owners of the different factors of production” (7th ed., p. 530); the example used to illustrate “these general principles” is land rent. As usual, the underlying methodology is that of one graph being worth a thousand theories.

THE ALLEGED CONSTANT SUPPLY OF LAND

Let us see why the supply and demand curves at their point of intersection determine the equilibrium price. S's reasoning consists in the assertion that if the price rose above this level, demand would decline, since some landowners could not rent their land, they would bid down the price. This derives from the fixed nature of the supply so that “this factor would be willing to work for less if it had to” (568); “under competition there is nothing” the landowners can do since they cannot alter the supply (563).¹

As Marx observed, it is insipid to assert that the landowner cannot withdraw his land from the market in the same way that a capitalist can withdraw his capital from a particular branch of production; ownership of land gives him the power to do so until the economic situation will allow him a higher rent. Nor can the capitalistic farmers who are the lessees stop them from withdrawing it. For a withdrawal of capital from agriculture would—unless de-

mand dropped—have the effect of pushing the market price of the agricultural commodities above their value, thus permitting rent, while a flow of new capital into agriculture could not have this same effect because it is precisely this competition of the capitalist farmers that allows the landowner to extract an extra profit from the former, forcing them to be satisfied with the average rate of profit.²

Historically, this withdrawing of land from use by the immediate producers has served the function of forcing the latter into the wage-labor force (including the ranks of reserve army of the unemployed); having been deprived of the main means of production—the land—these former peasants become free laborers during the decisive phase of “primitive accumulation of capital.”^{2a}

RENT AS EXTRA PROFIT

At this point S inserts a literary-historical reference to Ricardo, who, it is reported, stated that the price of corn is high not because the price of corn land is high but rather, the price of corn land is high because the price of corn is high (560). In order to evaluate this statement we must first provide an abbreviated explanation of Marx’s theory of rent.^{2b}

As we have pointed out, agriculture is no different from industry as far as capital is concerned—both are fields for profit-making. The laws of the creation of value and surplus-value are no different. The only difference lies in the historical accident that in agriculture there is a non-capitalist class which intervenes and on the basis of its monopoly over the means of production land can appropriate part of the surplus value.

In agriculture as in industry there is a struggle for extra profits; also, as in industry, there are extra profits stemming from inter- and intrabranh competition. In the case of industrial interbranch competition the surplus value is redistributed not in accordance with how much was produced in each branch but rather according to how much capital was employed in each. This means that from branches in which the organic composition of capital was

low—that is, where relatively more variable capital was employed—and where relatively more surplus value was produced, some surplus value was redistributed to those branches in which the organic composition of capital is higher (where relatively more constant capital is used). The mechanism that effects this redistribution is competition in the form of the free flow of capital from one branch to another. This mechanism, the equalization of the rates of profit for the total social capital, presupposes the unhindered flow of capital to those branches where the rate of profit is momentarily higher from those where it is lower.

In the case of monopoly over the ownership of the land this free flow is hindered. Furthermore, as a result of historical development, during most of the capitalist era the organic composition of capital in agriculture has been below average—that is, below that in industry. This means that relatively more surplus value is produced here. But, in the absence of the free flow of capital, instead of this extra profit's being redistributed, it is retained within the sphere of agriculture; however, it is not retained by the capitalist farmer, but rather by the landowner in the form of rent. This rent Marx calls absolute rent. It is a permanent extra profit rooted in the differing organic composition of capital (specifically lower) employed in agriculture; the monopoly over the land allows this extra profit to become permanent.

Although Marx calls this type of rent the one most adequate to landed property^{2c} it was not known in Ricardo. Ricardo could not have discovered such a rent because it would have contradicted his understanding of the labor theory of value. He would have contradicted his theory of value had he stated that the same quantity of labor in agriculture created more value than in industry. The point is that value and price of production are not identical, so that after redistribution of the surplus value the two diverge. In any case, Marx showed why absolute rent existed.

So far we have looked at the case of interbranch competition and the permanent extra profit resulting from it in agriculture—absolute rent. Now let us look at intrabran­ch competition. As we know, in industry the capital which gains a temporary productivity advantage can sell its com-

modities above the individual value of its commodities but at or below the market (or average) value of the entire supply; it thereby gains the difference as a temporary profit. In order to effect an analogous transition to agricultural conditions, we could imagine an industry in which water power was used instead of some other source; the user of this free source, which has no value because no labor went into its creation, would enjoy an advantage over his competitors; his individual value would be below average and he would therefore make an extra profit; if he had exclusive control over the water, he would have a permanent extra profit; if he did not own it but rented from someone else, he would have to pay the surplus or extra profit to that owner and settle for the average profit for himself.

The same would be true in agriculture. Land which is more fertile or closer to the markets would give a greater advantage to its users; to the extent that the land is owned not by the farmers who use it, they would have to pay this extra profit to the owners. This extra profit then also becomes permanent—instead of being garnered successively by various capitalists, it is siphoned off in the form of differential rent. This was the only type of rent Ricardo recognized.

