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Is Marx's absolute rent due to a monopoly price?¹

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Abstract

Absolute rent, in Marx's view, has an upper limit represented by the difference between the value and the price of production of agricultural commodities. The actual relevance of this limit was questioned by Bortkiewicz and other scholars because of the difficulties concerning the argument which Marx based it on.

The lack of this upper limit prompted a number of scholars to claim that there is no difference between absolute rent and a rent paid by a monopoly price.

Referring to the classical/Marxian theory of monopoly price, we shall argue that is still possible— notwithstanding the missing upper limit—to distinguish absolute rent from a rent actually due to a monopoly price. In particular, the difference between the two rests on the removability (in the case of absolute rent) or the persistency (in the case of monopoly rent) of the obstacle to the expansion of agricultural production.

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1. Introduction

In Marx's analysis of ground rent, agricultural extra-profits are (partially or totally) converted into rent—i.e. appropriated by landlords—due to the class monopoly of private ownership of land.² Looking at the mechanism that makes those extra-profits arise, Marx distinguished four different kinds of rent: extensive differential rent (differential rent I); intensive differential rent (differential rent II); absolute rent; monopoly rent (rent 'due to an actual monopoly price').

¹ I am grateful to Tony Aspromourgos and Fabio Ravagnani for the suggestions. Thanks are also due to the participants in the conference 'Marx 1818-2018' (Lyon, September 2017) for the comments received. It goes without saying that the usual disclaimer applies.

² In his analysis of ground-rent, Marx claims several times that it has 'the monopoly of private ownership in land' as its premise. In the capitalist mode of production, every kind of rent—absolute, differential or monopoly—is based on the existence of a class of landowners that is distinct from the class of capitalists and comes into conflict with it, succeeding in intercepting a part of the social surplus-value. In Marx's view, the class monopoly of private ownership of land is therefore a premise for rent just as the class monopoly of the private property of the means of production is the premise for profit. In this sense, the monopoly of soil by the class of landowners is not antithetical to the free competition of products on the market, but rather to the free use of land by capitalists (and workers).

As emphasized by Gehrke (2014), who also refers to Negishi (1985), 'the word "monopoly" should be interpreted here, not in the modern sense that capitalists or landowners act jointly so as to maximize common gains, but in the classical or Marxian sense of an exclusive access to means of production by some specific class' (Gehrke 2014, p. 125).

According to Piccioni (2014, p. 63), these different interpretations of the word 'monopoly' have their origins in Smith's analysis.

According to Marx's analysis (that we shall summarize in section 2), absolute rent is closely related to free competition and the resulting tendency of the rate of profit to reach the same level in every sector of the economy. In particular, if (a) the organic composition of capital in the agricultural sector is lower than the organic composition of capital in the industrial sector and (b) landed property can act as a barrier for the investment of capital in agriculture, then the equality of the rate of profit in the two macro-sectors can be obtained through the transformation of agricultural extra-profit into absolute rent and its appropriation by landlords. In this way, the price of agricultural products does not fall—and can remain equal to the value—notwithstanding the low organic composition of capital in agriculture.

Since Marx's theory of absolute rent is tied to the mechanism of transformation of values into prices, the critiques that affected the Marxian transformation problem, indirectly affected absolute-rent theory as well. In particular, as Marx indicates the difference between value and price of production as the upper limit of absolute rent, once it became clear that the link between values and prices was not of the kind Marx claimed, the existence of a limit was questioned.

Bortkiewicz (1910-1911) was the first to develop a critique of Marx's theory of absolute rent along those lines and his position is reported in section 3. At the cost of a drastic simplification, the point can be summed up as follows: if the class of landlords is able to intercept a part of the social surplus-value by raising a barrier against the investment of capital on land, then there is no reason why the level of absolute rent should be limited by the difference between the value of agricultural products and their price of production.

The same point was taken-up again by Emmanuel (1972) and the lack of the upper limit indicated by Marx for absolute rent prompted a number of scholars to regard it as essentially equivalent to monopoly rent. A brief survey of some different positions about the interpretation of absolute rent as due to a monopoly price will be here presented in section 4.

It is, therefore, necessary to highlight the fundamental features of monopoly price within the classical/Marxian framework. This will be done in section 5, where we shall consider some common elements of the theories of monopoly price by Smith, Ricardo and Marx. On the basis of this consideration, we shall see that absolute rent cannot be considered as a rent due to a monopoly price, notwithstanding the lack of the limit represented by the labour-value of the products of the soil.

Some conclusions will be drawn in section 6.

2. Marx's absolute rent

2.1 Absolute rent and the transformation of values into prices

Marx's theory of absolute rent is closely tied to the mechanism of capitalistic competition that tends to level the rate of profit in different sectors and to push it toward the general rate of profit. A detailed analysis of this competitive process is outside the scope of the present paper and therefore we shall simply recall some fundamental elements.

The investment of capital, both in each sector and in the economy as a whole, is made up of two parts: variable capital V (wages paid in advance) and constant capital C (namely the outlay for the means of production: machinery, raw materials, tools, ...). The general rate of profit of the economy π results from the ratio between the social amount of surplus-value S and the total amount of capital $V + C$, both expressed in terms of labour-value. Therefore, it depends on the rate of surplus-value S/V and on the average organic composition of capital C/V :

$$\pi = \frac{S}{V + C} = \frac{\frac{S}{V}}{1 + \frac{C}{V}}. \quad (1)$$

Assuming that one unit of labour is paid at the same wage in different sectors,³ the rate of surplus-value will be uniform across sectors. This is due to the fact that both the surplus-value obtained and the variable capital invested are proportional to the employment of (living) labour. Accordingly, if commodities were traded on the basis of their labour-value, then, in the sectors in which the organic composition of capital is lower than average, the rate of profit would be above the general rate π , whereas it would be below π in those sectors with an organic composition of capital higher than the average.⁴ Therefore, capitalists would move their capital from the latter to the former. Since this movement makes the quantities of commodities brought to market change, it affects their market prices as well. In turn, the change of the relative prices involves a redistribution of the surplus-value from the sectors with a low organic composition of capital toward those with a high organic composition of capital.

