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A DEFENSE AND EXPANSION OF THE THEORY OF CAPITALIST GROUND RENT: SPECULATION, SECURITIZATION, AND STRUGGLES OVER LAND AND HOUSING

by

FRANCESCA T. C. MANNING

A dissertation submitted to the Graduate Faculty in Earth and Environmental Sciences in partial fulfillment of the requirements for the degree of Doctor of Philosophy, The City University of New York

2020

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A Defense and Expansion of the Theory of Capitalist Ground Rent:
Speculation, Securitization, and Struggles Over Land and Housing

by

Francesca T. C. Manning

This manuscript has been read and accepted for the Graduate Faculty in Liberal Studies in satisfaction of the thesis requirement for the degree of Master of Arts.

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THE CITY UNIVERSITY OF NEW YORK

ABSTRACT

A Defense and Expansion of the Theory of Capitalist Ground Rent:
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by

Francesca T. C. Manning

Advisor: Dr. David Harvey

Why are the rents so high? Who is responsible for homelessness, for urban and rural displacement? How can these problems be combatted?

Recent literature addressing these questions has pointed to gentrification and the financialization of land and housing, faulted financialized landlords, hedge funds, and the irredeemable logic of finance, and pointed to the importance of land and housing regulation to prevent displacement.

However, theories of displacement—in both land and housing, on both urban and rural terrain—suffer from a lack of an underlying theory of the logic, tendencies, and limits of ground rent extraction in capitalism.

This dissertation develops a theory of capitalist ground rent that is applicable across the rural/urban divide. I outline the necessary social forms which arise from capitalist private property in land, and point to essential tendencies and limits to ground rent extraction. In so doing I offer the beginning of a general structure which underlies struggles over land and housing.

My arguments involve an explication and advancement of Marxian ground rent theory, and draw extensively on Marx's own writings as well as classical economists on ground rent. I analyze mainstream economic research on real estate markets and critical literature on the financialization of land and housing. I mobilize data from the Bureau of Economic Research, the Federal Reserve, and the United States Department of Agriculture, as well as some private companies aggregating data on land, rent, and housing. I draw from personal and published accounts of struggles by working and poor people for land control.

I situate my arguments in a position on capitalism developed, but not exhausted, by Value-Form Theorists and Marxian critiques of political economy–which view capitalism as a system governed in part by specific abstract logics such as that of value production—and by theorists of racial capitalism, primarily within the Black Radical Tradition, who suggest an endogenous account of race within the capitalist mode of production and emphasize the importance of refusal.

Chapter 1, The Landowning Class, presents a defense of the concept of the landowning class as third class of the capitalist mode of production—a theory which has been widely abandoned over the last century.

Chapter 2, Ground Rent, revisits Marx's theory of ground rent by contrasting it with interest (in opposition to contemporary scholarship which often collapses rent and interest) and argues that the categories of absolute rent and differential rent each reveal an essential aspect of the capitalist mode of production: absolute rent highlights the power of the landowner to *withdraw land from the market,* and differential rent reveals the fact that land (or space) is the *singular value-less, monopolizable resource*.

Chapter 3, Land and "Finance," defines and categorizes the different forms of speculative and securitized ground rent, including mortgages, sale price of land, and land-based securities such as REIT stock and Mortgage-backed securities. I analyze mainstream economic approaches

to land-based revenue streams and investment vehicles, and suggest that land-based markets and land-based securities diverge from other financial investments because they remain tethered to actual ground rent extraction.

Chapter 4, Landed Class Struggle, analyzes the strategies available to the landowning class which they may use to increase their power to extract ground rent. These include withholding land from the market, soliciting favorable government policy, and inducing a rise in the price of what I call "high-rent commodities." I advance a novel theory of urban residential ground rent, locating capitalist production in the reproduction of "home" for monthly sale. I also suggest a different answer to the question "Why are the rents so damn high?" in urban residential rentals by applying the same methods Marx used in analyzing agricultural rents.

Chapter 5, Financialization, criticizes what I call the *epochal* theory of the "financialization of land and housing," on the basis that the rise in "finance" and its imbrication with ground rent is not new, and that the quantitative shifts over the last half century do not indicate a qualitative, epochal break. Also, while this literature argues that finance is taking over land and housing, I argue the opposite: a larger and larger portion of global "financial" revenue is being extracted in the form of ground rent, indicating a process of the "housingification of finance."

Through this dissertation I attempt to systematize a theory of ground rent and private landownership that builds from Marx's preliminary drafts on the topic. I intervene in several long-standing debates in Marxian political economy, critical geography, and social theory around urban ground rent, the status of the landowning class in capitalism, and the stakes of land-based struggles. I suggest that the structural analysis of land relations in capitalism can improve the concept of class struggle by including within it a broader range of struggles, and also refine our notions of what it means to struggle against capitalism. Further inquiry into capitalist landed property along these lines should also advance our understanding of the nature

of the capitalist state form. I also suggest that the “housingification of finance” (or, more accurate but even less pronounceable, the “ground-rentification of finance”) and the behavior of landowners in “High-Rent” sectors are important avenues for future research.

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Introduction

This project began with a specific concern, arising from my own involvement with urban struggles over land and housing: why is gentrification so impossible to combat? Marxist literature provided ample resources to make sense of wage and workplace disputes (class struggle between proletarians and capitalists at the point of production); feminist scholarship offered structures for understanding gender hierarchies and gendered violence inside and outside of the workplace. However, struggles over land and space remained tertiary in most Marxist and leftist literature—constantly "outside." Marxist and critical geography offered many tools for the study, but I sought a structural account which could treat struggles over land on the same level of abstraction as struggles over the wage.

This dissertation does not offer a deep dive into a particular case study. As much as I wanted to analyze the dynamics of ground rent and land struggles in San Francisco and California, where I was born and raised, every time I started collecting information about these struggles, about land markets and rent struggles, I felt like I did not have a conceptual structure with which to parse and analyze these dynamics. This dissertation is my attempt to create that structure. I consider it a first step towards outlining the structural dynamics and forces which govern landed class struggle in the capitalist mode of production. While it is partial and fragmented, I hope my readers will find I have made some modest headway.

In what follows, I frequently work with macroeconomic data about the United States. This involves using statistics from the fraught institutions of the USDA, US Census, and the US Bureau of Labor Statistics. In some cases, long-run data they have collected are not digitized, or not publicly available, and I use old published papers and reports which contain tables and charts that are impossible to find elsewhere; hence my readers will find here reproduced several

aged charts from these papers. I have occasionally used data from private sources on real estate such as CoreLogic and HousingWire, but I try to avoid these when possible because they are usually partial. In some cases where data is not available, I substantiate my claims through anecdote.

In this dissertation, I attempt to systematize a theory of ground rent that builds from Marx's preliminary drafts on the topic. Large parts involve the critique of extant literature on the question of land in capital. I found this necessary in order to move toward a structural analysis of land relations, and I believe the critiques yield important positive claims about the inherent dynamics of landed class struggle. I draw upon data of land markets as well as accounts of land-based struggles in order to clarify the structure and operative categories of ground rent theory.

I lean on Marx heavily in this dissertation because I believe he was very good at what he did. His word is not gospel; he was often wrong. That he frequently recanted on his most egregious errors is evidence of his capacity for critique. However when it comes to land, his writings are inchoate enough to serve primarily as sign posts rather than as clear structure. I strive to use his work as inspiration, and not to take anything for granted.

Chapters 1 and 2 treat the categories of a landowning class and of ground rent. The dominant trend over the last 50 years has been to dismiss or dilute these categories; I defend them and argue that in order to accurately develop our understanding of the capitalist mode of production in its totality, we must analyze the landowning class and ground rent both as "pure forms" of the CMP and as historically dynamic social relations. Through a critique of the literature, I highlight the assumptions that undergird the marginalization of land relations in capitalism. I also suggest which elements of ground rent theory are important for the broad analysis of land in capital.

In Chapter 3 I analyze mainstream economics approaches to land-based revenue streams and investment vehicles, using the framework of landownership and ground rent established in Chapters 1 and 2. I define and categorize the different forms of speculative and securitized ground rent. I show that land-based markets and land-based securities are, as a rule, distinguished from financial markets by mainstream economists (if not by leftist theoreticians). The divergence of land-based markets from financial markets reflects fundamental differences between the imperatives of landowners and those of capitalists.

In Chapter 4 I offer a provisional schema with which to analyze landed class struggle by outlining the strategies and limits of the landowning class. I apply these insights to the question of urban residential rents in the United States. Urban Residential Rents have been historically misunderstood in terms of ground rent theory, and I clarify by arguing that the structure of urban rents is analogous to agricultural land rents. The only true "renter" is a capitalist, and that proletarian "renters" in fact purchase the commodity "home" from capitalist producers (generally, property management companies) who then pay landowners a rent (when they are not the same company).

Chapter 5 criticizes scholarship on the "Financialization of land and housing," on the basis that it misapprehends and mystifies landed class struggle. I argue for a longue-durée account of financialization, and for considering that finance is being gobbled up by the land market, rather than the reverse.

Much of this dissertation will analyze the economic dynamics of landed class interests, how they conflict or collaborate with capitalist class interests, and how the this plays out in space. However, I will begin by reflecting on the conflict between landowners and proletarians, as the ultimate goal is to contribute to a "Marxist theory of displacement" (Chatterjee, 2014, p.

55). The landowning class, through pursuing their imperative to extract ground rent from the land, attempts to gain control over increasing amounts of the globe. In this pursuit, they constantly divorce more and more people from the land, creating more free laborers. In doing this, the landowning class plays the essential role of preventing the people from getting too much land, too much freedom, too much power.

Marx called it original accumulation; others have called the enclosure movement, ongoing accumulation by dispossession, colonization. Here I call it gentrification. It attacks and severs the relation between land and people. It destroys community ties and social fabric. Gentrification is a tool of social control, a counterinsurgency measure against the strength of landed communities to resist and to attack. Displacement is not just a travesty, it is a suppression of resistance.

Displacement as Counterrevolution

Every resistance movement, every insurrection, every revolutionary struggle, starts and subsists in shared space—flourishes and grows through control over mobility. So, displacement is one of the most effective counterinsurgency tactics—intentional or no.

Gentrification is what we call the current wave of urban displacement, in which primarily Black and Brown people are pushed out of their homes and neighborhoods. Generally the push comes from big money looking for profitable rent gaps, but the white bourgeoisie also plays an essential role in this displacement. Anti-gentrification activists have had very few success stories at the neighborhood or city level, because we are standing up against a powerful flood of global real estate capital into warm, moist rent gaps, where moneys grow out of all proportion. The power that accompanies this flood of capital is so massive that community groups can do little to even touch it.

This mismatched fight between global real estate capital and urban communities of color is preceded by decades of attack on the social fabric of those communities, generally by the state; through incarceration, policing, the "war on drugs," government redevelopment, infrastructure projects, redlining, reverse-redlining, disinvestment, affordable housing scams; through the irresistible logic of private property in land. The state smooths the way for capital and landed property.

Gentrification as we know it encounters a social fabric already torn and singed by generations of direct and indirect attack. The people who still live and work there are still fighting, and often angrier than ever, but with fewer material resources and collective power due to very real and material violence and dispossessions over the years.

In rural and agricultural settings, we see much the same thing. Generations of attack on rural communities—of forced privatization on previously collective land, of coercive credit schemes and manipulative patents, and of direct violence under many guises—leave rural and agricultural communities weakened. Moneyed interests enter the stage, pushing out residents to make space for agribusiness, mining, windfarms, whatever turns a profit.

Even the tactics can be radically similar across urban and rural areas: policing and militarization (from urban policing to rural paramilitaries, displacement for infrastructure projects (from city subway tracks to rural railroads), privatization of land so that moneyed interests can buy up property rights (from privatization of public housing units in the UK to the privatization of Mexican ejido system), and so on.

Clyde Woods (1998) described this process as "spatial fragmentation" in the context of the counterrevolution of the plantation block against the powerful force of Black Reconstruction: Even after Black farmers were coerced into returning to the fields, the planters

dismantled centralized housing “for the primary purpose of crushing the Union Leagues movement in the south.”

Sometimes spatial fragmentation is an open tool of social repression; other times it comes under the guise of self-professed do-gooders. Saidiya Hartman (2018) describes how, in Golden Era New York City, “sociologists and reformers” enacted spatial fragmentation for the purposes of destroying “the modes of intimacy and affiliation being fashioned in the ghetto, the refusal to labor, the forms of gathering and assembly, the practices of subsistence and getting over” (p. 469). Hartman continues: “Harlem was swarming with vice-investigators and undercover detectives and do-gooders who were all intent on keeping young black women off the streets, even if it meant arresting every last one of them” (p. 473). Here, free mobility and taking-up space was named a disorder, a danger, a threat, and so the resources of the state and shadow states were directed towards spatial fragmentation of that “threat.”

Today, in Central America, spatial stratification of landed Indigenous communities is part and parcel – and potentially the ultimate goal – of the so-called “drug war.” Dawn Paley writes: “States and transnational capital [take recourse] in repression through terror in attempt to dispossess people from their communal lands and territories throughout the Americas and the world.” (Paley, 2014, p. 18). The “drug war”; the “war on terrorism”; “ethnic conflict” –all these are masks for landed class struggle.

These types of overt violence and repression raze the ground for subsequent stages of impersonal, profit-motivated displacement. When so-called “financialized landlords” buy up San Francisco properties and squeeze low income residents until they move, those tenants have already lost two thirds of their community—why not move to Vallejo?

It is even difficult for working class people to refuse turning their own properties into profit. Just five years after the powerful protests following the murders of Michael Brown and

Eric Garner in Oakland, CA, dozens of the young Black organizers of those protests have been pushed to the outskirts of the Bay Area, others have been arrested and are still in jail or prison, and at least one has been killed. Many homeowners – Black, white, and otherwise – that may have harbored political organizing in the 70s, 80s, or 90s have chosen to sell their properties in Oakland, cashing out on rising home values. This weakens communities, prevents the passing down of political knowledge, and reduces the square footage available for meetings and crash pads. It is not an individual failure, but evidence of a structural compulsion.

Though displacement is never the end. Displacement leads to new spatial concentrations. One of the most earth-shaking uprising in the US in the last decade was in Ferguson, Mo.. The people who organized and executed the uprising were poor Black people recently pushed into Ferguson after being displaced from elsewhere. In such places, resistance, rebellion, and revolution can spread quickly.

Land as Invitation Masterlessness

> "Colonial authorities were ever mindful of the many invitations to masterlessness which the cities held out." – Julius Scott (2018)

> "Down where we are, food is used as a political weapon. But if you have a pig in your backyard, if you have some vegetables in your garden, you can feed yourself and your family, and nobody can push you around." – Fannie Lou Hamer (White & Redmond, 2019)

Julius Scott (2018) describes cities in the Caribbean as places of potential power and refusal for ex-slaves and free Black people in the 19th Century. Authorities could not so easily

stratify and dismantle social networks and infrastructure in the space of the city (since then, capital and state have found increasingly effective ways to control cities, though never entirely). Fannie Lou Hamer describes how autonomy over food, which is concomitant to control over land and space, leads to strength vis a vis would-be oppressors. Cedric Robinson (2000) describes the Black Radical Tradition as aimed not toward the goal of gaining strength *within* the capitalist mode of production, but toward wrenching autonomy and freedom *from it*. In this tradition land, space, and mobility are highly valued; they can enable people to *refuse,* rather than *struggle forever within.*

This is important when considering the role of land struggle in capitalism. Struggles over the wage relation are always, to some extent, struggles for status and quality of life within the system. Struggles over land, space, mobility have the potential to encourage refusal, rejection, an impulse towards the "total abolition" of the capitalist mode of production.

Conversely, it is exceedingly difficult to develop any autonomy when there is not defensible access to land. In gentrifying capitalist metropoles, it is neither easy, efficient, nor particularly effective to pursue the "necessities" of life – food, living space, water – through collective struggle, in large part because we have no secure access to land or space. Squatted houses get busted, squatted community gardens get bulldozed, and as gentrification progresses, the busting and bulldozing happens faster and faster. It is less arduous and more reliable to go to a food pantry, to borrow money for McDonalds, to sign your children up for free lunches at school and throughout the summer, than to maintain a collective urban farm and communal neighborhood kitchen, especially when you know it could get squashed at any moment. It is less dangerous and onerous to rent an apartment from a private landlord, even if it is a moldy one, a broken down or overcrowded one, than to occupy and defend a collective squat in a neighborhood that's on the radar of the real estate industry.

Struggles over the wage can also have the potential to pass over into collective social reproduction, but they have been cauterized by centuries of counterattacks. Where once, a strike might have implied the collectivization of "reproductive" activities like cooking and child tending, this is rarely any longer the case in hyper developed cities. Now, fighting for a better wage or working conditions in capitalist metropoles rarely bleeds out beyond the workplace. (Such was the strange draw of the occupy movement – a sense of collective reproduction so alien to most urbanites, and so immediately transformative.)

Ruth Wilson Gilmore stresses that abolition geographies, which go "back in time-space" to find alternatives above and beyond the "displacement and redistribution of human sacrifice," these abolition geographies "start from the homely premise that *freedom is a place*" (Gilmore, 2017, pp. 227, 228, emphasis added). Cedric Robinson emphasizes removal of self from the system, of "flight," "marronage," "total rejection," and "preservation of the collective being," as elements of the Black Radical Tradition (Robinson, 2000, pp. 130, 190, 169, 171). Unlike demands for a higher wage or for reduction in violence from forces on high, revolutionary movements towards masterlessness necessitate – without possible compromise – land, space, territory, mobility.

Endogenous Racialization and Landed Class Struggle

Contrary to the popular Marxist and communist belief that capitalism produces an increasingly homogenized working class, capitalism in fact produces a radically stratified and hierarchized proletariat. The labor relation ranges from the most unfree, violently enforced slavery, to the six-figure salaries of CEOs, university chancellors, or leaders of non-profit corporations. The amount you are paid, brutalities of the job, and freedom of your person vary

wildly, to make the different experiences of work basically incomparable. These labor hierarchies have been called out repeatedly as an *anomaly* by labor organizers and theorists, but it is, on the contrary, the norm.

Cedric Robinson suggests in his history of pre-colonial European societies that the very existence of clan differentiation combined with hierarchized access to resources became the process of racialization. This seed grew into the capitalist mode of production. If we consider Gilmore's "group-differentiation" as the form taken in capitalism of Robinson's clan distinctions, then we might consider group-differentiated access to resources to be capitalist race-formation. This could be a vulgar economistic version of Gilmore's definition of race as "group-based vulnerability to premature death;" insofar as vulnerability to premature death can be determined by access to resources.

If we accept that capitalism inherently hierarchizes the proletariat, and that hierarchized groups in capitalism are always racial groups, then not only can we say that capitalism inherently reproduces race, but we can also say that the differentiation of access to land and housing is an inherently racializing process.

While all struggles over the wage somehow demand inclusion (on better terms) within the capitalist system, many land-based struggles are pointed consciously away from the system altogether. The people who wage land struggles for autonomy are usually those people who are marginalized and pushed out of the wage relation. They are those groups who are more vulnerable to premature death, have fewer rights and securities vis a vis the wage, and less power in general as defined by the capitalist mode of production – they are closer to the "edge" of capitalism, are more intensely suppressed while having the least amount of rights. Hence, there is a connection between racialization (which produces some groups as closer to or farther from that "edge") and land-based struggles.

Robinson suggests that the goal of many enslaved Africans in the south was to live outside and reject capitalist social relations in their totality. In his focus on this intent to escape and refuse, Robinson offers something diametrically opposed to what most Marxists emphasize in discussion of "surplus populations." In the Marxist theory of surplus population, the working class tends towards becoming "excluded from work" (Endnotes, 2010, p. 33). Marx himself only defines proletarian once in capital, in a footnote in Chapter 25 which reads

> "Proletarian" must be understood to mean, economically speaking, nothing other than "wage-laborer," the man who produces and valorizes "capital," and is thrown into the street as soon as he becomes superfluous to the need for valorization. (Marx, 1992)

However, to take Robinson's point seriously is to believe that not everyone is "thrown into the street" or "excluded from work"; some people run away from the factory or the field, hurling *themselves* from work. And if a person runs away from work, they need land to run into.

Similar to the Marxist position, Wacquant writes that detainees in jails and prisons are "essentially drawn from the most marginalized…. Incarceration serves above all to regulate, if not to perpetuate, poverty and to warehouse the human rejects of the market"(Wacquant, 2009, p. 70). But did the market reject them, or did they reject the market?

In any case, to reject the market, or be rejected by it, means to have a particularly urgent relationship to land control. The movement toward freedom, toward "open rebellion," necessarily involves the capture of land and the wrenching open of paths of mobility. In this, we will come into conflict with the landowning class.