Now we can understand the Ricardian thesis which S relates. In his *Principles*, Ricardo states: "Corn is not high because a rent is paid, but a rent is paid because corn is high; and it has been justly observed that no reduction would take place in the price of corn although landlords should forego the whole of their rent."³ As we explained above, Ricardo recognized only differential rent. Denying absolute rent, he asserted that the least fertile or worst land paid no rent; and since the value of the products of agriculture "is regulated by the productiveness of the portion of capital last employed on the land and paying no rent . . . therefore rent is not a component part of the price of commodities."⁴

But this position is valid only for differential rent: whether the landlord pockets it or whether the farmer gets to keep it is irrelevant precisely because differential rent is a form of intrabranched competition: the extra profit is merely

divided up differently among various producers and idlers (landowners) in that branch.

But this is not true of absolute rent, which is a form of interbranch competition. The rise of the organic composition of capital or the abolition of the monopolization of the land (nationalization by the bourgeois state), leading to the elimination of absolute rent, would lower the price of production of agricultural commodities and raise the price of production of industrial commodities until the point had been reached at which the redistribution of surplus value had brought about an equalization of the rates of profit. In this sense absolute rent is a cause of the "high price of corn."

In passing it may be remarked that S's use of the term "value of land" is irrational. As has been pointed out, the price of land (which can have no value since it embodies no labor) is in reality the capitalization of the rent; in this sense the price of corn land can rise independently of the value of the commodities produced on it as well as of the rent since the capitalization also depends on the rate of interest; if the latter should fall even with a constant rent, the price of the land—the price of the permanent rent income—would rise. For example, a rent of \$100 with the interest rate at 5 percent would mean a land price of \$2,000; if the interest rate fell to 4 percent, the price would rise to \$2,500—in other words the rent is more expensive to buy.

In a distorted way, S's discussion of implicit costs itself indicates the influence of rent on commodity prices. Marx has outlined this influence as follows:

Rent—as the price of land—may not directly determine the price of the product, but it determines the mode of production, whether much capital is concentrated on little land or little capital is dispensed on much land, whether this or that type of product, cattle or corn, is produced, the market price of which best meets the price of the rent, for the rent must be paid before the term is over which it contracts for. So that rent may form no deduction from industrial profit, pasture is turned into farm land, farm land into pasture, etc. Therewith the rent determines the market price of the individual product not di-

rectly, but indirectly inasmuch as it so distributes the proportions of the species of products, as supply and demand best bring forth the price for each one, that the market price can pay the rent.⁵

As Smith, and Marx after him, showed, subjective theories of opportunity cost are not needed to understand that the rent on the land for the main subsistence crops directly determines the market price of the other commodities. Thus for instance, if corn is the staple, then rent determines price indirectly; however, the rent on grazing land is not determined by the market price of meat; just the reverse: the market price of meat is determined by the rent paid on corn land. This raises (or can raise) the price of meat above its own price of production and even value, because it must also pay for the rent which the land would bring if it were being used to grow corn.

RENT AS A "SURPLUS"

In light of the discussion on costs and surplus it seems paradoxical that S should state that rent is a surplus (562). Does this mean that bourgeois economics has become more "honest" since Marx's time, that it now recognizes that rent is a part of surplus value?

First of all, S makes his statement in the context of a discussion of Henry George. The introduction to him is rather weird. We are told that as more and more immigrants came to the U.S., "Each acre of land had more and more people to work with" (562). But, as S himself points out, since there was still a frontier, this was not an inevitable result of immigration: all that would necessarily happen is that more acres of land would be farmed. In fact, it was not until after World War I that U.S. agriculture became intensive. S does not care about facts or consistency; thus some pages later, he turns around and says that in America "we find extensive agriculture" because land is plentiful and labor scarce (565). As we know, the amount of land can be made "scarce" by withdrawing some of it from the market, but since S sees landowners as helpless pawns he disregards

this; on the other side, it is not clear how labor can be scarce when millions are out of work. This is yet another example of S's refusal to look at the social situation—namely capital as the pivotal social relation and determination of what is “scarce” and what is “abundant”—and his restriction of economics to alleged technobiological relations between man and land.

But to return to Henry George. Next we are told that as a result of the increased number of workers per acre, “in a sense . . . the land became more productive” (562). Which “sense”? Marginal productivity sense, of course, because the factor land has more labor to “work with.” But then this would have to be true of machines too; but we know that machines don't improve with use—in fact they wear out. “The earth, on the other hand, treated correctly, improves continually.”⁶

Following this we read: “In any case its [the land's] competitive rental value certainly tended to rise” (562). Rent—and, a fortiori, the price of land—has nothing to do with absolute levels of productivity. In fact, it very often is the case that where productivity is lowest—where farm prices are thus highest—rent is lowest, or perhaps even nonexistent; for we must remember that differential rent can be paid only where there is a difference between individual and market value; where the producers with the highest costs—lowest productivity—predominate, they cannot pay such a rent.