³ As is known, in the classical/Marxian approach, the heterogeneity of the quality of labour can be managed by the structure of wage rates, which is taken as given, in this approach, in order to determine the rate of profit. There is therefore no harm in referring to homogenous labour. Cf. in particular, Ricardo (1951, pp. 20-21) and Garegnani (1984, p. 293, footnote 5).

⁴ 'Since the capitals invested in the various lines of production are of a different organic composition, and since the different percentages of the variable portions of these total capitals set in motion very different quantities of labor, it follows that these capitals appropriate very different quantities of surplus-labor, or produce very different quantities of surplus-value. Consequently the rates of profit prevailing in the various lines of production are originally very different' (*Capital III*, p. 186).

This process will come to rest when, in every sector, the prices allow the payment of profits according to the general rate π . Marx calls these prices ‘prices of production.’ The price of production is, clearly, below the value for those commodities produced with a low organic composition of capital and is above the value in the opposite case.

Coming back to absolute rent, in Marx’s view, it derives from the fact that landed property constitutes an obstacle to the process of capitalistic competition outlined above. In particular, Marx’s analysis starts from the assumption that agricultural products are obtained by means of capital with organic composition lower than the one of the capital invested in the industrial sector.⁵ Because of this assumption, the agricultural sector initially generates extra-profits and thus attracts more capital as a result. Since the further investment of capital in agriculture—with unchanged methods of production—brings about the tilling of new land, it cannot take place without landowners’ permission. Thus, by making the cultivation of new land conditional upon the payment of a certain rent, landowners are able to intercept at least a part of the agricultural extra-profits.

Landed property thus ensures that a share of the agricultural surplus-value will be removed from the mechanism that tends to distribute it among industries in proportion to the employment of capital. In fact, on the one hand, the low organic composition of capital causes an excess of surplus-value above the ordinary profit—an extra-profit—to arise in agriculture. On the other, the right of property, which gives to landowners the right to withdraw their lands from exploitation, allows them to intercept this excess (or a part of it) in form of absolute rent.

2.2 An example

In order to enter into the mechanism of determination of the (maximum) amount absolute rent, let us follow the numerical example provided by Marx (*Capital III*, pp. 886-887),⁶ whose data are shown in table 1.

⁵ On the low organic composition of capital in agriculture, Marx writes:

‘If the composition of the capital in agriculture proper is lower than that of the social average capital, then this would be on its face an expression of the fact that in countries with a developed production agriculture has not progressed as far as the industries which work up its products. This fact could be explained, aside from all other economic circumstances which are of paramount importance, from the earlier and more rapid development of mechanical sciences, and especially by their application, compared to the later and partly quite recent development of chemistry, geology and physiology, and particularly their application to agriculture’ (*Capital III*, p. 882).

⁶ A similar numerical example is also given by Marx in the *Theories of Surplus Value (Theories II)*, p. 605).

Table 1. Values and prices of production

Sector	Constant capital	Variable capital	Surplus-value	Value	Price of prod.
Agriculture	75	25	25	125	120
Industry	85	15	15	115	120

In Marx's example, every 100 units of capital (in terms of labour-value) invested in agriculture, 75 are constant capital and 25 are variable capital. While in the industrial sector, 85 are constant capital and 15 variable capital. Assuming that the rate of surplus-value is 100% in both sectors, the value of the agricultural output obtained by 100 of capital is 125 and the value of the industrial one is 115.

In consequence of the different organic composition of capital in the two sectors, with commodities initially traded at their values, the rate of profit on the capital invested in agriculture (25%) will be higher than the rate of profit on industrial capital (15%). In this case, if agriculture was like any other sector, then there would be an increase in the investment of capital in agriculture causing an increase in the output of agricultural products and a fall of their market price. The opposite would happen with reference to the industrial products. This process would stop when the commodities are traded at their prices of production, namely the prices that allow to remunerate capital, in both sectors, by the general rate of profit: $40/200 = 20\%$. Therefore, the agricultural products would be sold below, and the industrial product above their value.

However, agriculture is not a sector like any other. The private ownership of land represents a barrier against the investment of capital upon uncultivated soil. New land cannot be tilled until the barrier is removed by the payment of rent. In particular, according to Marx's argument, landowners can intercept as absolute rent up to the entire difference of the surplus-values generated by 100 of capital in the two sectors, namely $25 - 15 = 10$. In this way, a part of the agricultural surplus-value is withdrawn from the pool of profits, i.e. from the mechanism that tends to distribute the social surplus-value across sectors in proportion to the investment of capital, therefore the general rate of profit is lower than the previous case— $30/200 = 15\%$ instead of 20%. The regulating market prices can then remain equal to the values—as shown in table 2—while the capital invested in the two sectors receive the same rate of profit, being the entire amount of agricultural extra-profits converted into absolute rent.

Table 2. Profits, rents and regulating market prices

Sector	Constant capital	Variable capital	Profit	Rent	Market price
Agriculture	75	25	15	10	125
Industry	85	15	15	0	115

2.3 *The limits of absolute rent*

The difference between the value of the agricultural output and its price of production—due to the fact that agricultural organic composition of capital is below the average—represents the theoretical maximum amount of absolute rent. When absolute rent is set within this limit, then i) it is ‘a portion of the agricultural surplus-value’ (*Capital III*, p. 887) and ii) it does not prevent the same rate of profit of industrial capital from being realized in agriculture too. Therefore, in Marx’s view, if this difference were nil, there would be no room for absolute rent:

If the average composition of the agricultural capital were the same, or higher than that of social average capital, then absolute rent, in the sense in which we use this term, would disappear; that is, absolute rent which is different from differential rent as well as from the rent which rests upon an actual monopoly price. The value of agricultural capital would not stand above its price of production, in that case, and the agricultural capital would not set any more labor in motion, would not realize any more surplus labor, than the non-agricultural capital. (*Capital III*, p. 888).