Chapter 1 : The Landowning Class

Introduction

> *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. (Marx, 1967, p. 618)*

We are accustomed to thinking about capitalism as being composed of two classes: the working class and the capitalist class. However, Marx, as a progenitor of anti-capitalist critique, explicitly argues that there are not two classes, but three—the third being the class of *landlords*. Appearing late in Capital Vol 1, and elaborated in Capital Vol 3 and in Theories of Surplus Value Vol 2, Marx's landowning class is grounded in the *social relation of private property in land***,** and draws its wealth in the form of ground rent, a revenue stream categorically distinct from profits, wages, and even interest. The landowning class as such is irreducible to and distinct from the other classes, while remaining necessary to the capitalist mode of production (CMP) due to the necessity of the material social relations which give rise to it (private property in land). Marx often uses the term "class" to casually refer to groups like merchant capital, but he elevates landowners to one of the three great classes of modern society alongside capitalists and the proletariat.

While enjoying some significance in Kautsky's 1899 text *The Agrarian Question* (1988)*,* the landowning class is absent in Lenin. This is surprising considering Lenin's sensitivity to land issues which are epitomized in his 1917 *Decree on Land* which declared landed proprietorship to

be abolished and all land "and everything pertaining thereto" placed at the disposal of peasants' (volost) land committees and uyezd Soviets of Peasants' Deputies (Lenin, 2017). The idea of the landowning class—a fundamental analytical category for many classical economists—evaporated almost completely in Marxist and anti-capitalist scholarship over the next century, especially among those explicitly discussing issues of land, space, and place. Marxian critics of space from Henri Lefebvre to Doreen Massey, all abandoned the theory of landowners-as-class, often without fanfare. The prominent Marxist theorists who have paved the road for critical scholarship on land and space since the seventies, such as David Harvey, Ben Fine, Michael Ball, Anne Haila, and Michael Neocosmos, have carried forward the assumption that landowners are not capitalism's "third class," in some cases arguing that they are not even necessary to the capitalist mode of production. The growing consensus is that landowners are, at most, a subset or class fraction of the capitalist class, usually a branch of finance capital. This position has influenced contemporary studies of the current housing crisis, in which predatory and "financialized" landownership is analyzed in terms of the logic of *finance, speculation,* and predatory debt relationships, but not in terms of the extraction of ground rent. However, not only do the market dynamics of ground rent extraction diverge from those of "financial" capital accumulation (see Chapter 3), the ontological structure of the landowning class is unique and incommensurable with any type of capitalist—financial or otherwise.

In this Chapter we will track the abandonment of the theory of *the landowning class as third class* and then offer a preliminary sketch of the logics of landownership elaborated throughout this dissertation. These logics include, but are not limited to: (1) the willingness of the landowning class to withdraw land from the market and hold it; (2) the emergence of direct conflict between landowning interests and productive capital over shares of surplus value; and (3) the unique and unparalleled use-value represented by *land* which, if left to the masses, encourages the rejection of the wage system, capitalist exploitation, and all its accoutrements.

Because of this, the perpetuation of capitalism requires the preservation of landed property as a social form.

The emphasis on the “financialized” nature of landownership in recent years leads scholars to posit a *rupture* rather than a *continuity* between contemporary land relations and land relations of the past. However, as Marx warns us, a quantitative shift (in this case, the increase of financial profits over profits of production) does not necessarily mean a qualitative break has taken place. For example, quantitative increases in the size of landowning companies over the last half century does not make them qualitatively distinct from capitalist land consolidation in the 18th and 19th centuries.

Over the last 50 years many scholars of land and capital have argued for the importance of ground rent while rejecting the class-status of landowners. Recent authors such as Deepankar Basu and Jorgen Sandemose join Fine, Harvey, Massey, and Lefebvre, in this camp (Basu, 2018; Sandemose, 2006). Anne Haila and Pradeep Bandyopadhyay derive ground rent from the *coordinating function it plays for capital* rather than seeing it as a distinct revenue stream based on private landownership and captured by the class of landowners.(Bandyopadhyay, 1982; Haila, 1990) However, to disconnect ground rent from a theory of the landowning class is to abandon its historical-material basis (the social relation of private landownership). Many studies of rent today avoid a direct treatment of land qua *land* as a result of this abandonment of a theory of the landowning class. Marx himself found it necessary to “deal with landed property ex professo” before giving a “detailed exposition of rent” (Marx, 1968, p. 26; see also pp. 30,37, 103-4). Theorizing ground rent without a theory of the landowning class warps the theory of ground rent almost beyond recognition.

A few theorists have taken up the category of the landowning class positively in the post-war period—notably Martha Campbell, a contemporary Marxist affiliated with Value Form Theory, and Roman Rosdolsky, a Ukranian socialist expelled from the CP in the late 20s who is

warmly cited by contemporary Value Form Theorists (Campbell & Reuten, 2001; Rosdolsky, 1989). Both offer careful exegesis of Marx's theory of the landowning class but are generally uncited by critical theorists of space. [1]

The dismissal of the landowning class as third class complements the prioritization of the wage labor relation as ground zero of class struggle. Such a theory of revolution treats struggles which occur elsewhere than the "point of production" as having less historical and strategic significance. On this account, workers organizing their workplace represent a more fundamental moment of class struggle than tenants organizing their buildings; wildcat strikes in automobile factories are more immediate forms of class struggle than actions of landless peasant movements to occupy land; mistreated restaurant workers are more immediate evidence of the inner logic of capital than homeless encampments.

There has been robust critique of this privileging of struggles at the "point of production," not least by thinkers like Harvey, Lefebvre, and Massey. However, it remains taboo to suggest there is a *class struggle* between proletarians and landowners, or between landowners and capitalists, of the same level of abstraction as the class struggle between proletarians and capitalists. The theory of the landowning class *as third class* requires us to consider struggles around land, space, and housing as forms of immediate and direct class struggle. What's more, struggles around land, space, and housing are frequently waged (and most militantly) by indigenous people, Black people, and other racialized people around the world—and often by women and LGBTQ people within communities. The tendency to elevate the movements and revolutions of industrialized European men, and those global movements and revolutions which match them in form, is critiqued immanently by the theory of the landowning class. Racialization (the production of violent racial hierarchy) and patriarchy (the

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[1] Campbell and Rosdolsky are not, however, representative of the opinions of Value Form Theorists in general about landowners as third class; CJ Arthur and Marco Guidi, for example, both assert the inessentiality of landowners (Arthur, 2006; Guidi, 1998).

production of violent gender hierarchy) as social relations both involve land in essential ways, and so developing a structural theory of landownership also offers insight into a structural analysis of these social relations.

Marx's Theory of the Landowning Class

What is a "class"?

Marx uses the term "class" in two ways. First, he refers casually to groups like merchant capitalists or the intelligentsia as "classes." This coincides with Bertell Ollman's observation, in his seminal study on Marx's concept of class (1968), that Marx's loose use of "class" functions as "a synonym for 'group,' 'faction,' or 'layer.'" Secondly, Marx describes three *classes* which together constitute the "framework of modern society": capitalists, proletarians, and landowners. Ollman suggests that this use of the term class is "most in keeping with his other theories," and the tripartite division should be considered the "Marxist system of classes" (1968, p. 576).

Each class arises from material conditions that differ absolutely from those of the other two classes. Proletarians own naught but their labor power; capitalists own the means of production; landowners own land. These classes are all functionally necessary for the reproduction of the capitalist mode of production in its most basic, unadorned form. Capitalist production requires labor from the worker, the dominance of the capitalist in the production process, and it requires that *land be owned*. Classes divided along these lines will have, as Ollman argues, "distinct economic interests… based on these relations which place them in conflict with… the other two groups"(1968, p. 576).

Ollman states, however, that landowners-as-a-class are soon to vanish.[2] Ollman makes no argument for this position, even though it represents—on his own reading—a significant departure from Marx's thought. However, because Ollman designates the first criterion for class as having "a direct operating relationship to the mode of production" (Ollman, 1968, p. 576), we might reasonably infer that he believes the landowning class to lack this "direct operating relationship"—at least in the long term.

The superfluous and necessary landowner.

And Ollman would be correct to argue that landowners do not have a direct operating relationship to the immediate process of production. Marx also argues this, regularly describing the landowning class as 'superfluous' and 'useless' vis a vis production:

> Assuming the capitalist mode of production, then the capitalist is not only a necessary functionary, but the dominating functionary in production. The landowner, on the other hand, is quite *superfluous* in this mode of production. Its only requirement is that land should not be common property, that it should confront the working class as a condition of production, not belonging to it... The landowner, such an important functionary in production in the ancient world and in the Middle Ages, is a *useless superfetation* in the industrial world. (Marx 1968 p. 44, italic emphasis mine)

Many scholars have interpreted this 'superfluity' to mean that landowners are unnecessary to the capitalist mode of production. Marx encourages this interpretation by calling landowners a "useless excrescence" that "have *not grown out* of the capitalist mode of

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[2] "[Marx] believes that developments in capitalist society are speedily reducing all such [middle and intermediate] strata into the capitalist or proletarian class. The landowners, too, are shortly to go the same way." Ollman 1968, p. 577.

production but have been *passed on* to it," who are "**not a necessary agent for capitalist production"** (Marx, 1968, pp. 44, 152, 153).

While it may be the case that from "the standpoint of capitalist production," only the capitalist and the wage laborer are necessary (Marx, 1968, p. 152), from the standpoint of the *totality* of capitalist social relations, landowners are also necessary. Marx's comments sometimes lean toward ejecting the landowner from the logical core of the capitalist mode of production, but the fact remains that land "should belong to someone, so long as it is not the worker." Insofar as this is true, the landowner is a necessary agent for *the capitalist mode of production*, if not for *capitalist production*.

In sum: landowners are superfluous vis a vis the concrete *process of value production,* while being necessary to the reproduction of the totality of capitalist social relations. Their role is not to instigate or direct the production process, but to prevent land from being used as common property.

Moreover, this superfluity of landowners vis a vis the production process marks the "characteristic peculiarity" of the landowner of the CMP:

> The capitalist still performs an active function… but the landowner need only appropriate the growing share in the surplus product and the surplus-value, without having contributed anything to this growth. *This is the characteristic peculiarity of his position*. (Marx, 1967, p. 638, emphasis mine).

Compared to feudal landowners who directed production—for example, dictating what is to be planted and when to till— capitalist landowners are distinguished by their detachment from production. The capitalist landowning class exerts no influence on the concrete aspects of producing value—what is produced, in what quantity, and at what quality. Capitalist landowners may not even know what is being produced on their land—they are only concerned with

collecting rent (Marx, 1968, p. 152). This is the strange form of landed property that emerges as a necessary element of capitalism.

This analysis of the landowning class also reveals the *differentia specifica* of the capitalist mode of production; that differentia specifica is that while there are three classes, the capitalist class dominates the others in production (Marx, 1968, p. 153). This dominance is also a dependency: the capitalist class still needs the working class and landowning class to reproduce the system. It is the capitalist who "performs an active function"; the capitalist is "the dominating functionary in production" (Marx, 1967, p. 638, 1993, p. 276), but workers and landowners are still *necessary subordinate* functionaries. Capital is the "active middle" in the process which can be written either *ground rent - capital - wage labor* or *wage labor - capital - ground* rent, and which is "the inner construction of modern society, or, capital in the totality of its relations" (Marx, 1993, p. 276).

Hence, private landownership—and the function it plays in divorcing workers from the land— is "the basis of the capitalist mode of production," according to Marx (1967, p. 812). It is the basis of the capitalist mode of production *historically*—because the transition from feudalism to capitalism required enclosures of land to create free laborers—and it is also the basis *logically*—because the ongoing self-reproduction of the CMP production requires the constant cleavage of people from land. Land must be owned, unavailable to free use. By owning land, landowners reproduce wage laborers qua *form* (Marx, 1993).

Landowners appear in heterogeneous forms across the capitalist world—and in some places and times appear to be absent altogether.[3] In both respects, they are like the capitalists and working classes. But for capitalism to reproduce itself, there must always some force which

[3] Marx suggests as much in his Letter to Engels of August 2, 1862, when he declares that absolute rent "is not paid when landed property does not exist, either factually or legally." In Marx (1967) he erroneously suggests that one such place was the United States.

ensures that land only confronts the working class "as a condition of production, not belonging to it." Even the state can play this role (Capps, 2012, pp. 317–318).The absence of an obvious class of landowners in a given time and place no more threatens the class-status of landowners than would a city of worker-owned co-operatives threaten the class-status of capitalists.

Sometimes, a person or company is both "landlord" and "capitalist" at once. This can also be the case of capitalist and wage worker—for example, a capitalist who owns a majority share in a series of shoe factories, may also be employed as CEO of the shoe company, thereby receiving a wage as a highly paid laborer, in addition to receiving profits as a capitalist. That he receives the wage does not mean that the capitalist class has no representative in him. Similarly, as Marx argues, a capitalist farmer may own the land he works, but this does not mean the landowning class does not have a representative in him; that farmer obtains both the profits of the farm as a capitalist, and the ground rent of the land as a landowner.

Some special dynamics come into play when landlord and capitalist are one. They might collect both an imputed rent *and* the capitalist profits, or they may charge themselves no rent, and only collect average profits. In the latter case, they can afford either to produce at a higher production price than average while still selling their commodity for the average price, or they can lower the price of their commodity, squeezing competitors out of the market and increasing the number of commodities they sell..

Marx himself anticipated that class lines would be blurred—in particular that the line between investment capital and landownership could easily be confused by the investor-landowner:

> the money expended in purchasing land, like that in purchasing government bonds, … figures in [the investor's] accounts as interest-bearing capital, because he considers the income, received as rent from the land or as interest on state indebtedness, as interest on

> the money which the purchase of the claim to this revenue has cost him. (Marx, 1967, p. 809)

But the fact that an investor might see the ground rent he gains from investment in land as an interest on capital

> does not in the least alter the economic nature of the land factor, any more than the circumstance that someone has paid L1,000 for 3% consols [government bonds] has anything to do with the capital out of whose revenue the interest on the national debt is paid. (Marx, 1967, p. 809)

Rent "appears" to a landowner as interest; the landowner "reckons" the rent obtained on land is interest on capital, that the money used to purchase land "functions in [the buyer of land's] accounts as interest-bearing capital" but, integrally, this "does not change the economic nature of the land factor in the slightest" (Marx, 1967, pp. 945–946).

In fact, how the landowner acquired a plot of land and how it appears on his books is irrelevant to his deeper role as a member of the landowning class; all this "alters nothing in the capital invested by the farmer in his establishment, and changes nothing in the rent, but merely alters the question whether it appears to him as interest or not, or as higher or lower interest respectively" (Marx, 1967, p. 808). The appearances change; the fundamental relation of private landownership stays the same.

What is going on *in the mind* of a person does not tell us the truth of their material practices. As Martha Campbell puts it in her excellent explication of Marx's theories on land: "...this view of land *by its owners* [that it is no different from other investments] does not obliterate the difference between the determination of interest by the supply and demand for money capital and the determination of rent by the monopoly over land" (Campbell & Reuten, 2001, p. 230 fn.3).

Campbell also argues that even in the most extreme case where a landowner regards themselves exclusively as a capitalist, therefore abandoning the possibility of acting as a landowning class for-itself, that nonetheless "their perception does not abolish the difference between land and the other means of production or between land and interest-bearing capital (any more than the idea of human capital makes workers into capitalists)" (2001, p. 230).

Landowership as "barrier" to capitalist production.

While it is common for people and companies to embody two and even three class roles, the classes are defined by distinct and antagonistic social relations. The central antagonism between landowners and capitalists is the level of rent. Landowner's power in imposing rents and withholding land from market can erect a barrier to capitalist production and technological development.

As landownership becomes increasingly abstract and generalized, it expropriates and absorbs more and more land, faster and faster. As the "economic realization of private property," ground-rent marches over the globe in lockstep with the growing privatization of land (Marx, 1967, pp. 618, 634). Rent cannot always be drawn from the land, but land always gives the landowner "the power to withdraw his land from exploitation until economic conditions permit him to utilize it in such a manner as to yield him a surplus" (Marx, 1967, p. 757). While differential rents depend on the relative advantages one plot of land may have compared to another, and so arise from the qualities—inherent or produced—of that land, absolute rent is created by landed property itself. Absolute rent emerges from the landlord's perpetual threat to withdraw their land from the market. (I will discuss absolute and differential rent at length below in Chapter 2.)

The landlord's threat of withdrawal poses a barrier to capitalist production. Land which could be profitably farmed if no rent were charged goes uncultivated, thereby dampening

capitalist "progress" in agriculture. And if we look at global landownership, we can observe a strong tendency for landowners to hold unused land even when there is demand for it; vacant apartments plague the high-rent cities of the world; up to 40% of farmland taken through recent waves of global land grabs sits fallow, sometimes with prior tillers and residents looking on in sorrow (Peel, 2016).

Land will only yield rent if the production occurring there turns profits in excess of the price of production (price of production = cost of production + average profit), *or* if the capitalist producer accepts less than an average profit. While this would seem to encourage the development of technological advances in agriculture, the extra profits gained through technological advance can be captured by the landowner by increasing the rent (this is differential rent 2). Many extant "technological advances" in agriculture, especially in agrochemicals, only increase productivity for a few years, after which they decrease, and this rhythm could arguably be the result (at least in part) of landlord-tenant class conflict.

Marx suggests that the capturing of excess profits by landowners can lead to the slowing down of technological development in agriculture, functioning again as a barrier to capitalist development. Importantly, we have to extend this analysis to include all rent-paying industries—for example, a bakery in a popular urban neighborhood may not want to install expensive new ovens that are not easily moved if they fear their rent will be raised or they may be evicted.

Marxists' Disavowal of 3rd Class

While Marx affords primacy of place to the landowning class in the totality of the capitalist mode of production, alongside capitalists and proletarians, most Marxian thinkers of land and space since the post-war period have dismissed the landowning class. These dismissals follow four lines of argumentation: (1) Landowners are a leftover from pre-capitalist social

forms; (2) Landowners are a *subset* or *fraction* of the capitalist class; (3) landowners-as-class *wither away* with the development of capitalism; and (4) the landowning class is replaced, in 'late' or 'financialized' capitalism, by a *rentier* class fraction.

1: Landowners as feudal residuals

Most Marxian theorists of land consider contemporary appearances of a landowning class to be leftovers from a "pre-capitalist landlord class;" a residual from the feudal era (Edel, 1975, p. 114). Landowners were fundamental to pre-capitalist class formations such as European feudalism (the canonical foil for many theories of capitalism) but today they are an anachronism—the echo of a dying age—their power subverted and dismantled by capitalism. Ward and Aalbers describe the consensus of Marxian geography in the 1970s that "landlords were a feudalistic hangover acting as a drain on capitalist productivity" (Ward & Aalbers, 2016, p. 1770). What power landed property retains today is a result of the sheer strength of the pre-capitalist landlord class, or occasionally of the unique savviness of specific landowners.

But the capitalist landowning class reproduces free labor through separating workers from the land, absolutely. It is no more a residual than money is a residual medium of exchange because we can point to a proliferation of coinage in pre-capitalist societies. Far from being leftovers, capitalist landed property is an entirely new form of landownership with a distinct logic. Feudal landed property becomes *capitalist landed property* by shedding all its "former political and social embellishments and associations" to gain its "purely economic form" divorced "from the relations of domination and servitude" (Marx, 1967, pp. 618, 617).

Marx himself criticizes the "pre-capitalist leftovers" or "feudal residuals" strain of thought, already in vogue during his time:

> An erroneous conception of the nature of rent is based upon the fact that rent in kind, partly as tithes to the church and partly as a curiosity perpetuated by long-established contracts, has been dragged over into modern times from the natural economy of the Middle Ages, completely in contradiction to the conditions of the capitalist mode of production. (Marx, 1967, p. 787)

The feudal residuals position falls into the trap of "articulationism" criticized by Michael Neocosmos (1986), in which scholars tend to treat major differences of form within social formations—such as the existence of a landowning class in capitalism—as things that "can only be accounted for with reference to the articulation of different (usually pre-capitalist) modes of production with an ideal capitalist mode." Neocosmos contends that this "articulationism"

> has had the effect of indefensibly restricting investigations a priori, making it impossible to discover what may be different and important capitalist forms, by relegating these a priori to the status of 'pre-capitalist leftovers,' which are then said to be 'reproduced' for various reasons and in various ways by capital. (Neocosmos, 1986, p. 11)

Even scholars who place grave importance on the theory of ground rent, such as Utsa Pantaik, whose important work on ground rent we will reference in Chapter 2, implicitly adopt this positions that landowners are "feudal residuals." However, when we erroneously attribute the landowning class to a bygone mode of production, we impoverish our capacity to understand capital's relationship to land and space in the *here* and *now*.