In any case, what S is probably trying to say is that when certain people gobbled up all the land, those who still wanted to farm had to pay monopoly prices—probably purely speculative prices bearing no relation to value, that is, theoretically no longer determinable. This finds its expression in the statement that “those who were lucky or farsighted enough to get in on the ground floor and buy land early” made “handsome profits” (562). We will not go into a historical discussion of this, since even cowboy pictures show the violence connected with the primitive accumulation of land in the U.S.; also, we know about the enormous graft involved in the acquisition of the huge tracts of public land by the railroads.

The upshot of all this is that “many people began to wonder why lucky landowners should be permitted to receive these so-called ‘unearned land increments’ ” (562). Henry George fits in here in that he “crystallized” sentiments. We are told that “it is not likely that anyone running on the single-tax ticket will again come so close to being elected mayor of New York City as George did in 1886” (562).

As might be expected, this account does not accord with historical fact. Regardless of George’s subjective motives, he played a somewhat reactionary role in the development of the American labor movement. During the 1880s that movement, although containing definite socialist elements, was as backward as U.S. capitalism was undeveloped. Class relations between capital and labor had not yet been consolidated. Theoretically the labor movement was still quite confused when George appeared on the scene with a definite, well-formulated homespun theory. Contrary to S, George’s “central tenet” was not that land rent is a surplus, but that with the nationalization of the land, or rather the transfer of all land rent to the state, the problems of capitalism would disappear. It is this latter sentiment—the elimination of the “problems” associated with capitalism—and not merely wondering about lucky landowners’ unearned incomes that George “crystallized.” And that is why the Central Labor Union supported his mayoral candidacy in 1886. George’s function was to divert the attention of the working masses from the real contradictions inherent in capitalism.

Now comes the main point. S says that he agrees with George that pure land rent is a surplus “which can be taxed heavily without distorting production incentives or efficiency” (562). He explains this on the basis of the strictly limited supply of land and the inability of the landowners to do anything to counteract this. Of course, we might say that rent is a surplus in the sense that it is only the ownership of the entire globe by a few people which enables them to appropriate as a tribute part of the surplus labor produced under capitalist conditions, whereby this process is concealed by the fact that the capitalized rent appears as

the price of the land—a mere commodity which can be bought and sold for an equivalent like any other “honestly” traded commodity.

But S is not really radical when he says this (especially in light of the nonsocial explanation he provides), since bourgeois economists were calling for nationalization of the land almost 200 years ago. S cannot explain any of this because he does not concern himself with ancient history—namely anything that happened before about 1930. But it is crucial for the understanding of the position of land rent within capitalism to see how land ownership was really a social relation that preceded capitalism, a relation which capitalism inherited and remolded in its own image. The only rationale from the capitalist point of view in retaining land ownership by the aristocracy during the struggle with feudalism was that it was absolutely necessary that the workers—or future proletarians—not be able to remain on the land, possible refuge from the developing capitalist mode of production. Once this process took place, the ownership of the land by a class other than the capitalist became a barrier to capitalist development. One example of this “attitude” on the part of the capitalist class toward land ownership was its alliance with the working class in England to abolish the corn laws so that food would be cheaper (the capitalists’ goal of course was to lower the value of labor power). It is thus clear that whereas the capitalist is a necessary agent of the capitalist mode of production, the landowner is superfluous.

It must be remembered that S is not suggesting that rent be abolished; all he says is that it can be taxed away without interfering with efficiency. At the same time he emphasizes that this is not true of profits and interest, which are allegedly not “unnecessary” surpluses; taxing away these incomes would interfere with maximum efficiency. In other words, the income rent in the sense of a revenue accruing to certain people may be done away with (after the fact, through taxation), but it is still needed for pricing efficiency.

Let us examine this proposition. The first part of it, namely that the class of landowners may be abolished, is

analogous to nineteenth-century demands along these lines. As far as pricing is concerned, the matter is not quite so clear. The fiction of an absolute rent which is then funneled in toto to the state makes no sense (we must keep in mind that bourgeois economics does not deal with this type of rent). Differential rent would of course remain as long as there are differences in productivity of labor resulting from differences in fertility and as long as the capitalist market value existed.

There would seem to be nothing inconsistent with taking S's reasoning further and saying that the income accruing to entrepreneurs and capitalists could be given to the state while marginal-productivity pricing would remain in effect; this would be state capitalism of a sort, impossible in practice but possible in theory (except that capital is not in fixed supply as is land).

The discussion is significant because it reveals the radical ahistoricity of bourgeois economics. S cannot get himself to say that the "surplus" nature of rent is an expression of land ownership as belonging to a mode of production that antedates capitalism. That one mode of production can become historically superfluous and be replaced by another would set a precedent for capitalism's eventual demise which S categorically rejects.