Once the theory of absolute rent has set the upper limit (and assuming it is not nil), then its actual level will be determined by the class struggle between capitalists and landowners and it is therefore further limited by all those circumstances that can affect the relative strength of the two sides. In particular, Marx highlights a number of circumstances that may act in this way and we can try to list some of them.

First, there is the possibility of furthering investments of capital in the ‘old leaseholds’ (cf. *Capital III*, p. 873-877). With the aim of fostering the investment of fixed capital in land (vineyards, plantations, irrigation systems, ...), it is in fact standard practice to let land on a lease for a period of years with conditions set contractually at the beginning. During the lease period, the capitalist tenant can invest more capital on the land without altering the conditions of lease agreed at the beginning. Accordingly, when an increase in the demand for agricultural commodities takes place, there can be an intensification of the cultivation on the old leaseholds instead of tilling new land. This possibility—which is, in turn, limited by the diminishing returns of the further doses of capital on a given surface of land—can affect the bargaining position of the owners of the last (worst) soil under cultivation.

A second limit derives from what Marx calls ‘the general condition of the market’ (*Capital III*, p. 887), namely the circumstances that can affect the price level of the products of the soil. In particular, the competition arising from agricultural commodities of foreign countries can keep the price of domestic ones low and thus curb the extra-profits upon which the absolute rent depends.

Finally, there is the competition among landowners, which is, however, regarded as less important. According to Marx, in fact, the competition among landowners is indirect; it is a consequence of the competition on the market for agricultural products. As Marx writes:

The competition of the lands among themselves does not, therefore, depend upon the wish of the landlord that they should, but upon the opportunities offered to capital for competition with other capitals upon the new fields (*Capital III*, p. 896).

Following this view, the tilling of new land can affect the rent rate only to the extent that the additional output of agricultural commodities obtained causes a fall of their market price—because of the increased competition among capitalist farmers. Besides, it must be kept in mind, in this respect, that, in the classical/Marxian approach to income distribution, competition does not determine the average or ordinary levels of the distribution variables—since they strongly depend on social relations—but it simply pushes the actual rates of wage, rent and profit toward their respective natural rates.⁷

3. The ‘original law of value’ and Bortkiewicz’s critique of Marx’s rent theory

One of the most important critical analyses of Marx’s theory of absolute rent is doubtless provided by Ladislaus von Bortkiewicz in his 1910-11 essay on Rodbertus’ and Marx’s theories of rent, and in a further essay of 1919.⁸

Bortkiewicz’s analysis starts with an in-depth reconstruction of Marx’s argument. In particular, he clearly recognizes that Marx, in his discussion of the absolute-rent theory, refers to a situation of developed capitalism in which landed property—modified because of the capitalist mode of production—actually exists and is realized economically through the ground-rent.

According to Bortkiewicz, Marx is right when he says that the issue of the existence of absolute rent cannot be resolved by reference to cases in which its absence is associated with deviations from normal class relations, typical of the capitalist mode of production. One of these outliers is discussed by Marx (*Capital III*, pp. 877, 878) and refers to new colonized countries where the availability of land that is not yet private property—and can in fact be appropriated

⁷ An interesting remark is made by Emmanuel (1972, p. 221). He maintains that, although the theoretical functioning of competition between landowners could push the absolute rent rate to zero, what really matters is the actual functioning of that competition, which can be significantly different, in many respects, from its theoretical conception. It is strongly conditioned by habits, social imitation, erroneous beliefs and calculations, ... and many other elements that are extraneous to its theoretical representation.

⁸ For an extensive discussion on Bortkiewicz’s contributions on Ricardo, Rodbertus and Marx, see Gehrke (2014, pp. 109-125).

through cultivation—ensures that every farmer is also the owner of the soil he tills. In this case, it is clear that there is no resistance to the investment of capital in agriculture and, therefore, absolute rent cannot ensue. Then Bortkiewicz writes (1971, p. 171) that, according to Marx—and in contrast with Rodbertus’ standpoint, the presence of this form of rent needs a leasehold system of land tenure.⁹

Bortkiewicz maintains that, within Marx’s theory of absolute rent, the rationale for the removal of a portion of surplus-value from the process that tends to level it in proportion to the investment of capital is the ‘ineffectiveness’ of capitalist competition with respect to landed property.¹⁰ But from this fact, he adds, it does not follow that the amount of absolute rent must be equal to (or at least limited by) the difference between the labour-value of agricultural produce and its price of production (calculated at the industrial rate of profit). The presence of this limit, in Bortkiewicz’s reconstruction, requires two further (and different) conditions: i) the organic composition of agricultural capital must be lower than the industrial one; ii) the ‘original law of value’ must hold. Since we have already discussed the first condition in the previous section, we can focus here on the second.

Albeit admitting that agricultural capital has a lower organic composition than the industrial capital, Bortkiewicz writes that this is not enough to grasp the reason why the labour-value of the agricultural output must be the upper limit for the absolute rent earned by the class of landowners:

Why should the difference between ‘value’ and ‘price of production’ provide a measure of absolute rent? What does this measure have to do with the reason that, in Marx’s view, induces landowners to make their land available for capitalists only upon payment?