2: Landowners as class fraction

In the 70s and 80s, Marxists popularized the term "*class fraction"* to describe groups within the capitalist class such as merchant capital and finance capital (groups which Marx describes as having

"separate forms of existence" of the same capital) (Poulantzas, 1978, p. 239). In the late 70s, many Marxists began to refer to landowners as a class fraction (Ward & Aalbers, 2016, p. 1770). Today, the class fraction argument frequently coincides with the idea that landowners are subsumed by finance capital. For example, Clarke and Ginsburg write: "During the century the landowner as a separate interest has declined and finance capital has increasingly penetrated landownership" (1975, p. 6). As such, landowners become a subset of the class fraction *finance capital*—a subset of a subset of the capitalist class, far from a class on their own

While it is possible to consider specific class fractions as necessary to capitalism, it is more common to consider class fractions as temporary, because the existence and the strength of class fractions depend on the balance of political and economic forces at any given moment. The authors who designate landowners as a fraction tend to emphasize the contingency of landownership. For example, Ball (1980) mobilizes Massey and Catalano's classification of landowners as a class fraction to argue explicitly that "capitalism does not need private landed property for its existence" (p. 304).

The "Class Fraction" position, like the "Feudal Residuals" position, ignores the essential role of the landowning class in reproducing free labor, but it also disregards the fact that the landowning class and the capitalist class arise from two distinct and incommensurable social relations: on the one side, private landownership, on the other, ownership of the means of production. To be a class fraction, a group must share the basic presuppositions of the larger class of which it is part. Landowners, therefore, cannot be a subset of the capitalist class, for they do not own the means of production; they own only land. Landowners cannot be accurately described as a "separate form of existence" of the capitalist class (as per the common definition of class fraction) for their existence is based not on ownership of the means of production or mobilization of capital in the process of production, but on ownership of *land* and the collection of *ground rent*. To believe the class fraction argument, therefore, one must collapse ground rent

with interest and profits, conflating the reproduction of landownership with the reproduction of capital.

Massey and Catalano's seminal book *Capital and Land* (1978), which remains one the most focused studies on capitalism and land relations, explicitly designates landowners as a "class fraction." Ignoring Marx's own work on the question of landowners, Massey and Catalano turn instead to Marx's discussion of merchants in their efforts to explain the "fractional" relationship of landowners to capital (1978, p. 37). While Marx would agree with Massey and Catalano that categories like "commercial capital" and "loan capital" cannot give rise to a distinct class (and so can only be thought of as constituting some subset of the capitalist class), Marx argues that ground rent differs from these forms (not least because it acts as a barrier to capital—something which commercial capital does not categorically do). When Massey and Catalano designate landowners as a fraction, they skirt the deeper ontological features of landownership—its role in reproducing free labor, its antagonism with capitalist production—and produces an analysis of "Land in Capital" that necessarily stays on the surface.

Poulantzas also dismisses the possibility that landowners represent "a class of the pure CMP" and argues instead that they are a class fraction (Poulantzas, 1978). Unlike Massey and Catalano who simply ignore Marx's theory of the landowning class, Poulantzas explicitly distinguishes his position from Marx. He argues that landowners occupy an integral role in the transition to capitalism, and after this period remain a formidable economic force in the form of a politically significant *fraction* allied under the hegemonic fraction.[4] He opposes Marx's idea of landlords as a "distinct" and "separate class belonging to the pure CMP," calling this position

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[4] Poulantzas can conceive of this diminished version of class distinction, which could be called a sub-class distinction, as a result of his theory of the power bloc and the way it works within the structures of the capitalist state. The power blocs "allow a characteristic 'participation' in power, either by the dominant classes of the dominated modes of production or by those fraction of the bourgeoisie whose autonomy depends on their relation to these modes" (Poulantzas, 1978, p. 232). The power block, for Poulantzas, is unique to capitalist social formations. See also Bonefeld, 1992; Hirsch, 1978.

"inexact" and "incorrect." Instead Poulantzas sides with what he sees as Lenin's contribution, that "landed property, private ownership of land, does not belong to the relations of combination of the 'pure' CMP" (Poulantzas, 1978, pp. 231–232).

Poulantzas believes that Marx's incorrect assessment of landowners was a result of "(i) the fact that the necessary transition from feudalism to capitalism was effected under the politico-ideological leadership of the nobility or the bourgeoisie, and (ii) the fact that they [landowners] maintained their autonomy even after absorption into the bourgeoisie" (p. 232). Poulantzas attributes Marx's mistake to the residual strength of the pre-capitalist landowning class that persisted in Marx's time.

Poulantzas also fuses the "feudal residuals" argument with the "class fraction" argument; he argues that the politico-ideological strength of the landowning class pre-capitalism led to the landowning class forming an "autonomous fraction" throughout the transition period (p. 231-232).[5] He also notes that the landowning class was able to maintain some of its power due to the particularity of ground-rent as a "mode of transfer of the social product and distribution of surplus value" (p. 232). He shares this position with more recent writers Haila and Bandyopadhyay, who also argue for the particularity and independence of ground rent, at the expense of a demoted landowning class.

For Marx, *ground rent* is the basis for a *distinct class of landowners*, while other forms of surplus value distribution like mercantile exchange could only give rise to a special breed of capitalist. Poulantzas, like Massey and Catalano, does not investigate this important distinction

[5] Milios also argues that the landowning class only exists under certain historical contexts, as the result of a specific balance of forces. His argument is similar to the class fraction argument: landowners are only a "historical variation" of capitalist social relations that can or cannot exist at any given moment. He writes that "the class of landowners... does not constitute a component element of the capitalist mode of production, that is, an inevitable result of its dominance, but constitutes a manifestation of a specific *historical variation of this domination*" (Milios, 2000, p. 296).

between ground rent and other types of “economic rent” or *interest*. Ground rent arises from the private ownership of land, a unique and unparalleled resource, and it presents a *barrier* to capitalist investment that interest and merchant capital do not.[6]

3: The withering away of the landlord class

To dismiss the class status of landowners is to believe that within the “permanent, 'unaltered' nucleus of the capitalist system of class domination, independent… from the particular evolution of each specifically studied (capitalist) society” (Milios, 2000, p. 291), landowners are nowhere to be found. Landowners play a role in the transition to capitalism, but then they “wither away,” often dissolving into the capitalist class. Above, we reviewed Poulantzas’ argument that landowners are *not* a class of the “pure” capitalist mode of production. Edel (1977) also writes that “In the long run, and as capitalists (who decrease in numbers and increase in size) buy up land, landlords may even disappear as a class and rent cease to exist as a distinct part of surplus value” (p. 103). Bryan (1990) likewise states: “In this era, capitalists invest actively in both land and industry, and capital moves freely between the two. In other words, in the epoch of capitalism, the very concept of a distinct landlord class must be questioned” (p. 80; see also Neocosmos, 1986, pp. 30–32).

Poulantzas, Edel, Bryan, Massey and Catalano, all reject the existence of a third class of landowners. Some theorists argue, alternatively, that the landowning class is essential for the beginning period of capitalism, but that the landowning class then essentially “withers away” as capitalism progresses.

[6] See also Neocosmos (1986, p. 6). Neocosmos also makes note of the fact that Poulantzas succeeds where Massey and Catalano fail at presenting a concerted argument against Marx’s position of landowners as third class.

For example, Neocosmos aims to “take seriously Marx's references to landowners under capitalism as forming a class” (1986, p. 8). Neocosmos acknowledges that the creation of wage laborers depended on “the creation of a new capitalist form of landed property” (p. 12). For him, landowners are not mere leftovers, because “developing capitalism… necessarily transforms the old form of landed property into a specially *capitalist* form of landed property” (p. 13).[7]

Neocosmos argues that a specifically capitalist landowning class is necessary for the first stages of the capitalist mode of production, and to create wage laborers, but he believes that eventually the landowning class is abolished. While capital needed to establish private landed property in order to effectively *initiate capitalist production* historically, capital does not *need* landed property and/or a separate class of landed proprietors, in order to *continue* to exist. In other words, land rent and landlords are forms that are not necessary to capitalist mode of production in general, only to its genesis: “the continued existence of landed property is not a necessary condition of capitalist production. Capital can exist without landed property” (p. 27). Murray (1978) similarly writes that landed property and rent will remain significant only “Until land has been ‘really’ subordinated” (p. 29).

This epitomizes what I call “the withering away of the landlord class” thesis, an analog to Lenin’s idea of the withering away of the state. In both cases, a specific social form (a landowning class on one hand, and a state on the other) is *fundamental* and *necessary* for the transformation of one mode of production to the next. However, in both cases, that fundamental social form renders itself obsolete through that transition, and then fades away.

Neocosmos justifies his position on the grounds that landed property, because of the obstacle it constitutes, is positively harmful to capitalism. In this it “differs from other kinds of

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[7] Poulantzas also believes that landownership was integral to the transition to capitalism, arguing that “This establishment of the dominance of the CMP is *in fact* executed (*for mainly political and ideological reasons*) by the private ownership of land” (1978, p. 231).

property" (p. 27). Because of the barrier it poses to production, Capitalism will not tolerate it in the long term.

This position fails in both historical and theoretical terms. Historically, landowners appear increasingly powerful within the global economy (see Chapter 5), and regularly come into conflict with capitalist class interests (see Chapter 4). Theoretically, the fact that landed property presents an obstacle to capitalist development does not mean that landed property stands *outside* the CMP. Marx unequivocally argued that landownership impeded capitalist development and believed this was one of the features of the class-status of landowners. Labor also presents obstacles to capitalist development and occupies a permanently antagonistic role vis a vis capitalists. But labor is also the life blood of capital.

In fact, all classes potentially destabilize the capitalist mode of production—competition among capitalists can lead, after all, to a falling rate of profit, which tends towards throwing the entire system into crisis. Neocosmos denies that landowners could possibly be a third class of the CMP due to the supposed barrier landowners pose, but he fails to contend with Marx's claims that the very same relations which erect landownership as a barrier to capitalist development also establish the landowning class as the third class of the capitalist mode of production

Guidi (1998) also takes up a "withering away of the landlord class" position, arguing that the initial necessity of the landowning class is reversed as capitalism progresses. Guidi agrees with Marx that labor must be divorced from the land as a precondition of wage labor, and so of capital. He emphasizes accurately that:

> On the one hand rent, as a necessary condition of the "double freedom" of labor power, appears as a presupposition of capital. On the other hand, the nature of rent in modern landed property can be understood only after discussing the concept of capital and

> analyzing the processes of production, circulation and distribution that arise from it. This is the logical circularity that concerns the concept of rent, and this circularity is grounded on capital and its determinations. (Guidi, 1998, p. 76)

Guidi notes that the term "presupposition" is more complicated than it appears at face value. He argues that for Marx, as for Hegel, presupposition is more than something that precedes and relates to another thing—rather, a "presupposition" articulates an intimate interrelation of the totality to itself-as-other. Ground rent, according to Guidi, is capital's other which capital requires to ground itself.

But, for Guidi, rent ceases to serve as the presupposition of capital. In late capitalism, the "reproduction of labor power" takes its place. But although Hegel's concept of precondition has no specific content, Marx argues that ground rent *specifically* is a precondition of capitalism. Guidi over-Hegelianizes Marx, focusing on the *form* self-as-other at the expense of the specific content of private property in land. Ground rent is a presupposition of the CMP because it bars the subsistence activity of proletarians, forcing them into waged labor. The "reproduction of labor power" cannot serve this function.

4: The rise of the rentier

David Harvey (2007) writes that "Both rent and private property in land are socially necessary to the perpetuation of capitalism" (p. 371). Rather than disappear, Harvey suggests that rent and landed property *are transformed.* He argues that financialized landownership is the properly capitalist form of landownership, and that all economic agents increasingly tend to

treat land as a "pure financial asset" (p. 347). In many of his texts, these arguments fall broadly in line with the "class fraction" argument.[8]

However, in his more recent work, Harvey advances a theory of the *rentier class*. The *rentier* has become a favored analytic framework, especially since the turn of the 20th century (Andreucci et al., 2017; Gunnoe, 2014; Hudson, 2014; Jayadev & Epstein, 2007; for a summary of post-Keynesian theories of the "rentier," see Lapavitsas, 2013). The rentier class fraction makes money from collecting rents on monopolized resources. Sometimes Harvey characterizes the rentier class as another addition to the list of class factions which includes financiers, landowners, merchants, and others. In these texts, he distinguishes the landlords from rentiers as follows: "Landlords collect rent because the land and properties they own are scarce resources. Rentiers make money from royalties and intellectual property rights" (Harvey, 2010, p. 40). However, more recently, Harvey's uses "rentier" to refer to rent-seekers in "property and asset markets of all sorts," and he uses the terms rentier and landlord interchangeably (Harvey, 2017).

Harvey's rentier is not a financier. While a financier collects any type of economic rent (interest, dividends, bond yields) the rentier collects a rent for the use of a monopolized resource. The rentier's power derives from monopoly power. Marx does not discuss "monopoly rents" as a distinct form of rent alongside Differential Rent 1 and 2 and Absolute Rent, but Harvey takes the comments Marx makes about monopoly prices and rents and argues for monopoly rents as a category in their own right (2007). He has also argued that monopoly rent is the fundamental rent relation in urban areas. In his later work he draws the concept of rent even closer to the concept of monopoly writing, for example, in *Rebel Cities*: "All rent, recall, is a return to the monopoly power of private ownership of some crucial asset, such as land or a

[8] "But there is no question that the balance of forces between these two class factions [of finance capital v. Industrial capital] (as well as between them and the other major class factions, such as landlords and merchants) has never been stable, and that shifting hegemonies have certainly occurred" (Harvey, 2013). However, Harvey also criticises the notion of the "power bloc," which is, at least for Poulantzas, the foundation of class fractions.

patent" (Harvey, 2013, pp. 92–93). Harvey reminds us that the fundamental social relation of private property in land is essentially a monopolistic relation.[9]

However, Harvey's theory of the rentier class erroneously conflates ground rent with certain forms of interest, profits, and fictitious capital. He argues that rent paid for the use of privately owned land has the same character as "rent" paid for intellectual property. Fees charged for the use of, for example, Monsanto's patented "Fontanelle Hybrid" GMO seeds, or Ray Charles' "Georgia on my mind" are put in the same category as quarterly ground rent paid by a capitalist farmer to a landowner.

This conflation obliterates all that is specific about the form of ground rent—especially the finitude of land (key to its monopolizability). Generally speaking, one can only rent space to one rent-paying entity at a time. On the other hand, intellectual property and patents can theoretically be "rented" to infinitely many people simultaneously. There is no inherent physical or temporal limit to the exploitation of intellectual property (although renting intellectual property to many people simultaneously may reduce its market value, and some forms of patented commodities require physical production), whereas the extraction of ground rent is *based upon* the finitude of its specific use-value, on the fundamental monopolistic character of landownership.

Land is a commodity like no other, as Harvey has argued. Land is a "prerequisite of competitive production in all lines of business activity, even those which are not agricultural" (Marx, 1967, p. 637). Land ownership erects a barrier between labor and land that is "socially necessary to the perpetuation of capitalism" (Harvey, 2007, p. 359). As Harvey writes, "Capital in effect makes a side payment to landlords for excluding labor from the land and smoothing the path to perfect competition across the uneven spaces of a national and even the world market" (Harvey, 2017).

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[9] (Patnaik, 2007, Chapter Introduction)n.

The ownership of intellectual property, on the other hand, does not serve an integral function for capital. Capitalist landownership controls poor and working people's relationship to subsistence activities, extinguishing it to create free labor forced to go work, or allowing it when it supports existing patterns of accumulation (Goffe, 2017). In lumping together these two categories in the figure of the *rentier*, Harvey disavows the specificity of capitalist land relations that he elsewhere emphasizes.

Persisting Divisions Between Landowner and Capitalist

Several thinkers above assume that landowners as distinct entities are a dying breed. However, there is evidence of the contrary. A substantial 40% of farmland is owned by landowners who merely charge rent and are not involved in production (Figure 1). There has also been a slight increase in tenancy over the last 50 years. Landlords of farmland tend to be non-farmers themselves (Bigelow et al., 2016).

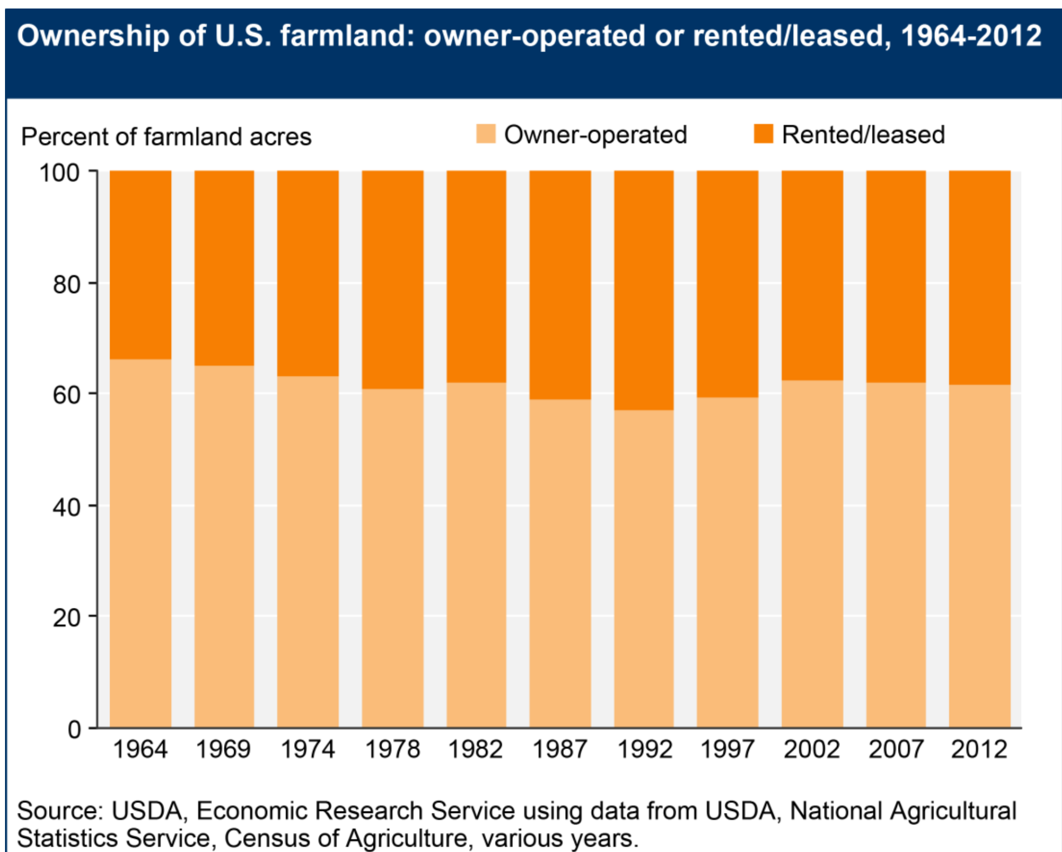


Figure 1-1
Ownership of U. S. Farmland: Owner-Operated or Rented/Leased, 1964-2012

During last 40 years of supposed dissolution of landowners' power, there has actually been a minor increase in the amount of farmland that landowners control. Rent as the percentage of operating expenses for farming companies has also increased (Figure 1-2). This means that landowners have both managed to increase the acreage they control and capture a higher percentage of profits over the last several decades.

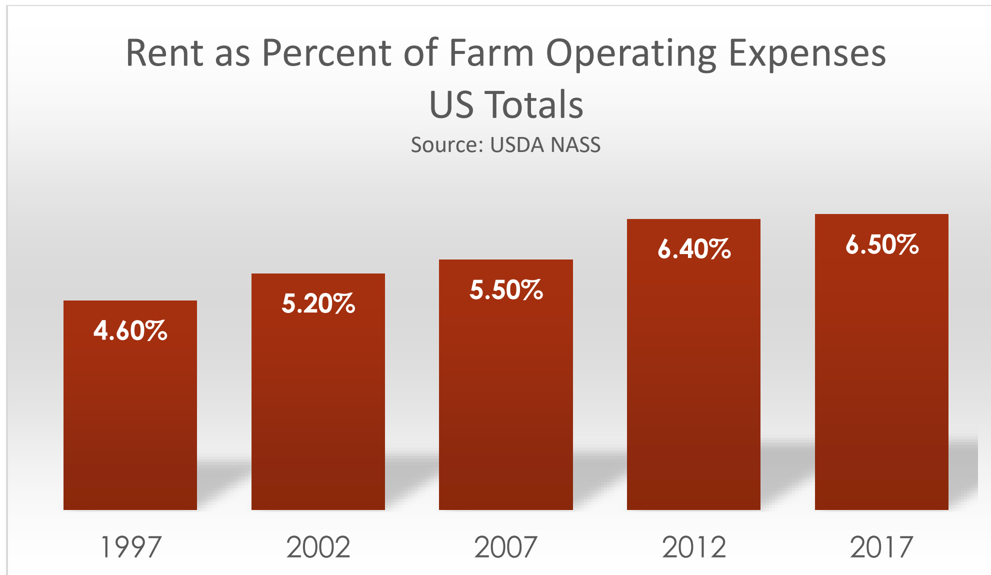


Figure 1-2
Rent as Percentage of Farm Operating Expenses

There is also some evidence that where rent increases, tenancy increases (Figure 1-3). In other words, there is evidence of a relationship between higher rates of ground rent extraction and an increased presence of a distinct landowning interest.