[...] it is not possible to understand why the market prices of the products of the soil cannot rise even above their ‘values’, as this increase is due to the fact that landed property

⁹ It is almost unanimously recognized that Marx’s absolute rent refers to a situation in which agricultural firms are run by capitalist tenant farmers. Therefore, the thesis advanced by Ghosh (1985, p. 75) is rather bizarre, in that it suggests considering absolute rent as a ‘pre-capitalist rent’.

¹⁰ In a well-known passage of the *Theories of Surplus-Value*, Marx imagines that a landowner talks to a capitalist saying:

‘Your law will have it that under normal circumstances, capitals of equal size appropriate equal quantities of unpaid labour and you capitalists can force each other into this position by competition among yourselves. Well, I happen to be applying this law to you. You are not to appropriate any more of the unpaid labour of your workers than you could with the same capital in any other sphere of production. But the law has nothing to do with the excess of unpaid labour which you have “produced” over the normal quota. Who is going to prevent me from appropriating this “excess”? Why should I act according to your custom and throw it into the common pot of capital to be shared out among the capitalist class, so that everyone should draw out a part of it in accordance with his share in the aggregate capital? I am not a capitalist. The condition of production which I allow you to utilise is not materialised labour but a natural phenomenon. Can you manufacture land or water or mines or coal pits? Certainly not. The means of compulsion which can be applied to you in order to make you release again a part of the surplus-labour you have managed to get hold of does not exist for me. So out with it! The only thing your brother capitalists can do is to compete against you, not against me.’ (*Theories II*, p. 41)

Cf. also *Capital III*, pp. 896, 897.

has the power to prevent the subordination of agricultural products to the general rules of the capitalistic price formation and to impose deviations from these rules in its own favour. What gives 'value', in a Marxian sense, the capacity to act as a barrier here? Why does the power of landed property reach this precise point? (Bortkiewicz 1971, p. 172; our translation¹¹)

The answers to these questions, according to Bortkiewicz, are provided by Marx in the following important passage (which we shall refer back to in sub-section 5.3):

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? On a small island, where there is no foreign trade in corn, the corn, food, like every other product, could unquestionably be sold at a monopoly price, that is, at a price only limited by the state of demand, i.e., of *demand backed by ability to pay*, and according to the price level of the product supplied the magnitude and extent of this effective demand can vary greatly.

Leaving out of account exceptions of this kind—which cannot occur in European countries; even in England a large part of the fertile land is *artificially* withdrawn from agriculture and from the market in general, in order to raise the value of the other part—landed property can only affect and paralyse the action of capitals, their competition, in so far as the competition of capitals modifies the determination of the *values of the commodities*. The conversion of values into cost-prices is only the consequence and result of the development of capitalist production. Originally commodities are (on the average) sold at their values. Deviation from this is in agriculture prevented by landed property. (*Theories II*, pp. 332-333, emphases in the original)

This passage, in Bortkiewicz's view, reveals that the central point in Marx's argument about absolute rent is that 'originally commodities are sold at their values.' The answer given by Marx is deemed unsatisfactory by Bortkiewicz since it is based on the idea that a theoretical mechanism, such as the transformation of labour-values into prices of production, was also a historical process.

The historical priority of the labour-values with respect to the prices of production, which Bortkiewicz refers to as the 'original law of value', is heavily questioned by a number of scholars. He mentions Lexis, Böhm-Bawerk, Sombart and Stolzman, who, although have different (or even opposed) 'theoretical tendencies', agree in firmly rejecting the idea that commodities were 'originally' traded at prices corresponding to their relative labour-values.

Besides, in his 1919 paper, Bortkiewicz also uses the theoretical criticism of the transformation problem. Contrarily to what Marx believed, there is no link between commodity

¹¹ 'Perché la differenza tra «valore» e «prezzo di produzione» deve fornire una misura della rendita assoluta? Che cosa ha a che vedere con questa misura il motivo che, secondo l'esposizione di Marx, induce il proprietario fondiario a mettere il suo terreno a disposizione del capitalista unicamente dietro compenso?

[...] non si può capire perché i prezzi di mercato dei prodotti del suolo non possano salire anche al di là del loro «valore», se questo aumento deve essere condizionato dal fatto che la proprietà fondiaria ha il potere di opporsi alla subordinazione dei prodotti agricoli alle regole generali della formazione capitalistica dei prezzi e a imporre deviazioni a proprio favore di queste regole. Che cos'è che conferisce al «valore», in senso marxiano, la capacità di agire qui da barriera? Perché il potere della proprietà fondiaria arriva fino a questo preciso punto?'

values and prices of production—in particular, the sum of the values does not necessarily correspond to the sum of the prices for all the commodities. Therefore, even if the labour-values had acted as a limit level in a very early phase, this limit would have no meaning in advanced capitalist systems (cf. Bortkiewicz 1971, p. 186). The original law of value—even if it were true, but it is not—cannot be used, as Marx does, in order to justify the limit of absolute-rent amount due to the difference between value and price of production of the agricultural products.

Bortkiewicz's conclusion is that 'Marx was not able to prove in any way that the concept of absolute ground-rent he formulated, understood as an excess of the value above the price of production of the agricultural products, corresponds to something real in the process of price formation' (1971, p. 173, our translation¹²). Therefore, according to Bortkiewicz (1971, p. 178), once the limit represented by the difference between value and price of production is dismissed, Marx's argument on absolute rent becomes theoretically unsound. The conclusion is that, if the class of landowners has the power to interfere with the normal capitalistic process of price formation and earn rent from that, this rent must be deemed due to monopoly pricing.¹³

4. Absolute rent interpreted as a rent paid by monopoly price

The point raised by Bortkiewicz is made even clearer by Arghiri Emmanuel (1972) by means of a numerical example. In Emmanuel's example, the production of 200 kilos of agricultural commodities initially requires 100 francs¹⁴ of constant capital and 50 of variable capital. If the rate of surplus-value is 100%, the value of the agricultural output is $100 + 50 + 50 = 200$ francs (1 franc the kilo). Assuming 10% is the industrial rate of profit, the value of absolute rent is 35 francs—i.e. the difference between 200 and 150 ($1 + 0,1$). Now, Emmanuel imagines that productivity doubles and, accordingly, 200 kilos of agricultural commodities are obtained by employing 50 francs of constant capital and 25 of variable capital (and the rate of surplus-value is 100% as before). The value of 200 kilos of output is now $50 + 25 + 25 = 100$ (0.50 francs the kilo) and absolute rent is 17.50—i.e. $100 - 75 (1 + 0,1)$. However, Emmanuel wonders:

¹² 'Marx non ha saputo in alcun modo dimostrare che al concetto di rendita assoluta da lui costruito, nel senso di un'eccedenza del valore sul prezzo di produzione dei prodotti agricoli, corrisponda qualcosa di reale nel processo di formazione del prezzo.'

¹³ Bortkiewicz remarks pointedly that the problem cannot be easily dismissed saying that in one sector there is a monopoly price and the prices of production prevail for all the other commodities, since the presence of a monopoly situation in one sector affects the process of price formation in the other sectors too (cf. 1971, p. 184).

¹⁴ As in Marx's analysis, each amount of money corresponds to a certain quantity of embodied labour. There is a commodity (gold) whose monetary price and labour-value determine a parity between the two.

But why should the price fall from 1 franc to 0.50? [...] Why should the landlord, who is strong enough to annex the difference between price of production and value, not be strong enough to annex the difference between the new productivity and the old? Why, in the example above, could we not assume that the price would continue to be 1 franc the kilo and the farmer's profit 7.5 francs (10 percent), while the rent rose by 35 francs to 117.50, thus soaking up the entire difference? (Emmanuel 1972, pp. 217-218)

Emmanuel's remark is clear. If, following Marx, the landowner has the power to prevent the fall of the price of the agricultural commodities when this price is greater than the price of production but less than or equal to the value, then the same power should allow the landowner to prevent a fall of the price when it is, for any possible reason, above both the price of production and the value.

Therefore, as already stressed by Bortkiewicz, Marx's arguments about the theoretical upper limit of absolute rent cannot be considered convincing. Summing up, the main problems are three. The first concerns the hypothesis of the organic composition of capital in agriculture lower than average, for which Marx does not give adequate justification. The second derives from the objections to the transformation of values into prices and, in particular, to the idea that commodities were originally traded at their values. The third concerns the power of landed property to intercept also extra-profits that are not due to the difference between value and price of production of agricultural commodities, and annex them to its rents.

Since—as we shall see in sub-section 5.3—this theoretical upper limit, in Marx's analysis, is one of the elements that allow us to distinguish the case of absolute rent from the one of a rent due to a monopoly price, the problems listed above prompted a number of scholars to believe that there is no difference between the two. In particular, they understood absolute rent as due to a situation of monopoly in which the price is not linked to the cost of production but depends on what buyers can afford to pay.

In order to provide an example of the standpoints of those scholars, we can start from Howard and King (1985 and 1992). Their dissatisfaction with Marx's original formulation of his theory of absolute rent involves, in particular, its dependence on the hypothesis on the organic composition of capital. They write:

This ingenious argument has very strange implications, in that absolute rent would disappear altogether if the organic composition in farming were to rise to the social average, even though land remained a scarce, privately owned, non-reproducible resource essential to the production of many commodities. This is not a defensible position. It would be greatly preferable to treat absolute rent as a form of monopoly profit, its magnitude determined by the operation of supply and demand rather than by the theory of value. (Howard and King 1985, p. 147)

A similar point can be found in Ramirez (2009), who claims that absolute rent would not disappear in the event the organic composition of capital in agriculture was equal to (or even greater than) the average, but it would be a monopoly rent:

it is incorrect to conclude that absolute rent will disappear altogether once the social productivity of agriculture (reflected in its organic composition) reaches or is equal to that of manufacturing industry because, as long as land is privately owned, landowners will continue to receive a rental payment for the use of the indestructible powers of the soil. The only (major) difference in this case is that absolute rent becomes a form of monopoly rent (surplus profit) whose source is found outside of agriculture and is redistributed to landowners via the price mechanism from more competitive sectors (including wage-goods industries). (Ramirez 2009, p. 89)¹⁵

Therefore, Howard and King and Ramirez seem to have more or less the same vision, although their opinions differ on how monopoly price is determined. Ramirez, in particular, refers to ‘the purchasing power of the buyer’ (p. 84) rather than to ‘the operation of supply and demand’, as instead Howard and King do.

Moreover, there are scholars that have an intermediate position. They maintain that, in order to avoid its interpretation as a rent arising because of a monopoly price, Marx’s absolute rent needs to be either reformulated or set in a different framework. For instance, Tribe (1977, p. 80) writes that the interpretation of absolute rent as a monopoly rent by some authors follows from Marx’s conception of rents as extra-profits intercepted by landowners rather than as part of the costs. Tribe’s analysis is criticized by Fine (1979, p. 273), who, however, has an ambiguous position too. He maintains that the absolute rent theory must be considered in a ‘dynamic context’ in which ‘[i]t is the pace of development of agriculture relative to industry and the movement of capital onto new lands that is of importance’. Instead:

If we restrict our interpretation of Marx’s theory of AR to technical considerations alone, then it remains a static theory of surplus value distribution, and the notion of absolute rent as monopoly rent is certain to prevail. (Fine 1979, p. 260)

Finally, some scholars claim that once the upper limit of absolute rent drops, it also has to change its name in order to emphasize that something relevant changed from Marx’s original formulation. Ball, in particular, writes:

Perhaps the controversy could be resolved by calling AR ‘absolute rent’ when market price is below value, and calling it ‘monopoly rent II’ when market price is forced above value. It would, nevertheless, be mere semantics as the mechanism described by AR has not changed in the slightest. (Ball 1980, p. 320)

¹⁵ See also Ramirez (2009), pp. 72-73 and 84.