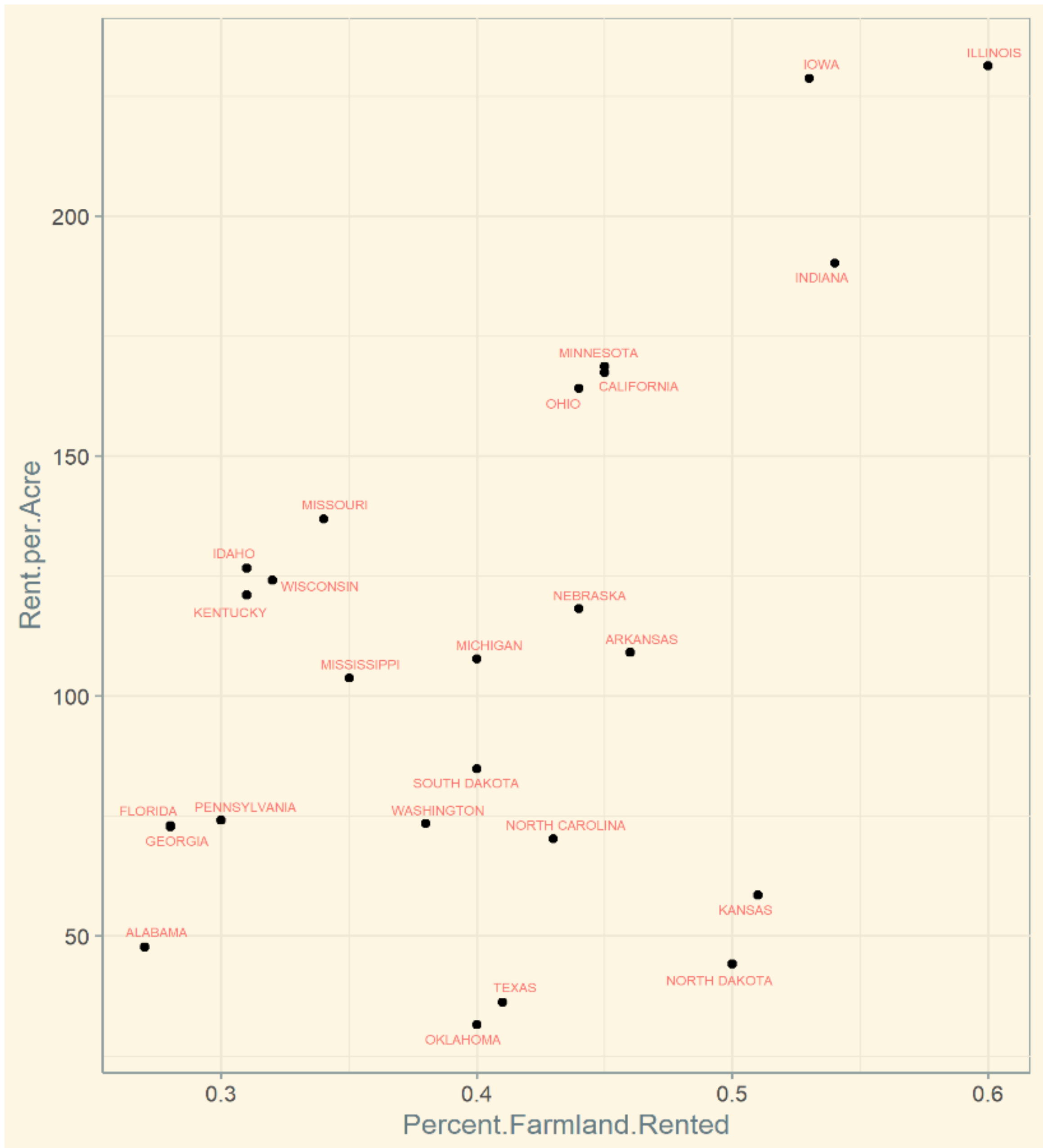


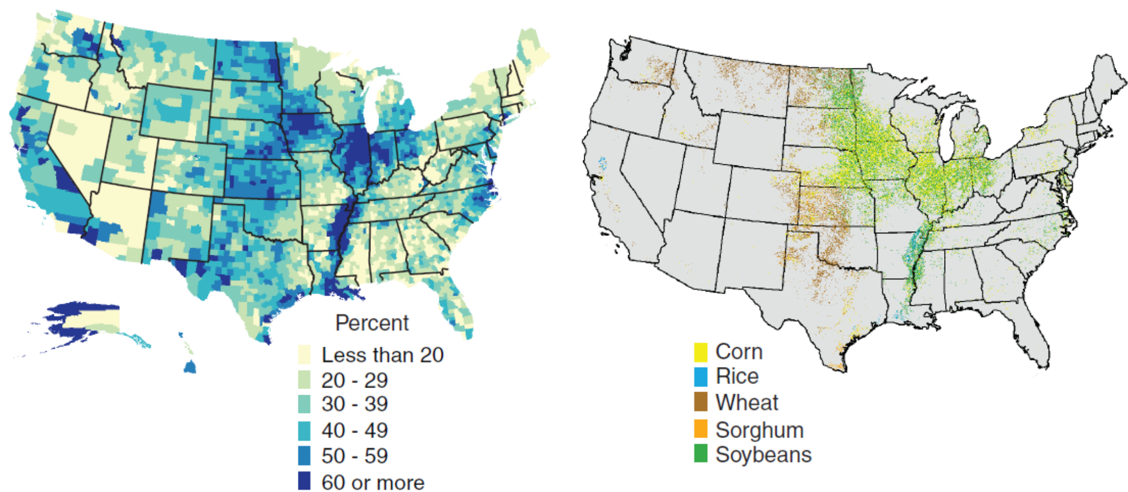
Figure 1-3:
Rent Per Acre vs. Percent of Farmland Rented
Source: USDA TOTAL Survey

We can see in Figure 1-3 that in high-rent corn and soy belt states such as Iowa, Illinois, Nebraska, Indiana, Minnesota, along with leading high-rent "breadbasket" state California,

tenancy exceeds 50%, peaking around 60%. States with lower rents per acre tend to have rates of tenancy at or below the US average—for example, Kentucky, Missouri, Missisipi, and Florida.

There are some outliers in Figure 1-3—for example, Kansas, North Dakota, Texas, and Oklahoma all have a lower rent/tenancy ratio than might be expected. This variation leads us to further questions: Is there something about the particular histories of class struggle in these places which affects the rents and/or tenancy? Alternatively, seeing Texas and Kansas have high amounts of farmland dedicated to livestock, which generally draws lower rents than agricultural land, how do we understand the effects of differential land use in terms of predicted rents and tenancy rates?

Percent of U.S. farmland rented varies by county and is concentrated in major cash-grain production regions



Source: USDA, National Agricultural Statistics Service, 2012 Census of Agriculture.

Figure 1-4
Percent of U. S. Farmland Rented by County and Cash Crop
Source: Bigelow et al. 2016

The majority of land specializing in cash-grain crops is rented (Figure 1-4) (Bigelow et al., 2016, p. iii). Cotton and rice in particular are usually farmed on rented land; 70% of cotton acreage and 80% of rice acreage are rented, compared to an average of 55% for other cash crops.

In figure 5, I have calculated the organic composition of the 5 major cash crops and compared them to the average rent per acre in 2010. According to ground rent theory, low organic composition in agriculture should correlate with high rents. As we can see, he only crop which follows this formula is *rice*.

Rents for rice-producing land follows the predictions of ground rent theory because rice requires very specific types of land and weather available in only a few states, with little land available for expansion beyond what is already being farmed. In other words, landowners of rice-growing land have a clear monopoly. Cotton, in contrast, can be grown in a wide array of regions. Also, the USDA has invested heavily in pushing the green revolution in cotton production, raising its growability and productivity substantially (in part as an attack on African American farmers at the behest of the Southern Plantation Bloc – see Woods 1998), and also subsidizing cotton farmers to destroy their crops. Consequently, there is no shortage of farmable cotton land. This can explain the discrepancy between cotton and rice in Figure 5. It also offers some cursory evidence for the persistence of ground rent dynamics in US Agriculture.

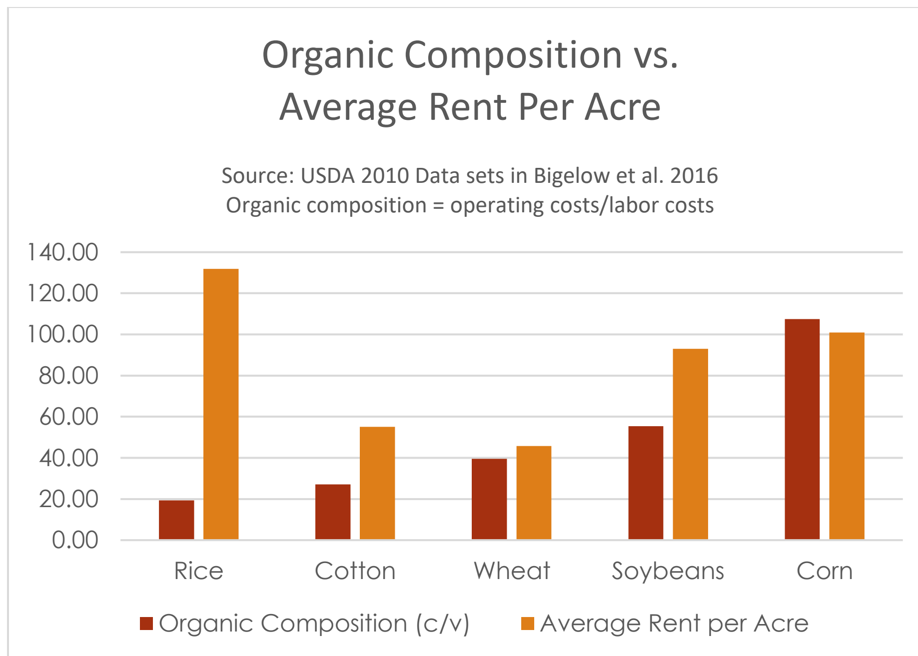


Figure 1-5
Organic Composition vs. Average Rent Per Acre, U. S. Cash Crops

Constant lease renewal ensures that landowners can raise rents as farm income rises. 57% of farmland acres rented in the US renew their lease annually, even though 75% of acres have been rented to the same tenant for over 3 years, and 34% for over 10 years (Bigelow et al., 2016, p. iv).

Evidence from US farmland tenancy shows that while there is a substantial amount of small owner-operated farms, the majority of high-yield farmland—especially cash crops—are owned by non-farmers and rented to capitalist farmers. Rents have been increasing as a percentage of costs for farmers, as well. Regional differences in rent and tenancy persist, but the overall trend suggests that landowners matching the Marxian definition I have defended above are broadly active, wield substantial power, and collect substantial ground rents within the US market for farmland. In Chapter 4 I will discuss the significance of agricultural subsidies also for the agricultural landowning class.

We can find similar trends in commercial rentals, even though we do not have the luxury of comprehensive data as in agriculture. Urban businesses large and small tend to rent storefronts and office space instead of buying, especially in hot real estate markets. For example, in San Francisco—one of the most expensive commercial property markets—even big businesses rarely own their own buildings. The Salesforce tower is the newest iconic skyscraper in the city and has reshaped the San Francisco skyline. The building is named for the tech services company Salesforce. However, Salesforce does not own the building, but rather holds a 15-year lease, valued at over $560 million, on much of the building. Boston Properties, a commercial real estate company, owns over 95% of the building and collects rent from Salesforce and others. Similarly, LinkedIn has a 10-year lease on a skyscraper at 222 Second Street from the real estate company Tishman Speyer, and Twitter rents several floors of an impressive edifice owned by Shorenstein Properties.

Boston Properties, Tishman Speyer, and Shorenstein are all long-standing real estate companies, and provide long-term leases to companies. Boston Properties is a Real Estate Investment Trust (REIT) founded in 1970 (a very early REIT). Tishman Speyer began as Tishman Realty & Construction over a century ago in 1898, transforming into a privately held limited partnership in 1978. Shorenstein is a real estate investment company, previously called Milton Meyer & Co, dating back to at least before 1941 when Walter Shorenstein joined the company (Shorenstein was also the villain behind the I-Hotel struggle and controversy in San Francisco in 1968). Although aggregate data on urban office and retail property is hard to come by, a cursory survey of major properties shows that much of the urban ground rent goes to long-established landowning firms. In these we can again glimpse the formidable strength and dizzying profits of landowners.

Chapter 2 : Ground Rent

Many essays have rehashed Marx's theories of ground rent, defining again absolute and differential rents, arguing for additional rental categories, and trying to ascertain the types of rents involved in specific concrete circumstances. In this chapter I will outline Marx's theory of ground rent, but I do so by contrasting it to Marx's theory of interest. Juxtaposing ground rent theory to interest—which Marx did in his Manuscripts that became Capital vol 3—emphasizes different aspects of ground rent than are usually highlighted in existing literature on ground rent. I also use the recently published unedited manuscripts that became Capital Volume 3, which emphasize a more holistic perspective on ground rent that is less concerned with the *types* of rent and more concerned with the *meaning and implications* of ground rent extraction and private landownership.

One important exception to much theory on ground rent is Utsa Patnaik's (2007) Introduction to her selection of Marxian texts on ground rent, in which she specifically emphasizes the political and "subversive" significance of Marx's category of absolute rent. She argues that Ricardo's move to emphasize differential rent was a way to cauterize the theory of ground rent.

Indeed, Marx intends to show in his writings on rent that Ricardo's differential rent—the most popular theory of rent in his time—was not the most fundamental type of rent in capitalism, and was not *unique* to capitalism. Given center stage, the theory of differential rent obscures essential dynamics arising from capitalist private property in land. *Genuine absolute rent,* on the other hand, according to Marx, gives us insight into the specific and peculiar form of capitalist landownership.

Ground rent is the form in which *private property in land* can be realized economically. The section on ground rent in Marx's Manuscripts/Capital Volume 3 outlines the role taken by the landed property in the capitalist mode of production. Marx describes how landed property can yield revenue for its owner. The social relation of capitalist landed property—embodied by the landowner—is immanent to a rigorous theory of ground rent. Marx describes at length the development of private property in land, landownership, and ground rent in capitalism, and how these forms differ absolutely from pre-capitalist forms of land tenure and ground rent.

Marx highlights the inevitable antagonism between landowners and capitalists, as well as that between landowners and proletarians. These class struggles—over land rather than wages—arise from the particular class interests of landowners and how those conflict with the interests and needs of the working and capitalist classes. Part of Marx's task in analyzing ground rent is to clarify the distinction between the three classes and their competing claims upon the surplus.

The section on ground rent immediately follows the section on Interest Bearing Capital (IBC), which details the division of capitalist class revenue into *profits from production*, on the one hand, and *interest*, on the other. The positioning of these two sections beside one another emphasizes the radical differences between ground rent and interest. It even appears as if they were placed at this point in Capital in order to emphasize and clarify their categorical distinction. Read in sequence, interest and ground rent are shown to originate in two completely distinct and irreducible social relations; interest arises from the bifurcation and confrontation between productive capitalists and money-lending capitalists, while ground rent emerges from the private ownership of land.

Marx often mentions that many landowners view the ground rent they collect as interest on their original investment (purchase of land), but he is clear to note that this is a mystification; any conflation of ground rent with interest is a powerful appearance which obfuscates concrete material relations around land.

Contemporary Scholarship on Ground Rent

> The view of property as a pure financial asset would seem to deny a specific role for rent in theorizing property (which seems essential), for it is difficult simultaneously to reconcile the conflicting dictates of rent and finance theory. (Coakley, 1994, p. 701)

Many critical scholars of land and space have called in recent years for a reconsideration of *rent*, to "bring rent back in" (Andreucci et al., 2017, p. 7); that "rent has to be brought forward into the forefront of analysis" (Harvey, 2010, p. 183), that "land has unique features as a factor of production that set it apart from capital in general and requires a theory of rent," (Ward & Aalbers, 2016, p. 1778) and so on (see also Gunnoe 2015; Harvey 2007, 2015, Knuth 2015). However, these scholars simultaneously insist that "rent" should pertain to an array of situations *beyond* those concerning land relations. They advocate a theory of rent which attends to the special qualities of land, while often in the same breath collapsing "ground rent" with theories of "economic rent" or *interest in general*. This collapse of ground rent with interest bolsters the dismissal of the landowning class discussed in Chapter 1, for in place of a theory of the *landowner* who draws ground rent, we are left with a theory of the *rentier* or *financier* who collects *economic rent in general,* also known as *interest*.

Ward and Aalbers, for example, criticize those who have ignored the concept of differential rents, developed by Ricardo and Marx, and particularly the factor of *location* in rent determination, thereby

> rendering their account of landlords as a class functionalist and disconnected from an understanding of the wider land market… so instead of connecting their research to macro-level analyses and theories of the land market, researchers in this tradition have

> tended to adopt… the rent categories as a political heuristic to expose extractive power relations within an institutional analysis… or obfuscated the issue of rent altogether. (2016, p. 1779)

Here, Ward and Aalbers criticize those who disconnect a theory of rent from the vicissitudes of *land*. However, later in the same text they advocate doing exactly that: they suggest that we "*extend the theory [of rent] beyond land to other situations* where the existence of a class of rentiers itself creates rents—for instance, in the case of immaterial commodities where profit is reliant on the imposition of intellectual property rights, and the process of financialization across the economy generally" (2016, p. 1779, emphasis mine). Ward and Aalbers demand that we attend to the unique status of land in the capitalist economy through the special category of *rent,* while simultaneously insisting that we take *rent* and extend its reach beyond that of land.

Ward and Aalbers conclude this text with the statement that the challenge of this century is "to take the categories of rent *beyond land* in the analysis of a capitalism increasingly reliant on flows of rentier income through financial instruments… immaterial commodities enforced by property… and so- called 'sharing economies'" (2016, p. 1780, emphasis mine). They assert that the contemporary economy is "rife with rentiers" and firmly shift their critique from the landlord as extractor of ground rent to the rentier as extractor of economic rent in general. In doing so, they combine accurate insights about the centrality of land to capitalist accumulation with a conceptual confusion induced by the popular theory of financialization.

Marx warned that interest created such a powerful appearance of value begetting value (M-M'), that it tended to seep outwards, cloaking all types of accumulation in its illusory form. All wealth then seems to be born of interest—even wages appear as interest paid on value (labor) invested. Most financialization theory involves a contemporary version of this mystification, in

which finance devours and digests all sorts of social relations—especially, for our purposes, ground rent.

Marx, for his part, argues that conflating ground rent with interest is erroneous and mystifying. Marx refers to many early economic thinkers when he writes:

> Some writers, partly as spokesmen for landed property against the attacks of the bourgeois economists and partly in an effort to transform the capitalist system of production into a system of 'harmonies' instead of antitheses, as for example Carey, have sought to present ground-rent, the specific economic expression of landed property, as identical with interest. In this way, the opposition between landowners and capitalists would be abolished. (Marx, 1967, p. 79)

In conflating ground rent with interest, any understanding of the opposition between the landowning class and the capitalist class is lost. Below I argue for a strong and undiluted theory of ground rent—specifically, one which is distinct from *interest*.

While it may be easy for the buyers of land to "confuse[e] ground rent itself with the interest form," leading "necessarily… to the most absurd conclusions" (Marx, 1967, p. 624), it is less likely for working class renters, squatters, small home owners, landless peasants, landed peasants, homeless people, and so on, to forget how important and powerful is the control over land, space, and mobility. For someone struggling to find or keep a place to rest, to cook, to soothe children, to grow food, to get high, and so on, the question of *land* and *space* is special.

When working and poor people gain, maintain, and defend access to land and mobility, they have removed some portion of land from potential ground rent extraction. However, they have also achieved some autonomy from subordination of waged labor and begun to create a material basis for association between people that can strengthen resistance movements. Such is

not the case for struggles over credit, intellectual property rights, and the like. Nor are these land-based struggles analogous to struggles over the wage.