By contrast, Economakis maintains that absolute rent is grounded on a monopoly situation deriving, mainly, from institutional elements. For this reason, he suggests calling it ‘political rent’ (Economakis 2003, p. 345).

However, differently from the position expressed by many authors that engaged in the study of this part of Marx’s analysis, the failure of the upper limit of absolute rent does not imply that it cannot be distinguished with clarity—from a theoretical standpoint—from a rent due to a real monopoly price. This is what we shall try to argue in the next section.

5. Monopoly price and classical theory of value

5.1 Monopoly price in Smith’s (and Ricardo’s) analysis

As is well-known, Adam Smith distinguishes an actual notion of price, namely the ‘market price’, from a theoretical notion that represents the central level toward which the market price ‘gravitates’. This theoretical price is mostly referred to by Smith in the *Wealth of Nations* as the ‘average or ordinary price’. A similar expression is adopted by Marx too: ‘average market price’ or ‘regulating market price’.

Assuming free competition among producers, the ordinary price is the natural price, namely the cost of production determined by wages, profits and rents at their respective natural levels. Once the system of natural prices is introduced, the ‘effectual demand’ for commodities is defined by Smith as the quantities of commodities demanded by those (the ‘effectual demanders’) who are willing to pay the natural prices (1976, vol. II, p. 73; *WN* I.vii.8).

According to Smith’s idea of gravitation, when the quantity of a commodity brought to market is different from its effectual demand, then the market price of this commodity diverges from its natural price. This divergence, in turn, affects the incomes earned in this sector by workers, capitalists and landlords, which differ from those determined by the natural rates. Since workers, capitalists and landlords want to produce where they earn—or expect to earn—the highest rates of remuneration, the discrepancy between natural and market price induces a change of the quantity brought to market. Therefore, the theoretical rest position of this process is a situation in which the quantities of commodities brought to market correspond to their effectual demands and their prices to the natural ones.

However, there are situations in which, for various reasons, it is impossible to fully satisfy the effectual demand and the market is kept in a constant state of scarcity. In particular, Smith refers to those ‘natural productions’ that ‘require such a singularity of soil and situation, that all the land in a great country, which is fit for producing them, may not be sufficient to supply the effectual

demand' (1976, vol. II, p. 78; *WN* I.vii.24). The ordinary price of these commodities can be much higher than the natural price and the difference between the two is typically appropriated by landlords in form of rents. As Smith writes:

Such commodities may continue for whole centuries together to be sold at this high price; and that part of it which resolves itself into the rent of land is in this case the part which is generally paid above its natural rate. The rent of the land which affords such singular and esteemed productions, like the rent of some vineyards in France of a peculiarly happy soil and situation, bears no regular proportion to the rent of other equally fertile and equally well-cultivated land in its neighbourhood. (1976, vol. II, p. 78; *WN* I.vii.24).

This is clearly the case of a rent due to a monopoly price.

Smith then goes on to discuss the characteristic features of the monopoly price:¹⁶

The monopolists, by keeping the market constantly under-stocked, by never fully supplying the effectual demand, sell their commodities much above the natural price, and raise their emoluments [...] greatly above their natural rate.

The price of monopoly is upon every occasion the highest which can be got. The natural price, or the price of free competition, on the contrary, is the lowest which can be taken, not upon every occasion, indeed, but for any considerable time together. The one is upon every occasion the highest which can be squeezed out of the buyers, or which, it is supposed, they will consent to give. The other is the lowest which the sellers can commonly afford to take, and at the same time continue their business. (1976, vol. II, pp. 78-79; *WN* I.vii.26, 27).

As for Ricardo's view of the monopoly price,¹⁷ it should be emphasised that it seems largely grounded on Smith's one:

When a commodity is at a monopoly price, it is at the very highest price at which the consumers are willing to purchase it. Commodities are only at a monopoly price, when by no possible device their quantity can be augmented; and when therefore, the competition is wholly on one side—amongst the buyers. The monopoly price of one period may be much lower or higher than the monopoly price of another, because the competition amongst the purchasers must depend on their wealth, and their tastes and caprices. [...] The exchangeable value therefore of a commodity which is at a monopoly price, is no where regulated by the cost of production. (*Works I*, pp. 249-250)

Summing up, there seem to be three fundamental features: i) the quantity supplied of the commodity in question is constantly insufficient to fully satisfy the effectual demand, the market is 'constantly under-stocked' and so 'the competition is wholly on one side'; ii) the ordinary price of the commodity is always 'much above the natural price'; iii) the level of this monopoly price

¹⁶ A complete analysis of Adam Smith's theory of monopoly is beyond the goal of the present paper. For some interesting insights on it, we can refer the reader to Salvadori and Signorino (2014).

¹⁷ Ricardo does not devote much attention to monopoly price. He mainly considers it in Chapter XVII of his *Principles*, dealing with the effects of taxes on commodity prices.

depends on what ‘can be squeezed out of the buyers’¹⁸ and accordingly is not ‘regulated by the cost of production’.¹⁹

5.2 Value and monopoly price in Marx

There is no doubt that Marx’s notion of monopoly price derives from the one discussed in the previous sub-section. In particular, Marx writes:

When we speak of a monopoly price, we mean in a general way a price which is determined only by the eagerness of the purchasers to buy and by their solvency, independently of the price which is determined by the general price of production and by the value of the products. A vineyard producing wine of very extraordinary quality, a wine which can be produced only in a relatively small quantity, carries a monopoly price. The winegrower would realize a considerable surplus profit from this monopoly price, the excess of which over the value of the product would be wholly determined by the wealth and the fine appetite of the rich wine drinkers. This surplus profit, which flows from a monopoly price, is converted into rent and in this form falls into the hands of the landlord, thanks to his title to this piece of the globe, which is endowed with peculiar properties. (*Capital III*, pp. 900-901)

As emerges from the passage just quoted, Marx’s notion of monopoly price presents all the three features listed at the bottom of the previous sub-section with reference to Smith’s and Ricardo’s ideas. Moreover, there is a fourth property of monopoly price according to Marx’s analysis. In case of a commodity traded at a monopoly price, say wine of extraordinary quality, the

¹⁸ For this reason, when a commodity is sold at a monopoly price, the introduction of a tax on this commodity does not alter its price. As Smith writes:

‘When the ordinary price of any particular produce of land is at what may be called a monopoly price, a tax upon it necessarily reduces the rent and profit of the land which grows it. A tax upon the produce of those precious vineyards, of which the wine falls so much short of the effectual demand, that its price is always above the natural proportion to that of the produce of other equally fertile and equally well cultivated land, would necessarily reduce the rent and profit of those vineyards. The price of the wines being already the highest that could be got for the quantity commonly sent to market, it could not be raised higher without diminishing that quantity; and the quantity could not be diminished without still greater loss, because the lands could not be turned to other equally valuable any produce. The whole weight of the tax, therefore, would fall upon the rent and profit; properly upon the rent of the vineyard.’ (1976, vol. III, pp. 892-893, WN V.ii.k.54).

¹⁹ Since land has no production cost, its price—or rather the price of its use—is always above its cost of production. In this sense, rent can therefore be viewed, albeit incorrectly, as a monopoly price, and this is how Smith sees it. As he writes:

‘The rent of land, therefore, considered as the price paid for the use of the land, is naturally a monopoly price. It is not at all proportioned to what the landlord may have laid out upon the improvement of the land, or to what he can afford to take; but to what the farmer can afford to give.’ (1976, vol. II, p. 161 – I.xi.a5).

The second part of this passage clarifies the point: rent is understood as a monopoly price because it is in no way proportional to what the landowner might have invested in improving its quality. Smith apparently stresses this fact in order to point out that rent is a completely different category of income from capitalist profit, which is instead proportional to the investment made. However, rent is not properly a monopoly price since there is not, in general, any persistent obstacle to meeting the effectual demand. Most of agricultural products are in fact produced in quantities that meet their effectual demand and, despite that, the lands on which they have been produced yield a rent to their owners.

rent not only annexes a part of the surplus-value obtained in the cultivation of these particular vineyards, but it also absorbs part of the surplus-values of the other sectors. Therefore, according to Marx, the monopoly price is always above both the price of production and the value of the commodity. This is explicitly stated by Marx in the following lines:

if the equalization of the surplus-value into average profit meets with obstacles in the various spheres of production in the shape of artificial or natural monopolies, particularly of monopoly in land, so that a monopoly price would be possible, which would rise above the price of production and *above the value* of the commodities affected by such a monopoly, still the limits imposed by the value of commodities would not be abolished thereby. The monopoly price of certain commodities would merely transfer a portion of the profit of the other producers of commodities to the commodities with a monopoly price. A local disturbance in the distribution of the surplus-value among the various spheres of production would take place indirectly, but they would leave the boundaries of the surplus-value itself unaltered. (*Capital III*, p. 1003. Emphasis added)

In a nutshell, since, in Marx's analysis, the total amount of surplus-value of the economy as a whole is fixed and independent of its distribution between profits and rents, if, in the production of the special wine, the sum of profits and rents is greater than the surplus-value extracted from the workers here employed, then the price of this wine must be above its value, so to attract to this sector part of the surplus-value extracted elsewhere.²⁰ As in a sector with high organic composition of capital, the price of production must rise above the value in order to allow this sector to intercept the surplus-value produced in other sectors; likewise the monopoly price must be above the value. The difference is that the surplus-value absorbed from other sectors—jointly with part of the internal surplus-value—is converted into ordinary profits in the former case and into monopoly rents in the latter.

5.3 Absolute rent vs (real) monopoly rent

There are many passages in Marx's works where he maintains that absolute rent refers to a situation in which agricultural commodities are traded under competitive conditions and, accordingly, it is not a rent due to a monopoly price. We have already met one of them in section 3, since it was quoted by Bortkiewicz too. We can add another one here to complete the argument:

²⁰ That is confirmed in the following passage:

‘the sum of average profit plus rent in their normal form can never be larger than the total surplus-value, although it may be smaller. [...] Even monopoly rent [...] must be indirectly always a part of the surplus-value. If it is not a part of the surplus price above the cost of production of the commodity itself, of which it is a constituent part, as in the case of differential rent, or a spare portion of the surplus-value of the commodity itself, of which it is a constituent part, above that portion of its own surplus-value which is measured by the average profit (as in the case of absolute rent), it is at least a part of the surplus-value of other commodities, that is, of commodities which are exchanged for this commodity, which has a monopoly price.’ (*Capital III*, pp. 969-970)

At any rate this *absolute rent*, which arises out of the excess of value over the price of production, is but a portion of the agricultural surplus-value, a conversion of this surplus-value into rent, its appropriation by the landlord; so does the *differential rent* arise out of the conversion of surplus-profit into rent, its appropriation by the landlord, under an average price of production which acts as a regulator. *These two forms of rent are the only normal ones*. Outside of them the rent can rest only upon an actual monopoly price, which is determined neither by the price of production nor by the value of commodities, but by the needs and the solvency of the buyers. (*Capital III*, p. 887. Emphasis added).