Marx criticises the vulgar economists' "Trinity Formula" for giving the false impression that the three sources of revenue—capital, land, and labor—are somehow parallel and analogous to one another, each yielding their own natural rate of return. Marx argues to the contrary that capital, land, and labor have "about the same relation to each other as lawyer's fees, red beets, and music" (Marx, 1967, p. 814).

However, as Rosdolsky points out, the trinity formula "does contain a certain germ of truth." Marx recognized that value does in fact become divided into "three different kinds of revenue, and form the annual income of the three social classes—the capitalists, landowners, and the workers" (Rosdolsky, 1989, p. 29). Part of the trick is to analyze the three classes while remembering their respective bases (land, labor, capital) are each radically unique.

Before proceeding to Marx's analysis of interest and ground rent, it is useful to note briefly how this debate played among his predecessors and interlocutors. This shaped Marx's own approach and understanding of ground rent as well as interest.

Classical Economists and Ground Rent vs. Interest

While the category of ground rent has fallen decisively out of fashion over the last century, it was a very important mode of analysis for the early classical economists, particularly Adam Smith and David Ricardo. Their approaches to ground rent, if inchoate, highlight important aspects of Marx's own theory and draw attention to important features of land that we should attend to, today.

Before Adam Smith, it was common, as it is today, for economic rent and land rent to be conflated. As Sir Dudley North proclaimed,

> But as the Landed Man letts his Land, so these still lett their Stock; this latter is call'd Interest, but is only Rent for Stock, as the other is for Land. And in several Languages, hiring of Money, and Lands, are Terms of common use; and it is so also in some Countries in England.
>
> **Thus to be a Landlord, or a Stock-lord is the same thing**; the Landlord hath the advantage only in this: That his Tenant cannot carry away the Land, as the Tenant of the other may the Stock; and therefore Land ought to yield less profit than Stock, which is let out at the greater hazard. (North, 1907)

Locke also treats "land as a capital asset" rather than considering it as a unique investment, and Turgot argues at length for the economic identity between land and "the general class of capital assets" (Keiper, 1961, p. 8). Turgot writes:

> Since landed property yielding a given revenue is simply the equivalent of a sum of value equal to a certain multiple of this revenue, it follows that any sum of value is the equivalent of a property yielding a revenue equal to a definite fraction of the sum: it makes absolutely no difference whether this sum of capital consists of a mass of metal or of anything else, since money represents every kind of value, just as every kind of value represents money. (Keiper, 1961, p. 12)

However, Turgot did develop one of the first analyses of diminishing returns in agriculture, arguing that there is a limit to how much a farmer can increase the fertility of the land, that there is a point after which investment in the land will yield less and less produce because the fertility of the earth will be "exhausted," husbandry "unable to add anything further," and additional investment will "add nothing whatever to the produce" (Keiper, 1961,

pp. 12–13). So, even while arguing for the economic identity between land rent and economic rent, Turgot notes certain factors which pertain to land rent alone. Specifically, the fact that land is both finite and inescapably corporeal—there are limits to its extent and its inherent capacities.

Adam Smith differed from his mercantilist predecessors by arguing that land rent was *distinct* from returns on other invested capital, arguing that it 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" (Keiper, 1961, p. 14). In this, Smith developed a watershed theory of rent in the *Wealth of Nations* to which subsequent thinkers had to respond. Importantly, Smith emphasized even more thoroughly than Turgot the finite limits of land through the theory of "monopoly" price, and anticipated Marx's theory of absolute rent in his emphasis on the level of rent being limited by what the tenant (in this case the farmer) "can afford to give."

Ricardo, expanded and systematised Smith's initial formulation of ground rent, continuing to focus primarily on the relative fertility of land as the key factor in differential rents. For Ricardo, because of the prominence of land and agriculture to social life, agricultural profits and rent were a central (if not *the* central) determining force in average profit rates and wages, and the overall wealth of society. The centrality of land and agriculture for social life was justified, for Ricardo, through the Malthusian argument which emphasises the direct relationship between food production and population levels. Land rent and agricultural profits thus had their own peculiar nature and logic based upon their centrality to the most fundamental product: food.

In his chapter "On Rent," Ricardo insists that "...the laws which regulate the progress of rent, are widely different from those which regulate the progress of profits, and seldom operate in the same direction" (Ricardo, 1996, p. 46). For Ricardo, the particularity of ground rent rests

on the particularity of the *agricultural sector o*f capitalism. The agricultural sector, because it produced *food*, the most basic necessity, determines profits in all other sectors.

From these early thinkers, we find three insights into why land rent might be categorically distinct from economic rent: (1) Investment in land results in *diminishing returns* in terms of increases in productivity on the land (Turgot); (2) Land has a *monopoly* price unrelated to what the landowner has spent on that land (Smith); (3) Land is qualitatively special, in that it produces the most essential and basic human commodity, *food* (Ricardo) (we would extend the latter to include other necessities immanent to land and space such as accommodation and transportation). Marx's theory of rent is built on an appraisal of these thinkers, so it is not surprising that these arguments approximate many of Marx's own, albeit with important inversions and improvements.

The birth of the marginalist school put to rest such notions of the special quality of land rents. The fact that contemporary dominant marginalist theories of prices and profits were in large part based on Ricardo's theory of land rent does not seem to elevate the popularity of land-rent theory within the discipline. Modern marginalist economics does not consider land rent to be a specific or unique form of profits. However, some contemporary economists have analysed the relationship between land sectors and other investments, and there does appear to be relevant distinctions in their behaviours over time (see Chapter 3).

Fine (1982) faults the marginalist revolution in economic theory for the lack of attention to issues of ground rent and landed social struggles today. For the marginalists, the distinction between wages, profits, and rents "is purely semantic… since all are simultaneously determined by the same principles according to the more or less free flow of resources through the market to equate supply and demand" (Fine, 1982, pp. 347–348). Patnaik (2007) goes even further, writing that modern economic theory has suppressed any real theory of rent in order to avoid an analysis of land ownership that might result in demands for true land reform (p. 18).

Interest

For Marx, interest as a social relation arises (in the capitalist mode of production) directly from the production process as a "part of the profit which the functioning capitalist hast to pay to the owner of capital instead of pocketing it himself" (Marx, 2015, p. 445). The demand for credit expands along with the expansion of the system of production, and with it grows reserves of cash held by productive capitalists as well as moneyed capitalists and landowners. This surplus liquidity is aggregated in banks or in institutions like hedge funds and loaned out at a cost to productive capitalists as well as other investors. The part of the profit paid in interest by the productive capitalist then becomes distinguished from the part they keep—the latter Marx denotes as "profit of enterprise."

Marx asks and re-asks the question, why does this purely "quantitative" distinction between interest and profit of enterprise take on a "qualitative" distinction, such that even when a capitalist uses his *own* money for investment, he still calculates it in terms of a rate of interest which he, in this case, pockets himself?[10] Because the starting point of interest formation is the face-to-face confrontation between the moneyed capitalist and productive capitalist, "Not just as legally separate persons but as persons who play quite different roles in the reproduction process, or in whose hands the same capital really does go through a double and completely different movement. The one simply lends the capital, the other applies it productively"[11] (Marx, 2015, p. 475). Importantly, this highlights "the significance of the legal status of ownership of

[10] And Marx makes sure to tell us, not all quantitative distinctions become qualitative!

[11] It is not entirely clear why this face-to-face confrontation between money-lending capitalist and productive capitalist is so salient as to yield a qualitative break. Merchant capital and productive capital, for example, meet face-to-face all the time without giving rise to new forms. However, it seems that the *appearance of self-valorizing value* which is represented in its most pure form for the financial capitalist may be the lynchpin of Marx's emphasis on this qualitative break.

property” (Harvey, 2013, p. 193). This division, and the competition which arises between them, also determine the *rate of interest* (Marx 2015, p. 473).

For the lender, money appears to directly valorise itself. Everything that happens between doling out the loan and the receiving the original sum back, plus interest, “is obliterated” in the process (Marx, 2015, p. 454). This is the other side of commodity fetishism: for the money-dealing capitalist, the production process is obliterated and forgotten. As Harvey (2013) notes, “Here, in Volume III, the circulation of interest-bearing capital reappears as the consummate fetish form of capital’s circulation” (p.173).

This illusory structure of self-valorising value then infects its neighbours. The productive capitalist, too, believes his capital to be self-valorising, and views his investment as interest-bearing. The movement of interest has no governing structure or tendency other than the supply and demand of money capital, and the fallacy of supply and demand is also generalized across sectors.

The money lending capitalist deals specifically in interest-bearing capital (IBC). In modern terms, this would be direct money lending from, e.g., banks. However, when we think of “finance” today, we usually also think of stocks, bonds, and derivatives. Marx called such vehicles “fictitious capital.” Fictitious capital is created by securitizing any flow of money; to purchase fictitious capital is to purchase the *legal right* to collect a future flow of money (profits of a company, taxes collected by a state). Marx calls this “fictitious capital” because while they are often treated as capital, they are merely *legal rights* to claims on future income. As legal rights, they depend on private property relations being secured by the state (Best, 2017, p. 85).

The circulation of interest-bearing capital and fictitious capital is essential for capitalist production and the reproduction of the system as a whole; financial capitalists (in the form of banks, hedge funds, pension funds, and so on) agglomerate liquid capital from around the

system and make it available as loans or in the purchase of stocks to productive capitalists who are enabled, on the basis of this access to liquid capital, to initiate production on scales otherwise impossible. It is as disingenuous to decry finance in favor of production as it is to decry the cherry blossom in favor of the cherry, although many continue to do so.

Ground Rent

> Landed property presupposes that certain persons enjoy the monopoly of disposing of particular portions of the globe as exclusive spheres of their private will to the exclusion of all others. Once this is given, it is a question of developing the economic value of this monopoly, in other words valorizing it on the basis of the capitalist mode of production. (Marx, 2015, p. 715)

Marx's lengthy section on ground rent begins with bracketing off pre-capitalist forms of landownership and rent, emphasizing instead ground rent as "the autonomous, specific economic form of landed property on the basis of the Capitalist mode of production" (2015, pp. 722–723). Here, Marx triumphantly introduces capitalist landowners as the third element constituting the "economic framework" of modern society (2015, p. 717).

Marx precedes his discussion of absolute and differential rent by introducing a different and apparently more fundamental distinction: he tells us that there is "genuine" ground rent on the one hand, and ground rent "in practice"/ "economically speaking" on the other. The former, we will find, is embodied in the theory of *absolute rent,* and is characterised by that rent for which the landowner is the "creative basis" (the true genesis).

Non-genuine rent (not a term used by Marx), on the other hand, includes any other economic valorisation of the landowner's monopoly over land, from whatever source it comes, which can include "a hidden deduction from average profit, normal wages, or both together" (p.

723; see also pp. 725, 727). When a landowner draws non-genuine rents from a hidden deduction from wages of (in this case agricultural) workers, this means that the capitalist operating on the land pays workers below the value of their labor power. This creates a surplus that may be paid to the landowner, which can, over time, depress the value of the workers' labor power. Non-genuine ground rent can also come out of the capitalist's average profits, resulting in the capitalist taking home less than the average profit at the end of the day.

Rent as deduction from average wages and/or average profits is of prime importance for our present day considerations, but Marx brackets off these forms of rent at the beginning of his discussion because he wishes to show the core structural features of capitalist ground rent which in turn *enable* other derivative (non-genuine) types of ground rent extraction.

Marx brings up the division of the surplus between landowners (via ground rent), capitalists (via profit and interest), and workers (via wages) at the forefront of his discussion of ground rent, describing it as in important tension within which the ground rent relation is located. He also calls attention to some large-scale trends that are imbricated with ground rent dynamics—the ever-increasing demand for land (2015, p. 734); a relative decline in agricultural population relative to the industrial population (2015, p. 734); the *growing* portion of surplus value captured by landed property in the course of capitalist development, as a result of their "monopoly of the earth," which enables landowners to raise the rent and the price of land (2015 p735-6). (I will return to some of these dynamics in the conclusion to Chapter 5, below.)

The monopoly character of landed property features prominently from the beginning of Marx's analysis on ground rent. Erroneous conceptions of rent suggest it still arises, as in feudal modes, "not from the *price* of the agricultural product, but from its *quantity*, i.e., not from social relations but form the earth itself" (2015, p. 775). On the contrary, when the legally sanctioned and protected monopoly over land triumphs as the fundamental social relation regarding land, land monopolists (landowners) are rewarded with ground rents.

This, more than almost any other aspect of the capitalist mode of production, invites a theory of law and state into the logical core of what capital *is* and *needs*. The legal defense of monopoly over land—and its corollary, state-military defense—is implied in the concept of private property itself.

This monopoly over pieces of the earth gives landowners the power to extract ground rent, and from here Marx offers us two central forms of ground rent—absolute and differential. In his original draft, he discusses absolute rent first, followed by differential rent (a much longer section) but includes a note that differential rent should be moved before absolute, which Engels follows in his edit. It is likely that Marx wanted to start with differential rent because this was the prevailing theory held by economists of his time. One of Marx's strategies throughout the volumes of Capital is to begin with the most ready-to-hand or commonplace understanding of a given issue and unfold from there (paying homage to Hegel's method in the Phenomenology).

However, it is absolute rent that truly embodies Marx's intervention into the theory of rent. Absolute rent tethers the specific form of contemporary landownership to the capitalist mode of production, and no other mode. Differential rent is merely a transfer of a portion of the commodity price from the capitalist to the landowner and involves no effort or creation on the part of landed property. Absolute rent, on the other hand, has capitalist landed property as its "creative basis." "Landed property has created this rent in itself" (Marx, 2015, p. 743, fn. 26).

Our goal here is to look at the conceptual stakes of Marx's conversation of ground rent, rather than the typology for typology's sake. All ground rent (that is not a siphon from average wages or profits) depends on selling commodities at a price which enables the capitalist to make a profit greater than the average profit, so they can pay the landowner and still keep an average profit. In other words, the market price must be greater than the production price of the product (where the production price = the cost of production + average profits) thereby yielding a "surplus profit" over and above the average profit which can then be gathered as ground rent by

the landowner (Marx, 2015, p. 737). In other terms, the *rate of profit* must be higher than the average.

Differential rent explains the many reasons why market price can exceed the production price by *radically different magnitudes* for different commodities, thereby yielding very *different rents on different plots of land*. Absolute rent, on the other hand, considers the case where market price in excess of production price is the result of the landlord withdrawing or threatening to withdraw land from the market—or in other words, absolute rent results from the fact that landowners generally refuse to rent land for free (or at exceedingly cheap prices). Absolute rent is the rent which results from the landowning class wielding their special power of land monopoly over capitalists.

Absolute Rent: The power of the landowner to withdraw land from the market.

The *willingness to hold land out of the market* is a characteristic feature of capitalist landed property, and its main means of wielding power. This reaffirms landowners' reliance on law or state formation, as it takes legal or militaristic defense to prevent people from using unused but "privately owned" land. This also comprises one of the ways in which landed property is "a barrier to the investment of capital and its unrestricted valorization on the land" (Marx, 2015, p. 739). Capitalist rent necessarily must "restrict the land as a field of employment for capital to be invested." As such, absolute rent arises from a pitched battle between landowner and capitalist about land use and the cost thereof.

Marx begins his discussion of absolute rent by noting that the theory of differential rent is independent of it. In other words, the theory of differential rent functions whether or not one

has a theory of absolute rent. This explains the possibility of Ricardo maintain a strong theory of differential rent while dismissing the existence of absolute rent.

Marx's theory of Absolute Rent emerges from the fact that landlords will not lease their land for free or too cheaply. The notion that the land of the least fertility currently under cultivation—"Type I" land, for ease—will yield a rent of zero, is the fundamental limit case upon which Ricardo bases his theory of differential rent. However, Marx reminds us that, as landowners are not philanthropists, there is no reason for them to allow use of their land with no remuneration (Marx, 2015, p. 739). Even though "the condition for the valorization of capital as capital" is present on this Type I land—if a capitalist were to farm it without paying rent, they could reap average profits on their invested capital—this gives no reason to the private landowner to let their land for this use for free.

Anywhere that we find land cultivated without rental payments, we find a "*factual*—if not also legal—*abolition of landed property*" (Marx, 2015, p. 739). This can happen, for instance, when the landowner and capitalist are one and the same (and so they can farm land which yields only average profits).

For new plots of so-called "Type I" land to be rented and come under cultivation (bracketing off the potential extraction of rent from average wages or average profits, which in fact "constantly happens in practice" Marx, 2015, p. 743), the market price of the commodities there produced—say, corn—must rise enough to yield price of production plus an extra amount that can be transformed into *rent*. If the price of corn does indeed rise, bringing Type 1 land into cultivation, insofar as the price rise is a result of needing more corn, landed property is the genesis of this rise in price—and so, of the absolute rent then drawn. The rise in the market price of corn is not the cause of rent—the rent is the cause of the price rise (Marx, 2015, p. 43).

The corn laws of Marx's time provided an excellent example of the activity of the landowning class—abetted by law and state—leading to higher market prices; the corn laws

enabled the price of grains to stay high, maintain a surplus profit above average profit and thereby maintaining the grounds for high levels of rent extraction. The contemporary pro-tariffs, anti-free-trade approach of not only the Trump administration but various democrats and "leftists" must also be analyzed within the context of the growing strength of landowning class interests (see Chapters 4 and 5).

This absolute rent of which landed property is the creative origin depends on two important dynamics: (1) the fact that agricultural products have a *higher value composition* than the average, and (2) that landed property functions as a barrier preventing the equalization of this higher value and profits across spheres (Marx, 2015, p. 746-748).

Marx goes to some length to emphasize that absolute rent is not simply the result of agricultural products having a higher value above their price of production, as this can be the case in for "a whole number of manufacturing products" that do not necessarily yield absolute rent (2015, p. 748). Agricultural products must have a higher value composition *and* the equalization of this value imbalance must be barred; the general tendency toward equalization of surplus-value across spheres of production is blocked by landowners collecting this extra profit before it can be equalized. Agricultural products thus "have a monopoly because their value is not levelled down to their price of production as it is with other industrial products whose values stand above the general price of production" (Marx, 2015, p. 750).

In the capitalist economy at large, the equalization of surplus-value only faces relatively few and always accidental and temporary barriers (Marx, 2015, p. 749), but landownership confronts this equalization process with a *structural barrier*:

> capital comes up against an alien power which it can overcome only partly or not at all, a power which restricts its investment in particular spheres of production, allowing this only under conditions that completely or partially exclude the above-mentioned general equalization of surplus-value to give an average profit, it is clear that in these spheres of

production a *surplus profit* will arise, from the excess of commodity value above its price of production, which is transformed into *rent* and as such can become autonomous vis-à-vis profit. And it is as an alien power and a barrier of this kind that landed property confronts capital over its investment in the land, or that the *landowner* confronts the *capitalist*. (Marx, 2015, p. 749)

The effects of landed property come to bear on the economy as a whole insofar as the collection of rent interferes with the equalization of surplus value across spheres (Marx, 2015, p. 750). However, the active role of landed property is this field is restricted to pushing of the price of "products of the soil" above their price of production to yield some rent, which in some cases is very small (Marx, 2015, p. 751). There is no guarantee, for example, that landowners will be able to capture all the excess profits, or even the majority of them. The general state of the market, and not landed property, determines "how far the market price rises above the price of production and towards the value, and to what extent, therefore, the surplus-value produced over and above the given average profit in agriculture is either transformed into rent or goes into the general equalization of surplus-value that settles the average profit" (Marx, 2015, p. 751).[12]

[12] "The essence of absolute rent consists in this: equally large capitals produce different *amounts* of surplus-value in different spheres of production according to their differing average composition, given an equal rate of surplus-value or equal exploitation of labor. In industry these different amounts of surplus-value are equalized to give the average profit or are divided uniformly between the individual capitals as aliquot parts of the total social capital. Whenever industry needs land, whether for agriculture or for the extraction of raw materials, landed property blocks this equalization process for the capitals invested on the land and captures a portion of the surplus-value which would otherwise go into the equalization process, giving a general rate of profit. **Rent then forms a part of the value of commodities, in particular of their surplus-value, which simply accrues to the landowners, who extract it from the capitalists, instead of to the capitalist *class*, who have extracted it from the workers.** It is assumed in this connection that agricultural capital sets more labor in motion than an equally large portion of non-agricultural capital. The extent of this gap, or whether it exists at all, depends on the relative development of agriculture and industry. By the nature of the case, this difference must decline with the progress of agriculture, unless the ratio in which the variable part of the capital declines vis-à-vis the constant part is still greater in industrial capital than in agricultural. This absolute rent plays a still more important role in extractive industry proper, where one element of constant capital, raw material, completely disappears, and where, with the exception of branches for which the portion consisting of machinery and other fixed capital is very significant, the lowest composition of capital invariably prevails. Precisely here, where rent seems to derive from a monopoly price alone, extraordinarily favorable market conditions are required for the commodities to be sold at their *value* or for rent to equal the entire excess of surplus-value in a commodity over and above its price of production. This is the case for example with rent for fishing grounds, quarries, natural forests, etc."(Marx, 2015, p. 759).

There is no reason to confine this phenomenon to the production of agricultural goods and rent on agricultural land. The recent spike in home rents, for example, should be considered in relation to the ability of a landowner to raise sale price over costs of production (see Chapter 4). However, while every industry must pay some kind of rent, not every industry is rent-burdened. Absolute rent can only apply in situations where there is a functional monopoly on land; where there is some restriction as to where that industry can be located, and a limit on the amount of land available to it. I discuss such sectors as those which produce "High-Rent Commodities" in Chapter 4.

In the end, Marx asserts that absolute rent can easily disappear, and even in "normal conditions" it can only be relatively small (Marx, 2015, p. 758). However, even as it is overstepped by other forms of non-genuine rent, absolute rent represents the fundamental power of the landowner to withdraw land from the market, and the *potential* of its existence is fundamental to other forms of rent extraction.

Sandemose (2006) has clarified an important point about absolute rent:

> The point of the "monopoly of landownership" is not that it prevents "excess surplus value… from going into a general equalization of the rate of profit." This reasoning is tautological. The amount in question is an "excess" amount precisely *because* it is not taking part in the equalization. It shares this characteristic with all other parts of the product value from agriculture. It is *the whole agricultural sphere* that is exempt from inter-sectoral competition. That goes for any part of its product value, be it *c* (constant capital), *v* (variable capital), or *s* (surplus value).
>
> … For absolute rent to exist the value composition has to be lower in agriculture than in industry. In the latter, property relations create an average rate of profits, *p',* in the former, other property relations create conditions that—to a significant degree—secure

> exemption from the regime of *p'*... Agricultural tenants do not compete with other sectors, but they compete with each other. (Sandemose, 2006, p. 361)

If we consider other sectors as subject to the barrier of landed property, it is important to consider the effects of a *lack* of competition with external sectors.

Differential Rent: Land as monopolizable and un-produced (value-less).

Most commentators on Marx's theory of differential rent (DR) have rightly focused on his improvement on Ricardo's theory. Marx expands Ricardo's theory of differential rent beyond difference based on fertility or location/situation, to differential taxes, level of development, and differential concentration of capital between farmers (Marx, 2015, p. 807; see Harvey, 2007, pp. 353-358).

The beginning of Marx's section on Differential rent centers on why rent payments are not a part of production price, not a part of the constant capital—why they are not the c in c+v+s (Marx, 2015, pp. 799-800). Fundamentally, this is because land is not a commodity, it is not produced. "But!"—we might argue—"other natural resources are considered to be a part of constant capital, for example, wood used to make paper pulp, or natural fertilizer to fertilize crops." The difference here between land and things like wood or manure are that wood and manure have been gathered and brought to production through labor, so they have, in fact, been "mixed" with labor, thereby bearing a value in addition to a price.

Slightly more complicated is the distinction Marx makes is between land and other non-commodity, value-less natural resources for which capitalists pay nothing. His example is a fascinating one: he compares a waterfall—which, as an element fixed in space, can be subjected to the ground rent relation, is a "monopolizable and monopolized natural force" (Marx, 2015, p. 803-804)—to steam power, in which "the manufacturer pays for the coal, but not for the ability

of water to change its aggregate state and transfer itself into steam" (Marx, 2015, p. 801). The latter process of water changing its aggregate state is just as un-produced and hence value-less as *land* and the waterfall that sits on it, but the water changing its state is *not monopolizable*. Are there monopolizable, value-less resources other than land and its accoutrements? As far as the ground rent argument stands, no. We must understand that land (and to some degree, it is more accurate to say "space") is the basic context by which any non-produced resource enters the production process (e.g. mining).

The surplus profit arising from the use of a waterfall does not arise from the investment of capital but from the monopolization of the natural force of the waterfall (Marx, 2015, pp. 803–804). This increased profit and ground rent from the waterfall does not affect the general production price of the commodity, because it derives from *relative* returns, not an absolute rise in productivity (Marx, 2015, pp. 804). The natural force of the waterfall is not the "source" of surplus profit here, but simply a "natural basis" for it, because it is "the *natural basis* of the exceptionally increased productivity of social labor" (Marx, 2015, p. 804).

Marx puts much stake in this distinction between *basis* and *source,* which, while being somewhat semantically weak, we should understand in its strength as the difference between, essentially, the *preconditions* of a given social relation such as rent, and the *generative actor* in said relation. It mirrors the difference between private property in land (basis of capitalist production) and capitalist who initiates production/ worker who produces value (the sources of capitalist production).

Marx continues to elucidate why landed property is not the creator of differential rent: if no one owned property with a waterfall, a manufacturer could use it as "unclaimed land"—hence landed property "does not create the portion of value that is transformed into surplus profit; rather it simply enables the landowner… to entice this surplus profit out of the manufacturer's

pocket and into his own" (Marx 2015 p805). This distinguishes differential rent from absolute rent, because differential rent does not require landed property (Patnaik, 2007).

Chapter 3 : Land and "Finance"

A Note on Data

The study of landownership on a large scale is impeded by the fact that most major landowning companies are private, do not disclose their dealings, and are often not known by name to the international community of analysts and scholars (either critical or mainstream). Much contemporary critical scholarship on landownership focuses on Real Estate Investment Trusts (REITs). These landowning entities happen to be one of the easiest to analyze, as they are usually publicly traded and so their accounts are available to the public. REITs are effectively investment vehicles for the masses—they allow "anyone" to invest in real estate. The study of REITs, then, is the study of a sort of mass market version of landownership and cannot be mistaken for representing landownership in general. REITs are public in order to seek a wide basis for raising liquid capital. Studies that focus exclusively on landowning companies that are publicly traded, as well as a few privately traded but highly leveraged landowning companies, are therefore restricted to *less powerful landowning companies:* those that are *in need of investment.*

And public investment companies do not own the bulk of the nation's land. Ninety-seven of the USA's top 100 largest landowners are individuals, families, or heirs (*Land Report 100*, 2019). Although we cannot know for sure, it is entirely possible that these legacy landowners have a worse effect on the world's arable land, urban poor, and so on, than publicly traded REITS, even though they are less "financialized" in their ownership structure.

I emphasize this at the outset of this chapter, which focuses on fictitious, leveraged, securitized, and speculative forms of ground rent extraction, to remind us that while these forms

have been increasingly significant to global economic life, they comprise only a portion of the revenue of the landowning class in general—likely, a small portion.

Introduction

So far, we have considered ground rent primarily in terms of direct, periodic ground rent payments to a landowner by a tenant. We must also address mortgage, land-based security, and the purchase and sale of land. These are the forms that bring land into the world of "finance." Financial profits derive from money lending, stocks, bonds, and securities that yield a combination of interest payments, dividends, and profits from their purchase and sale. In this chapter, I explore the ways that speculation in land and land-based securities differ from these purely financial—and often fictitious—investments.

The 2007 subprime crisis heightened the visibility of land-based investment vehicles such as the mortgage-backed security. Many critical and leftist analysts have assumed that the increase in speculative investment markets in land are evidence of a process of financialization that detaches land-based investments further and further from ground rent and the particularities of land.

Although critical scholars of land and housing argue that speculation in land is identical to speculation in financial assets (see Chapter 5), several critical scholars of finance disaggregate rent and real estate from their study of financial assets, putting aside rent and real estate so as not to muddy their data. Krippner, for example, questions whether real estate markets should be lumped together with financial markets (Krippner, 2005, pp. 179, fn7); Norfield excises real estate from his analysis of profit rates in the investment sector (Norfield, 2012); Phillipon (2011) excludes real estate from all calculations, noting that the inclusion of real estate is the main cause of misleading and inconsistent classifications of financial activities (p. 3). Land and real

estate are pushed out of broader analyses of finance, but they have no other place to go. The lack of a field of study based in ground rent theory means that the only way to study rent is to collapse it into finance (see Chapter 5).

For mainstream economists, the relationship between real estate markets and financial markets is an open question. Preoccupied with diversifying investment portfolios, economists seek investment opportunities that will hedge against plunges in the stock market; real estate is (potentially) a good candidate if it can be proven to behave differently than other markets. Thus, there is a wealth of mainstream scholarship comparing land-based markets to stocks and bonds.

Building on a review of this scholarship, I argue that speculative markets for land are still tethered to ground rent and the logic of landownership. The sale and purchase of land, the mortgaging of land, and the production of land-based securities all involve predictions about future ground rents, and so are all speculative. As such they mirror other speculative practices: Land is bought and sold much the same as financial assets are bought and sold; mortgages are structured like loans; land-based securities are traded in the same manner as other financial securities. However, their returns are based on ground rents rather than company profits or other purely fictitious revenue streams, which means that land-based investments follow different trends than other financial markets.

The sale price of land is calculated by capitalizing future rental payments. Mortgages are based on this capitalized price, with additional speculation on the ability of the landowner to pay. Land-based securities are either directly securitized ground rents (in the case of most Equity REIT stock as well as the recently developed rent-backed security), securitized mortgages (in the case of Mortgage REIT stock or mortgage-backed securities), securitized cash flow from the purchase and sale of properties (some Equity REIT stock), or derivatives based upon these securities. Each of these investments is tethered to ground rents.

In their search for diversification options, economists generally analyze two different categories of real estate investment: direct and securitized. Studies analyzing securitized real estate often use data from REITs, which are relatively easy to obtain as they are often publicly traded and their data is aggregated by entities such as Nareit (National Association of Real Estate Investment Trusts). Direct real estate investment is more difficult to calculate accurately, for economists as well as for theorists of ground rent.

Economists calculate direct returns on real estate in three ways: cash rents (ground rent), actual land sales, and assessed land value. Rents are difficult to assess because most metrics of rent include "imputed rent" of owner-occupied housing and owner-operated farmland. House and land price assessment varies widely—for example, the USDA's valuation of agricultural land is calculated by assessed value combined with cash rents, while private listing companies like Zillow calculate home value and predict the housing market based on a combination of assessed, list, and sale price.

Generally speaking, assessed price (or "capital gains") is an inferior metric to actual sale price, as the former is a guess and the latter based on actual transactions. The Case-Shiller housing index is based exclusively on actual sales, and I use this for housing when possible. However, the Case-Shiller index is less useful for granular analysis, and so economists frequently use a proxy for direct real estate returns, such as dividends from the ownership of stock in a direct real estate company.

Sale Price of Land—Cap Rates v. Interest Rates

While some buildings can be costly, in any competitive land market, variations in sale price depend far more upon the land—the ground rent—than on the building or structures built upon it. Buildings and structures fall further in contribution to price during booming rental

markets in growing cities.[13] The volatility and geographic differentials in home and building prices are broadly due to land (Davis & Heathcote, 2007). Buildings are capital investments in land, similar to building a well or windmill on agricultural land. They (can) increase the potential ground rent for the landowner, realized as differential rent 2. Knoll et al. (2017) find that "Land prices, not construction costs, hold the key to understanding the trajectory of house prices in the long-run." (2017, p. 1).

What determines the sale price of land? Land itself has no value because it is not produced, so its sale price does not reflect even its adjusted value. The sale price of land is generally tethered the ground rent it will realize in the future. Marx described this as *capitalized ground rent*. To capitalize ground rent, one takes the presumed rental income over a period of time—generally a year—and calculates the price of the land as if the ground rent were interest payments on a capital outlay. For instance, if a plot of land is expected to draw $10,000 in rent over the relevant time period, and interest rates are at 4%, that means the land will be thought of as worth $250,000 (because $10,000 is 4% of $250,000).

Sale price = (yearly rental income / interest rate)

We can see from this equation that the price of land *falls* as interest rates rise, and the price of land *rises* when interest rates fall. For example, if interest rates were to rise to 5%, the same plot of land would be valued at $200,000 because rental revenue of $10,000 would represent 5% (rather than 4%) of the "value" of the land. If interest rates fall to 2%, the price of the plot of land in question rises to $500,000. Because the price of land is based upon future

[13] "In cities that are experiencing rapid growth, particularly where building is carried on with industrial methods, as in London, it is the *ground-rent* and not the *house* that forms the real object of speculation" (Marx, 2015, p. 761). : "It's not the structure that has a volatile price; it's the land. Where there is plenty of buildable land, the response to an increase in demand for homes is mostly to build more, not to increase prices. Where there is little buildable land, the response to an increase in demand for homes is mostly a price increase, sufficient to discourage buyers enough to reequilibrate the supply and demand." (Leamer, 2007, p. 28)

potential ground rent collection (as well as gambling on interest rates), the "price of land" is always an irrational form, inherently speculative.

The contemporary valuation of homes for sale to and by homeowners is often based upon looking at what other properties of similar quality and geography are selling for—hence, this is how assessment tends to be described to laypeople. However, the sale of rental properties always involves calculation of the capitalization rate or "cap rate" on that property.

The cap rate fulfills the function the interest rate in Marx's original equation. The sale price of land for multifamily rental properties (residential or commercial) is calculated as net operating income (gross profits minus all expenses except property tax) divided by the cap rate:

Sale price of land = net operating income / "cap rate"

Cap rate can be calculated as:

Cap rate = Net Operating Income / sale price (market value)

The sale price of financial assets, on the other hand, is measured by interest rates.

Price of asset = yearly yield / interest rate

The key difference is between the cap rate and the interest rates. Cap rates tend to be higher than interest rates, meaning investment in real estate yields higher returns than other financial investment. The mainstream explanation for this is that real estate is more "risky" than investing in other financial assets. Whether or not this is actually true, real estate lobbyists have

long convinced the US government to guarantee real estate investments and to subsidize housing since the wartime period (see Chapter 4) on the basis that it is “too risky.”

Chervachidze et al. (2009) show that cap rates are affected by risk-free Treasury rates, general corporate risk premium operating in the economy, and the net amount of liquid debt issued in the economy. Furthermore, in determining cap rates, past growth in rental income is extrapolated forward, resulting in overvalued properties whenever an increase in rents is followed by a downturn (Sivitanides et al., 2001, p. 3).

Cap rates are the analytic tool used to assess the reasonable price of a property; however, the profitability of real estate investment also depends on how highly leveraged the purchase. A common cap rate expectation on rental multifamily property in recent years is 6% (*North America Cap Rate Survey H2 2019*, 2019). This means a property producing 60,000 in rentals per year will be valued at 1,000,000. After making back the principal (which in this case would take about 16 years), all rental income is pure profit. If the rental market tanks in year 5 and rental income drops from 60,000 to 30,000, you still get $30,000 profit (3% of your original investment).

However, if you borrowed $900,000 at 4% interest and only put down $100,000 of your own money, that $60,000 minus $36,000 interest payments gives you a 20% profit rate. But if you’re unlucky and that rental income drops to $30,000, your profit rate is -6%. You owe an interest payment of $36,000 but only have income to pay $30,000 (Kliman, 2011, pp. 32–33). Highly leveraged properties produce unusually high profits during good times but end up costing money during a downturn.

Because there is no underlying value to land, speculative calculations are the only way to assess land’s value. Some scholars have defined financialization in part as the growing pervasiveness of calculative financial practices (Bryan & Rafferty, 2014). However, calculative financial practices are the *only* method for assessing the price of land. Nor have the methods of

calculation changed dramatically since the recent increase in financial activity in the 1970s; Crosby and Henneberry (2015) have shown, in the case of UK commercial property, that the techniques of evaluative calculations on property have not transformed substantially throughout the last century.

Rent-Price Ratio

Figure 3-1
Using Dowsing Rod to Find Water
Source: Baird, 2015

Cap rates have a gestural quality—they involve a sort of mystic sensing (as in witching for water – see Figure 3-1). As such, the "price" of real estate is variable. While land values should, in theory, be dependent on rent, the relationship between rent and price is inconsistent. Sale price can rise and fall regardless of the rise and fall of ground rent (Marx, 2015, p. 768). This inconsistency is expressed in the variability of the rent-price ratio.

Analysts use this ratio to determine whether house prices are overvalued (if they exceed a given ratio with prevailing rents, they are considered overvalued). Many economists have shown that the ratio is unstable and unpredictable (André et al., 2014; Gregoriou et al., 2014; Mikhed & Zemčík, 2009). However, others have argued that, while the ratio between them is not stable, house prices and rents are cointegrated or mean-reverting. (Black et al., 2006; Gallin, 2008; Osterrieder & Schotman, 2011)

Gallin and Gysels finds that rent-price ratio predicts changes in prices, but not rents. (Gallin, 2008; Ghysels et al., 2013). Clarke, on the other hand, finds that where the rent-price ratio is high (where prices are low and/or rents are high), there will be low rent growth. This makes intuitive sense—in cities where rents are high relative to the price of housing, it will be difficult to raise rents, as it may induce people to purchase homes.

In the long term in the US, the rent-price ratio of both residential property and agricultural property has declined (Figures 3-2 and 3-3). Rents have declined relative to land prices and land price has increased relative to the rents that it yields. This could be the result of an increase in speculative land assessment—assessors, buyers, and sellers assuming that rents will be going up (which has only been happening since the 1980s). The decline of the rent-price ratio could also mean that land buyers are willing to accept lower returns (lower rents) on their investments.

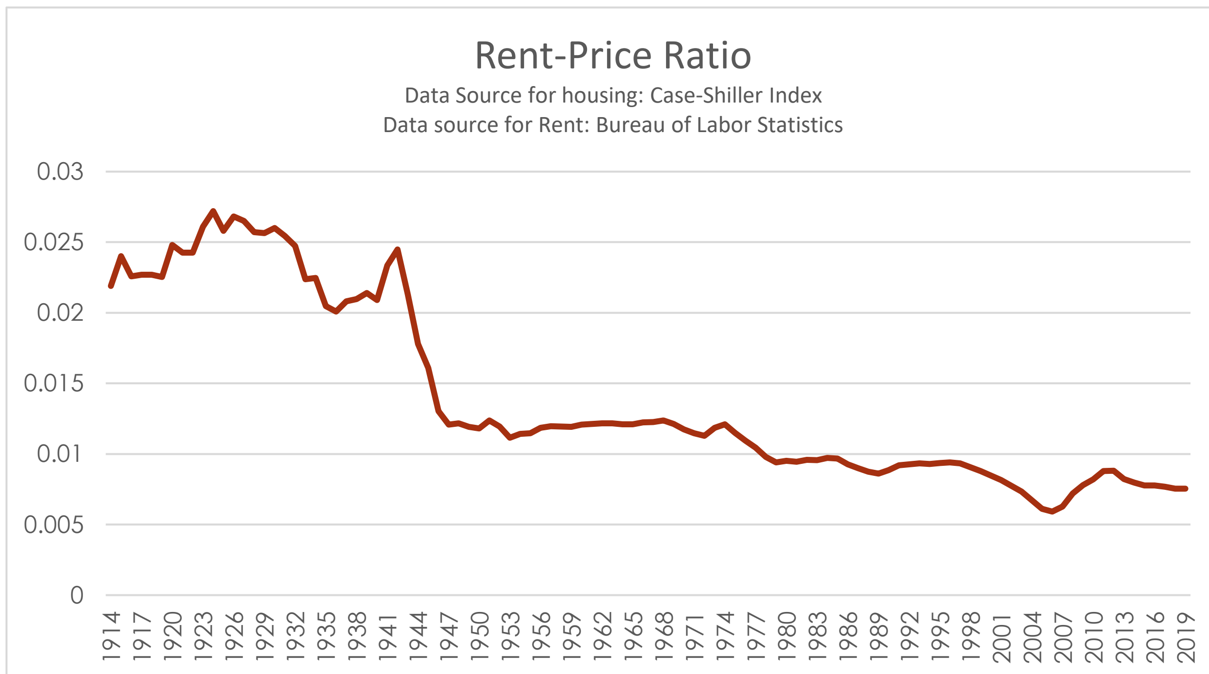


Figure 3-2
Rent-Price Ratio, U.S. 1914-2019

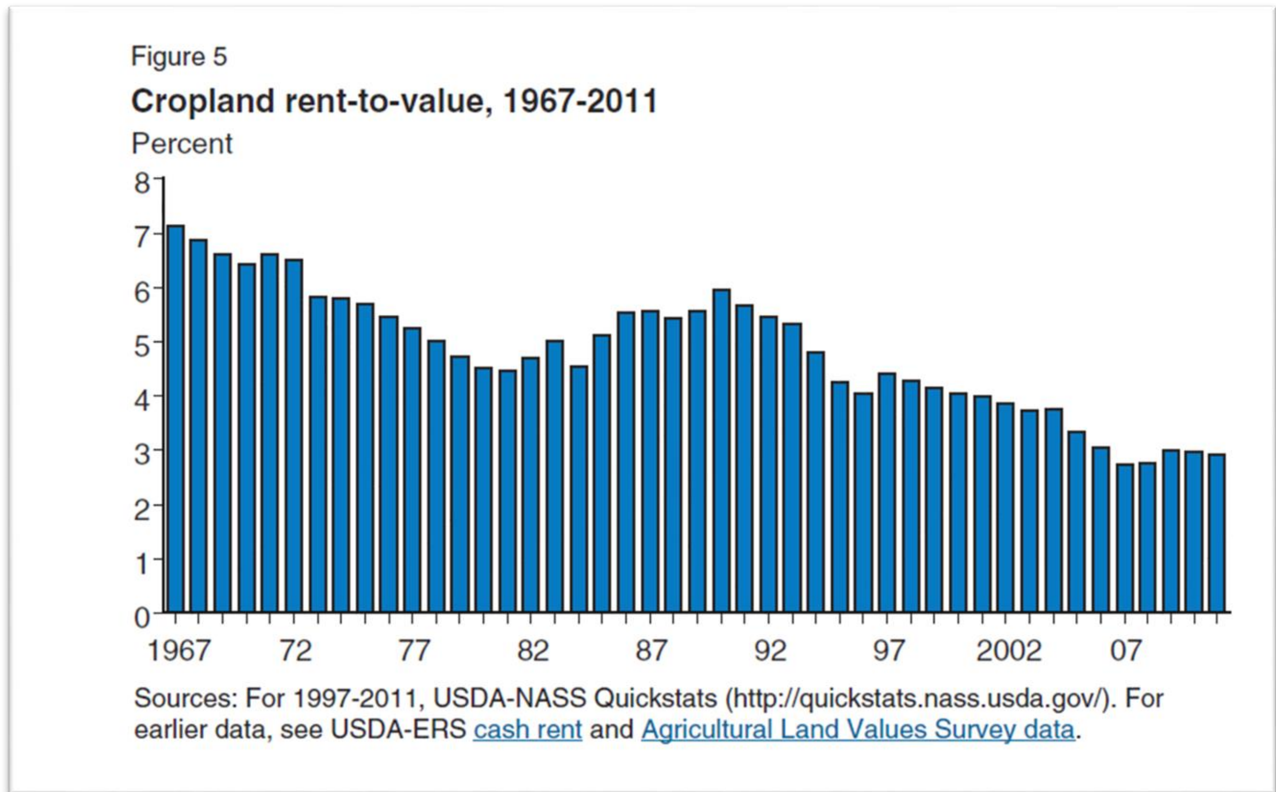


Figure 3-3
Cropland Rent-to-Value

Source: Nickerson et al., 2012

However, there are other structural factors that can lead to a divergence between sale price and rents. In the case of home ownership versus home rentals, the price and the rent apply to two different populations - renters and homebuyers. Even though some renters become homebuyers, and vice-versa, there is evidence that a large part of the renting population are lifelong renters. A stable rent/price ratio assumes that investment can flow unburdened between renting and purchasing homes. However, if different populations rent and buy, and if these two populations are in significantly different income brackets, then the ratio would not be stable. Given increasing income inequality within the working class, the numerator and denominator in the rent/price ratio would be governed by different forces.