In Marx's view, there are two fundamental differences between absolute rent and the rent paid because of a monopoly price. The first, which emerges rather clearly from the quotation above, has to do with the origin of the surplus-value out of which rent arises. In particular, absolute rent is paid from the difference between value and price of production of the agricultural output and it is, therefore, a part of the agricultural surplus-value that is converted into rent. By contrast, monopoly rent also absorbs part of the surplus-value of the other productive sectors, as explained at the end of the previous sub-section.

The second difference between absolute and monopoly rent is sketched in the quotation given in section 3, when Marx, referring to the possibility of monopoly prices for common agricultural commodities (corn), writes that that can only take place 'on a small island, where there is no foreign trade in corn'. In fact, as we have seen in sub-section 5.1, a commodity can have a monopoly price only if there is a persistent obstacle that prevent the production of a quantity that fully satisfies its effectual demand, as happens, for agricultural products, within an economy characterized by a great scarcity of land and unfeasible foreign trade. Absolute rent refers instead to a completely different case. In fact, the payment of absolute rent is exactly what allows capitalists to remove the barrier raised by landed property. Therefore, once capitalists agree to pay the absolute rent, the barrier is not there any longer and the usual mechanism of capitalist competition will ensure that the increase in the area cultivated coincides exactly with the amount necessary, under normal conditions, to meet the effectual demand.

In a nutshell, while the payment of absolute rent thus ensures that landowners will make an additional amount of land available that will be sufficient to meet the effectual demand, the payment of monopoly rent does not lead to such a result: the obstacle to satisfying the effectual demand persists despite the rent paid.²¹

Now, Bortkiewicz's and Emmanuel's critiques of Marx's idea of the difference between value and price of production of agricultural commodities as the upper limit for absolute rent clearly affect the first of the two differences with monopoly rent pointed out by Marx. However, the second

²¹ In the *Theories*, Marx writes:

'Rent arises out of the *monopoly price* of agricultural products, because supply is constantly below the level of demand or demand is constantly *above* the level of supply.' (*Theories II*, p. 523, emphasis in the original).

difference is not touched on by Bortkiewicz's and Emmanuel's arguments and can, therefore, still be used in order to keep absolute rent separated and distinguished from the rent due to a monopoly price.

Finally, once this distinction is made, we can go back to Marx's analysis of the determination of the price of agricultural commodities, both for absolute rent and for monopoly. In particular, in the latter case, as already mentioned, the price does not depend on the rent rate, since it is determined 'by the needs and the solvency of the buyers', due to the persistent obstacle to satisfying the effectual demand. Rather the contrary, the monopoly rent (per unit of output) results from the difference between monopoly and production price of this commodity.

Instead, absolute rent can be regarded, in Marx's view, as a component of the regulating market price of the product of the soil.²² In particular, following Marx's analysis, the agricultural products have a regulating market price equal to $P + r$,²³ where P is the price of production and r is the absolute rent (per unit of output) that landowners can earn from their capitalist tenants.

6. Conclusions

In the classical/Marxian approach, income distribution is not a market, but a social phenomenon. Wages, profits and rents are the results of the class struggle and depend, accordingly, on the relative bargaining position of the three classes.²⁴ As for rent, in particular, the part which derives from the relative strength of the landowners is absolute rent, since both differential rents (I and II) and monopoly rent result from different mechanisms.²⁵

However, according to Marx, there must be an upper limit to the agricultural surplus-value that landowners can obtain from capitalists—who, in turn, have extorted it from workers—and he understands it as the difference between the value and the price of production of agricultural

²² As for the determination of commodity relative prices in cases with absolute rent (understood as a given share of the output of the soil), we can refer the reader to Fratini (2016, pp. 608-610).

²³ As Marx writes:

'In that case [the case of absolute rent] the regulating market price of the total product of all soils existing on the market would not be the price of production, which capital generally makes in all spheres of production, which is a price equal to the cost of production plus the average profit, but it would be the price of production plus the rent, $P + r$, and not merely P .' (*Capital III*, p. 868)

²⁴ Competition among members of the same class typically plays the role of pushing their rate of remuneration toward the 'ordinary' (or 'natural') level that results from the class struggle.

²⁵ In both these cases, the price of the product of the soil is determined independently of the rent rate—by the cost of production on the worst land in the first case and 'by the needs and the solvency of the buyers' in the second. Accordingly, if extra-profits must be zero in every sector, then differential and monopoly rents are determined by the difference between ordinary price and cost of production of the products of the soil.

commodities. If the rent were above this limit, then the price of the products of the soil would be higher than their value and this is only possible, according to Marx, in the case of a monopoly price.

Therefore, as we have seen in sections 3 and 4, the theoretical difficulties affecting this upper limit of absolute rent prompted a number of economists to believe that there is no distinction between it and the rent paid by a monopoly price. On the contrary, as we have shown in section 5, even if the upper limit of absolute rent drops, this does not mean that we are not able to distinguish the case of commodities with a monopoly price from that of the commodities whose natural price includes an element of absolute rent. In particular, the difference lies in the persistency of the (natural or artificial) obstacle to the full satisfaction of the effectual demand, which characterizes—in the classical approach—a situation of monopoly pricing. Whereas, with absolute rent, once capitalist tenant farmers pay the agreed rent, the barrier to the investment of capital in new lands is removed, and the agricultural output can adjust to the effectual demand by the usual mechanism.

Therefore, concluding, Marx is right when he says that absolute rent—like differential rents—refers to a normal case, in which free competition among producers—modified because of the presence of landed property—involves the ‘gravitation’ of the produced quantities of commodities toward their effectual demand.

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