This bears itself out in the housing market's dramatic revival post-COVID-19. Many are asking, how can the housing market fare so well during double-digit unemployment? As Logan Mohtashomi, a mainstream housing market analyst, argued recently:

> a lot of these [job losses] are tied to what I call renter households and people that are future renters… it doesn't impact homeowners as much… there's 138 million people working and the key is the housing market just needs 4 million mortgage buyers per year to keep things stable. (Mohtashomi, 2020)

The hierarchy between homeowner and renter is a racialized and racializing one; low income Black and Latinx people are produced as a "semi-permanent rental class" (Desmond, 2020), while white people are produced as probable homeowners. Homeownership is one of many metrics that make visible the inherent racialization which motivates US state policy and its enforcement. The effects of racist GI bill loan disbursement was one step in a long history of producing white people as homeowners and people of color—Black people especially—as renters (Taylor, 2019). Homeownership has long been recognized as a way to quell dissent—with a home and a mortgage people are less willing to rise up. So, a 75% white homeownership rate ensures that the majority of whites in the USA will act as collaborators and apologists for capital and the state—including and especially by supporting the racial hierarchy in which they are the winners.

Economists and politicians constantly imply that renters are people who just haven't bought a home yet; they do not like to refer to the semi-permanent renter class. They act as if the actual goal in the USA was 100% homeownership, but clearly it is not—there is too much money to be made from renting.

There is more public visibility and analysis of homeownership markets than rental markets. The "housing market" is generally calculated as the value of all owner-occupied property plus mortgage debt—a striking 33.1 Trillion. This dwarfs the 2.9 trillion of multifamily rental property, or even the 16 Trillion of all commercial non-farm rental properties (Figure 3-4). There are is also a vast cottage industry of people offering advice and training for entering the real estate business, which erupted since the turn of the 21sts century.

Table 1
Estimates of Commercial Property Value: 2018Q4

Sector	Square Footage (Millions)	Price per Square Foot ($)	Value ($ Trillions)
Multifamily	17,541	$165	$2.9
Office	11,266	$218	$2.5
Retail	13,646	$179	$2.4
Health Care	2,705	$864	$2.3
Specialty, Sports and Other	N/A	N/A	$2.2
Hospitality	2,625	$617	$1.6
Industrial	20,749	$73	$1.5
Flex	2,402	$145	$0.3
Self-Storage	N/A	N/A	$0.2
Towers	N/A	N/A	$0.1
Total	**70,933**		**$16.0**
High Estimate			**$17.0**
Low Estimate			**$14.4**

Source: Nareit calculations using the CoStar All Properties database 2018:Q4 and CoStar's Commercial Real Estate Market Size Estimates 2018Q4.

Figure 3-4
Estimates of Commercial Property Value 2018

Source: Nareit, 2018

Public-facing data and market advice, however, is not meant for large scale investors. This data is for small entrepreneurs and small companies—real estate agents, assessors, and other people who facilitate sale and purchase of properties. These individuals and companies are most interested in purchase and sale—flipping. Larger companies will serve as intermediaries in sale (real estate firms that handle sales for others; providers of supplies for building construction), or they will invest in the enormous and varied mortgage market (see Chapter 4).

The data that guides large investors on property purchases is private; the techniques they employ are clandestine. Popular media discusses the "housing market" in terms of the purchase and sale of owner-occupied homes, but residential rentals provide vast revenues for major institutional investors, especially since the 1980s (Figure 3-5).

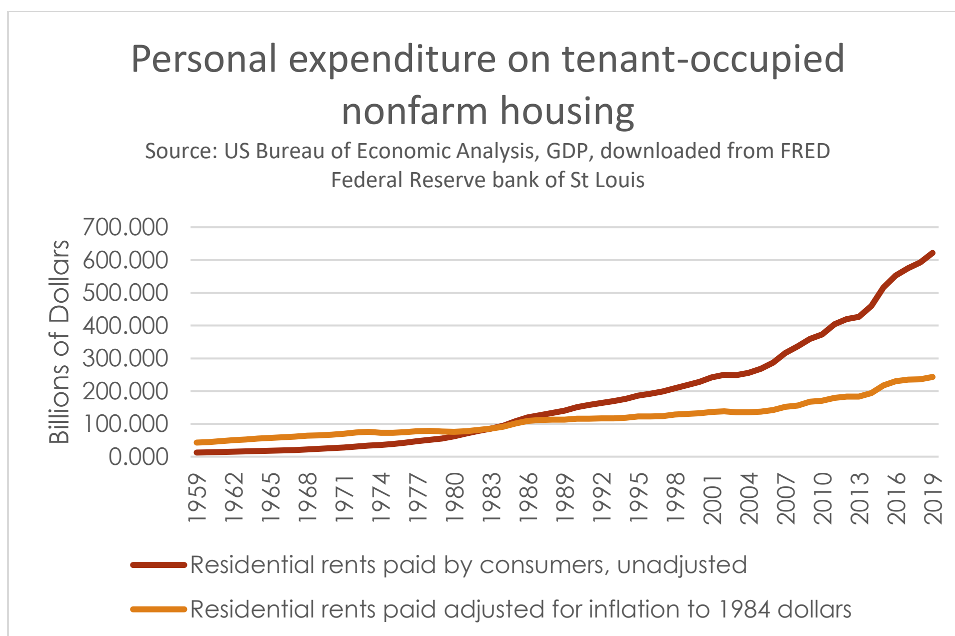


Figure 3-5
Personal Expenditure on Tenant-Occupied Nonfarm Housing

Residential rental properties in the U.S. yielded 620 billion dollars in 2019. Rentals require relatively little capital outlay (once the property is acquired) compared to manufacture or services. This results in a lot of money going directly to passive landowners.

Despite the visibility of flipping houses, long term gains are in rentals, not flipping—so long as one acquires property at a good cap-rate. Equity REITs, for example, (amongst the few institutional real estate investors with public data) clearly state that the majority of their profits derive from rental payments—*not* sale. Large institutional investors shunned the single-family home market altogether because the cap-rate on purchase price and rent price for single family had been too low. However, after the 2007/8 crash, single family homes flooded the market at slashed rates, with dramatically increased cap-rates, and institutional investors finally entered the market with the intention to buy and *rent* rather than buy and *sell*. Several companies that started out purchasing these properties in order to flip them quickly found that renting out the homes they bought would be more profitable than selling them. They transitioned their

properties into rentals, and in many cases were later acquired by large rental companies (e.g. Colony, Invitation Homes).

Institutional investors generally make up a small percentage of home purchases every year, and they usually buy to rent, not to sell (D'Lima & Schultz, 2019). In 2018, institutional purchase of homes reached a 20 year high of 11% of all home purchases. 5.96 million homes were sold that year, representing less than 5% of all owner-occupied property, equal to roughly $1.5 Trillion dollars. That means that housing worth 165 billion was purchased by institutional investors.

Large institutional investors (those that purchase more than 101 properties at a time) only invest in markets with extremely high cap-rates; for example, less than 0.05% of total large investment purchases of multifamily property have been in high cost Metropolitan areas such as San Francisco, New York, or Boston for the last *twenty years* (Mclaughlin, 2019). Even their activity in these low-cost cities only makes up about 15% of all investor home purchases (Figure 3-6).

Most "institutional investors" in homebuying markets are small investors (buying 10 properties or less). Small investors especially dominate home purchases in high cost, low cap-rate MSAs (e.g. Boston, San Francisco). CoreLogic (a major housing data analytics firm) calls these small investors "Mom-and-Pop" investors because they are so small, and tend to be small entrepreneurs rather than major companies. Often the term "institutional investor" is juxtaposed to "Mom-and-Pop" landlords (see Chapter 5) but here, to be an institutional investor you need only have a business name—an LLC, etc.

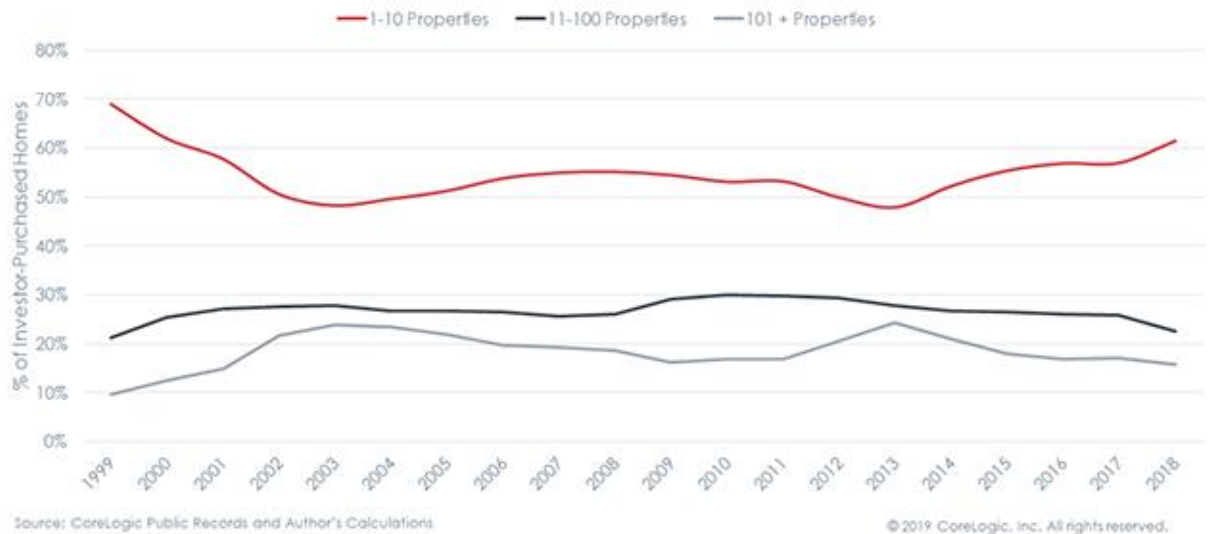


Figure 3-6
Investor Homebuying Rates by Investor Size: 1999 – 2018

Source: CoreLogic

Large moneyed institutional investors generally enter the market of house purchase and sale not as buyers and sellers, but as *mortgage lenders*. Mortgages become a proxy for landownership, and the owners of mortgages collect monthly "interest payments" from the "homeowners."

Mortgages

In the purchase and sale of property, the seller can realize future ground rents by selling land for more than they invested in it, but the mortgage-lender will generally make an even greater return on investment than the seller.

Take for example the 30-year fixed-rate mortgage, adopted by the Federal Housing Administration (FHA) in the mid-50s and becoming the standard in the 60s and 70s. This

lowered monthly payments from a 10- or 20-year fixed rate mortgage that were more common in the 1920s, 30s, and 40s, but it increased total interest payments substantially. Even at a low 5% interest rate (found in the 1950s and then not again till post-crisis 2009), with down payment of 20% a home buyer ends up paying additional 75% of the sale price in interest payments, compared to about 55% for a 20 year FRM. At rates of 7.5%--common in the 90s and early 70s— buyers pay *more* than the actual price of the property in interest with a 30-year mortgage, compared to 90% of the full price with a 20 year mortgage. The first handful of years pay back the principal to the mortgage lender, and from then on they collect ground rents. Once mortgages were paid off, ground rent extraction can begin again with second mortgages, reverse mortgages, and home equity loans.

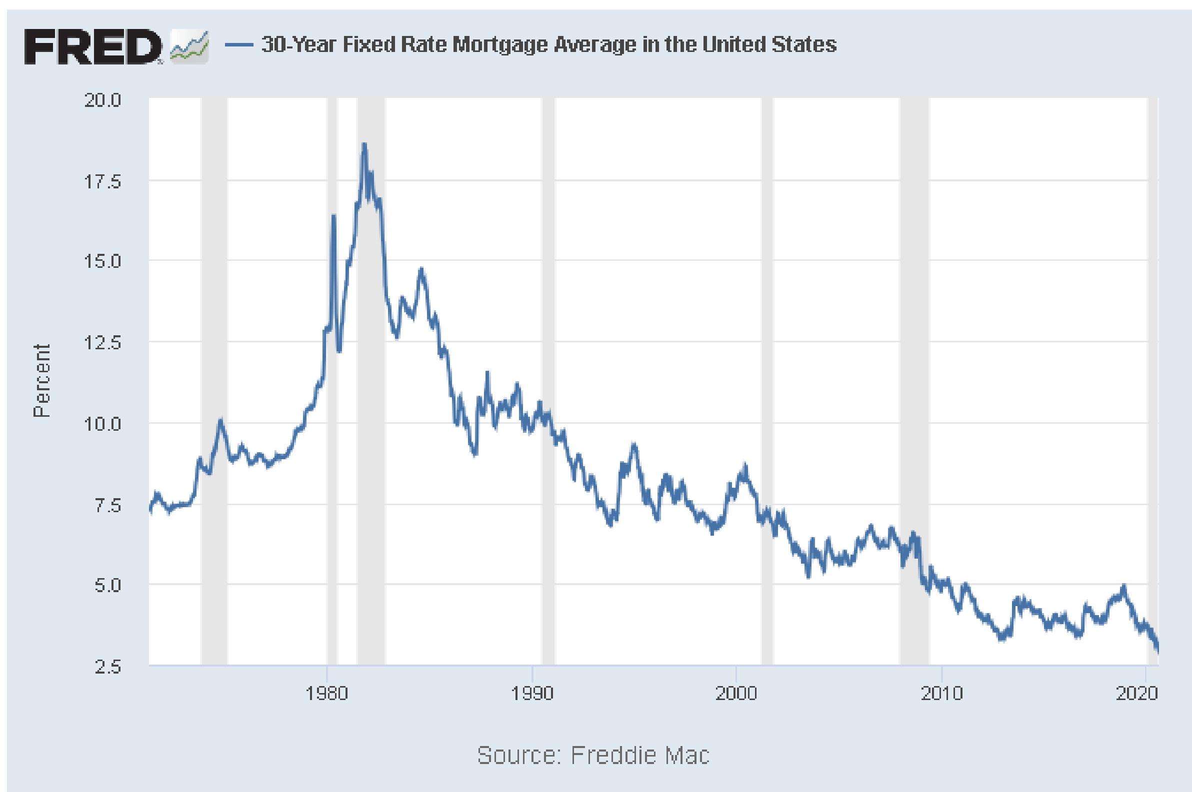


Figure 3-7:
30-Year Fixed Rate Mortgage Average in the U. S. 1970-2020

Throughout most of the last century, purchasers of 1 to 4 family residences have been primarily owner-occupiers; people who live in their own unit, some of whom own a few more units for rental income. These small working class landowners account for the vast majority of mortgages. The mortgage market is therefore a transfer of ground rent from proletarian "home owners" to mortgage lenders/holders—who, in the last instance, hold the title to land if the ground rent transfer is not completed.

Mortgage lenders are the de-facto landowners for much of the life of the mortgage. The idea that a "buyer" owns their home before the mortgage repaid is a slight of hand—nowhere so obvious as when a person having paid off 90% of their mortgage goes into foreclosure and loses their home.

Mortgage-lenders make up an evasive but powerful bloc within the landowning class. They have historically had a very powerful lobby (see Chapter 4) and won significant guarantees from the US government. During the COVID-19 epidemic, we see mortgage-lenders protected from potential default of their working-class borrowers in much the same fashion as residential landlords are being protected from the potential default of their working class tenants. Tenants who couldn't pay rent were protected from eviction for the first 5 months of the pandemic, mortgage borrowers were generally allowed deferrals for a similar duration.

However, here the renter/homebuyer hierarchy reinstates itself in COVID-19 policy, for at the end of that 5 months, the renter is expected to pay the 5 months of ground rent in full to avoid eviction, while the homeowner can defers that 5 months of ground rent into the future. The distinction here between the mortgage lender and the residential landowner is innocuous; both demand their monthly payment of ground rent. The difference is not one of kind, but one of degree; the "homeowner" (often) enjoys more flexibility in relation to their ground rent payments than the renter. It is easier to refinance a mortgage than negotiate your rent lower.

But both are ground rent payments, and both the rent's percentage of household income and mortgage as percentage of household income have risen dramatically since 1975.

Stock Markets v. Real Estate Markets

Of the numerous studies analyzing the relationship between real estate markets and stock markets, many find no relationship, or a relationship so weak as to be useless for predictive purposes. However, there are also many that find a close correlation, integration, or causal relationship. I have summarized 15 of the most cited of these studies in the Table I and Table II below.

Nine of the ten studies that find *segmentation* or *negligible cointegration* have a time frame that ends before 2000, and eight begin before 1980. These studies compare stocks (and sometimes bonds) to both securitized real estate (usually equity REITs) and "unsecuritized" real estate, for which they use appraisals or the NCREIF Property Index (NPI) which measures both "capital appreciation" and income.

All of the 6 studies that find real estate and stock markets to be significantly integrated, on the other hand, use data that begins after 1984 and ends after 2002, with the exception of Quan et al., which ends in 1996.

The relationship between real estate markets and stock markets shifts substantially between the years 1985 and 2005. Studies beginning before this period (running roughly between 1970 and 2000) find the markets to be segmented, while studies beginning during this period (running between 1985 and 2010) are integrated. this suggests that at some point between 1985 and 2000 something changes in the relationship between the two m between roughly 1970 and 2000, real estate was not integrated with stocks, but at some point between 1985 and 2010, they appear to integrate.

Several studies suggest a shift in the relationship between real estate and finance—Glascock et al. (2000) argue that securitized real estate becomes integrated with stocks after 1992; Luchtenberg and Seiler (2014) find that they become even more integrated after the 2007 Financial crisis (although in this study, “Pure property” remains unintegrated).

Table I

Studies Finding No or Low Cointegration Between Real Estate and Financial Markets

Authors and Publication Date	**Geographic Area Covered**	**Time Period**	**Real estate type and data source**	**Stocks or Bonds, and data source**
(Liu et al., 1990)	USA	1978-1986	Commercial nonfarm real estate returns & Equity REITS	Stocks
(Myer & Webb, 1993)	USA	1978-1990	Equity REITs, unsecuritized RE (NCREIF/FRC data)	Stocks (S&P 500; CRSP VW and EW)
(Mei & Lee, 1994)	USA	1978-1989	Equity REITs, unsecuritized Real Estate (Russel-NCREIF)	Stocks (NYSE & AMEX) & bonds (Government bond fund)
(Wilson & Okunev, 1999)	USA	1971-1993	Securitized (NAREIT)	Stocks (S&P 500 and Small Cap Index)
(Okunev et al., 2000)	USA	1972-1998	Equity REITs	Stocks (S&P 500)
(Glascock et al., 2000)	USA	1972-1997	NAREIT, NCREIF	Stocks (S&P 500), Bonds (Salomon Treasury Benchmark)

(Westerheide, 2006)	USA, Canada, Australia, Japan, Netherlands, Belgium, France, Germany	1990-2004	Real Estate Securities	Other Asset Classes
(Ibbotson & Siegel, 1984)	USA	1947-1982	Real Estate Returns (Unsecuritized; appraisal-based)	Stocks, Bonds (S&P 500; Treasury Bonds, municipal bonds)
(Chaudhry et al., 1999)	USA	1978-1996	Unsecuritized, Russel-NCREIF Index.	S&P 500 index for stocks, the Lehman Government/Corporate index for bonds, and 3-month Treasury bills for T-bills.
Goetzman and Walker (1995)	21 countries	1985-1993	Securitized.	Stocks.

Table II

Studies Finding Significant Integration Between Real Estate and Financial Markets

Authors and Publication Date	**Geographic Area Covered**	**Time Period**	**Real estate type**	**Stocks or Bonds**
(Hui et al., 2011)	UK & Hong Kong	1993-2007	Real Estate	Stocks
(Olaleye & Ekemode, 2014)	Nigeria	2006-2010	Securitized RE	Stocks
(Luchtenberg & Seiler, 2014)	USA	2006-2010	Securitized and Unsecuritized pure property (FTSE NAREIT and FTSA NAREIT)	Stocks: CRSP VW
(Cauchie & Hoesli, 2006)	Switzerland	1986-2002	Real Estate Funds	Stocks & Bonds
(Apergis & Lambrinidis, 2007)	US and UK	1985-2006	Unsecuritized Real Estate, REUS, REUK	Stocks: Dow Jones; S&P 500; NYSE, FTSE 100
(Quan & Titman, 1999)	17 Countries	1984-1996	Assessed Real Estate = capital values and rental indexes of prime office buildings in major cities	Stocks = Morgan Stanley's Capital International's Composite stock returns; Kuala Lumpur Composite Index; New Zealand Stock Exchange

I have not included in these tables the sole macro study of this relationship between stocks and real estate markets, because it exceeds the scope of all the other studies. Li et al. (2015) study data from 1890 to 2012, and find that while the relationship between the direct real estate and common stock markets fluctuates over time, they tend to coincide in the periods leading up to and following a crisis. This reflects the shift from no integration to cointegration observed in the studies above: 1990s begin a period of cointegration between finance and real estate, marking the beginning of a long run up to the 2007 crisis. After controlling for economic growth, however, Li et al. find the co-movement decreases substantially, suggesting the co-movement is likely the result of both markets responding to "economic growth fundamentals."

In other words, when economic fundamentals are favorable and the economy is booming, real estate and stocks boom together; when the economy busts, real estate and stocks bust together. When economists attempt to remove the effects of economic fundamentals on the two markets, they have little correlation.

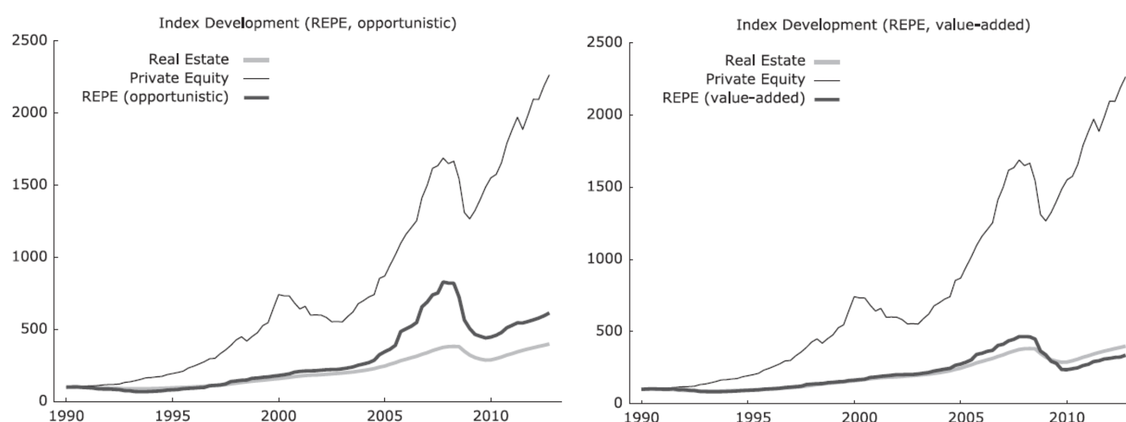
Securitized Real Estate v. Direct Real Estate

While it would seem that securitized real estate should behave more like other financial markets than direct real estate, several scholars note securitized real estate actually behaves more like direct real estate than like stocks. Mei and Lei (1994) suggest a "real estate factor premium" by which all assets related to real estate are affected.

Anderson et al. (2016) study private equity investment in real estate (PERE)—an industry they describe as being particularly speculative and highly leveraged. They write that PERE is "at the other end of the risk-return spectrum" from direct, hold-oriented real estate funds—meaning that, if there were to be a divergence between direct and securitized real estate

markets, it should be observable in the comparison between Real Estate Private Equity and hold-oriented real estate investment.

On the contrary, Anderson et al. find that REPE is integrated with direct real estate, and segmented from other private equity investments(see Figures 3-8 and 3-9): "REPE funds have in almost all regards closer ties with real estate than with non-real estate private equity" (2016, p. 264).



Figures 3-8 and 3-9
Index of Development of Real Estate Private Equity v. Real Estate v. Private Equity

Why Are Real Estate and Stock Markets Segmented?

Economists explain the segmentation of real estate and stocks by various means: several point to the legal constraints imposed on real estate investment that are not imposed on stock purchases, others to the fact that information on real estate prices and cash flow are usually proprietary, leading to insufficiently educated investors, and others still to divergent expectations (rational or irrational) about future profits and future rents (Quan & Titman, 1999,

p. 205). All of these are true to some degree; real estate and stock markets correspond to different underlying social relations, with different legal structures and forecasting mechanisms.

But the most fundamental underlying difference between real estate and stocks is that real estate is based on ground rents, which are concrete and have specific limits and tendencies, while stocks and bond yields are whimsical—purely fictitious, brought closer down to earth periodically through crises. This difference gives rise to the different legalities, forecasting strategies, and market opacity between the two markets. Based on the data provided in this chapter, I argue that even when loosed onto the trade floors of the NYSE, or traded in the glass penthouse offices of international Private Equity, land-based securities remain tethered to actual ground rent extraction.

If land securities are based on rental cash flows, what causes rent to go up and down? We will discuss this in the conclusion to the next Chapter.

Chapter 4 : Landed Class Struggle

> The tremendous power this gives landed property when it is combined together with industrial capital in the same hands enables capital practically to exclude workers engaged in a struggle over wages from the very earth itself as their dwelling-place. (Here one section of society demands a tribute from the other for the right to *inhabit* the earth, just as in landed property in general the proprietors demand the right to exploit the earth's surface, its bowels, and air above, and thereby the maintenance and development of life.) The rise in population, and the consequent increase in the need for housing, is not the only factor that must necessarily increase the rent on buildings. So too does the development of *fixed* capital, which is either incorporated into the earth or strikes root in it, like all industrial buildings, railways, factories, storehouses, docks, etc., which rest on it. It is impossible, even with Carey's determination, to confuse house-rent, in as much as this is interest on the capital invested in the house, with rent of land pure and simple, particularly when, as in England, the **landowner and the speculative builder are completely different people**. Two elements come into consideration here: on the one hand the exploitation of the earth for the purpose of reproduction or extraction, on the other the *space* that is required as an element for any production and any human activity. On both counts landed property demands its tribute. (Marx, 2015, p. 760)

Landowners and capitalists clash over their share of surplus value. In their interminable conflict, landowners have an array of strategies at their disposal: they may (1) raise rents, (2) withhold land, (3) vie for favored tax status and subsidies from the government, and (4) force a rise in market price of commodities which are produced on high-ground-rent land, thereby

directing a larger percentage of wage bill toward ground rent. Below I will address these different strategies.

Strategies of Landowning Class

Raising rents.

If a capitalist farmer adopts labor-saving technology in the production of, say, soybeans, resulting in higher than average profits for their crops, the landowner can raise rents the following year. The raised rents capture the profits that exceed the average rate of profit for agriculture, bringing the profits of that capitalist farmer back down to average. This can be a disincentive to investing in labor-saving technology, leading to a lower than average organic composition in agriculture.

This dynamic is visible in agricultural production and rents in the US over the last century. The data is patchy, but we can see from USDA data that there was a gradual increase in cash rents per acre of farmland from 1960 to 1980, a decline sometime after that followed by stagnation, and a dramatic increase in rents per acre after the 2007 market crash. This is apparent in national data from 1960-1980, and from 1998-2019 (Figure 4.1), and it is also evidenced by state-level data: Iowa in particular has kept rigorous agricultural statistics which reflect both of these trends (Figure 4.2).

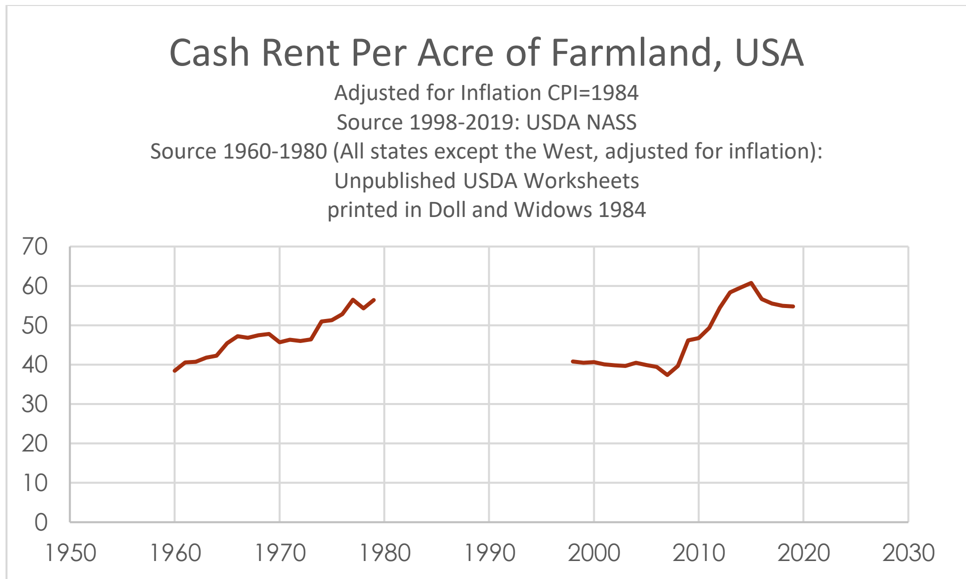


Figure 4-1
Cash Rent Per Acre of Farmland, U.S. 1960-2019

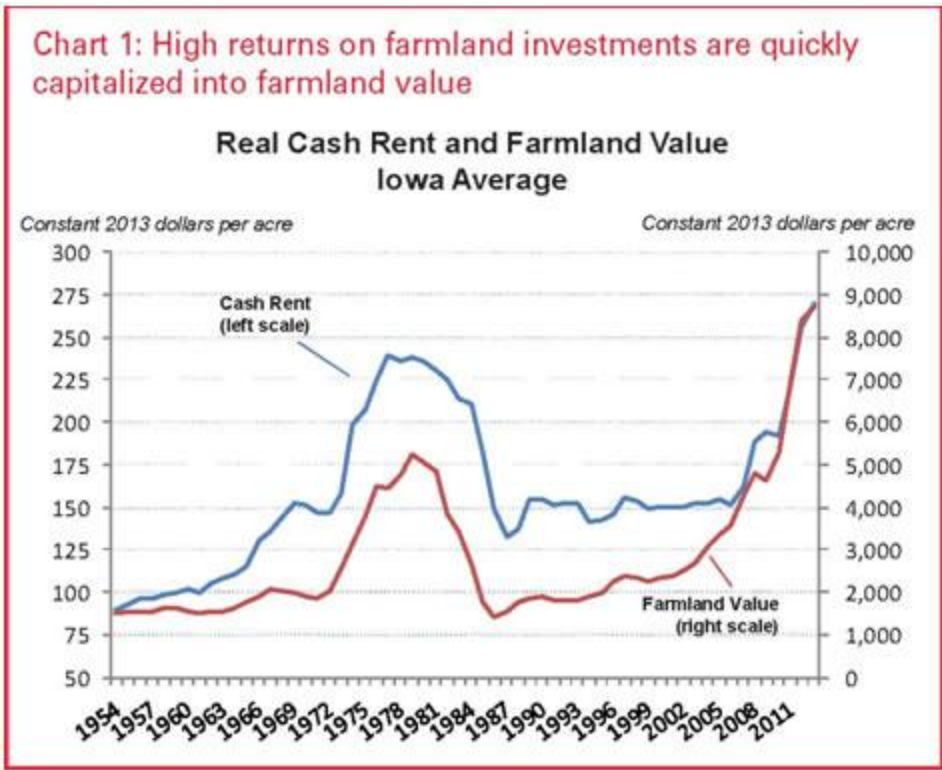
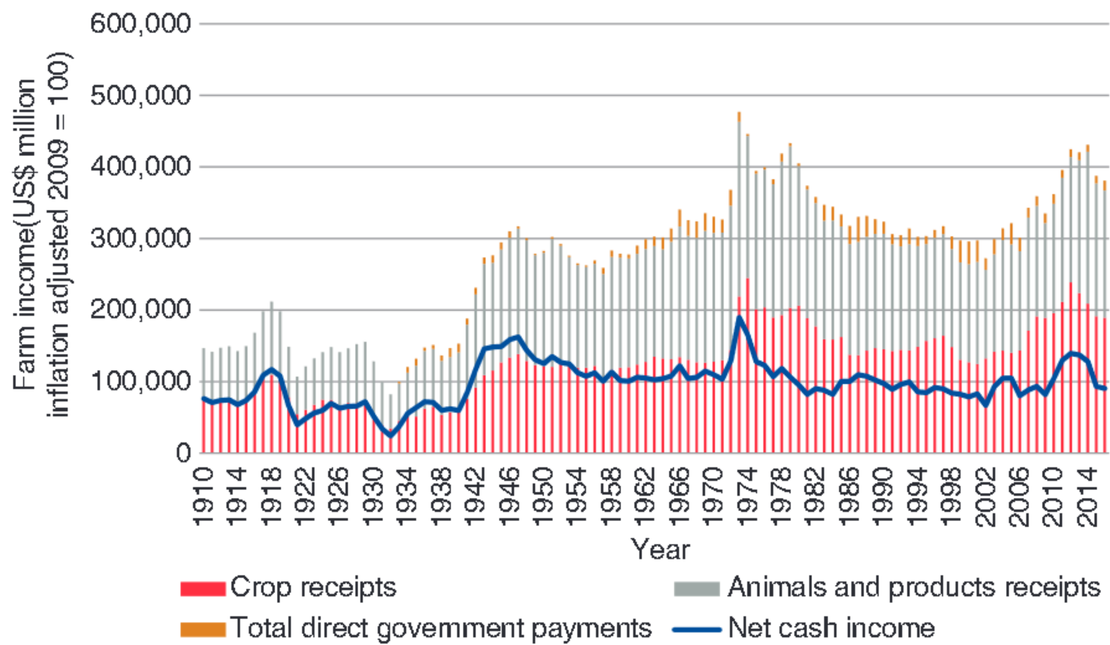


Figure 4-2
Cash Rent and Farmland Value, Iowa Average 1954-2015

How do these increases and declines in rents correspond to the income for capitalist farmers over the same period? Generally speaking, the increased rents capture gains in gross receipts and government payments (see Figure 4-4). During the period of moderately increasing rents between 1950 to 1970 we see slow growth of farm gross income, paired with the stagnation of farm net income; based on the simultaneous increase in agricultural rents, we can wager that these gross gains are being captured by landowners in rent. When gross farm income decreases between 1980 and 1990, we also see declining rents. Gross and net farm income mostly stagnates between 1990 and 2005, and rents also stay flat. After the 2007 financial crisis, rents and gross income skyrockets, while farm income has a momentary uptick and drops down again.

Farmers gained a share of the dramatic spike in gross farm income in the 1970s, with net income rising along with it, but soon the net income returned to previous levels, while rents and gross income stay high until the mid-1980s. This substantiates the thesis that productivity gains will initially yield increased profits to farmers, but the gains will rapidly become incorporated in rent hikes and go toward landowners.



: Inflation-adjusted US gross and net farm income 1910–2016.

USDA Economic Research Service Farm Income and Wealth Statistics Database, Inflation-adjusted using 2009 dollars; the gross farm income were broken into crop receipts, animal and product receipts, as well as total direct government payments. The 2015 and 2016 farm income are USDA forecast estimates.

Figure 4-3
Inflation-adjusted U. S. Gross and Net Farm Income, 1910-2016
***Source:* Zhang & Beek, 2016**

This is evidence that landownership affects the net profits of agricultural capital. We can observe a similar pattern when it comes to Mining, Transportation, and Utilities—all sectors with a high ground rent bill.

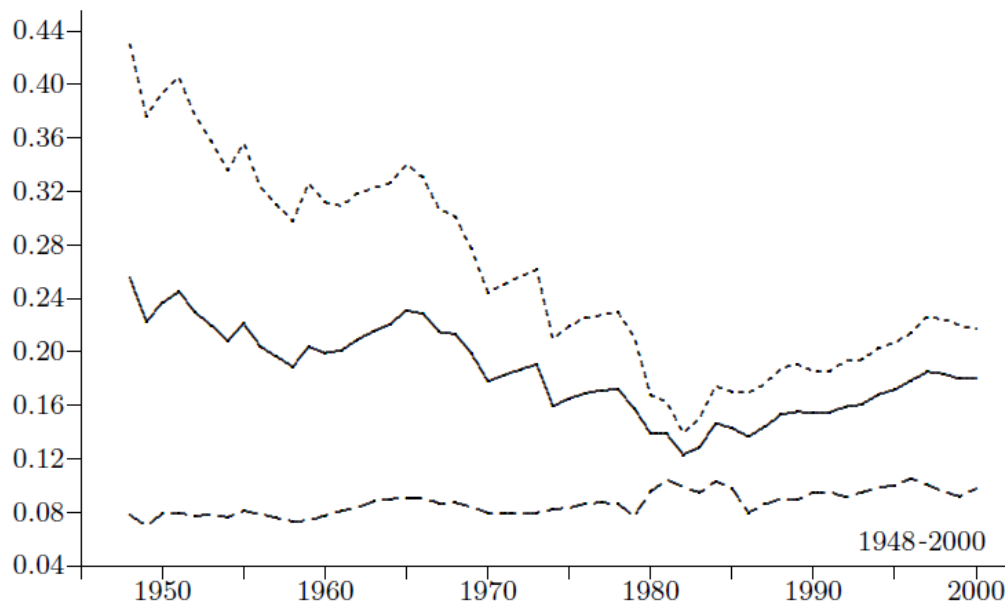


Figure 4-4:
Broad Profit Rate: Highly capital intensive industries, Business, and Restricted business

Source: Dumenil and Levy, 2002
Top Dotted Line: Restricted business (Business minus Highly Capital Intensive Industries)
Middle Solid Line: Business
Bottom Dashed Line: Highly Capital Intensive Industries

Dumenil and Levy find that while the majority of US industries follow a similar trend of plunging profit rates until the 1980s followed by moderately rising rates,[14] the sector they call "Highly capital intensive industries" (Figure 4-4, the bottom dashed line) follows a different trajectory, hovering at a low and constant profit rate of about .08-.09%. This is not unlike the net profits on farms (Figure 4-3). The industries they define as Highly capital intensive are

[14] Kliman 2011 has argued that in fact profit rates do not rise after the 1980s.

Mining—which has the same relationship to the landowner as agriculture—and Transportation & Public Utilities. But Dumenil and Levy's characterization of these industries as "Highly capital intensive" is misleading—in truth, they are *land* intensive; they require vast amounts of space compared to manufacture, trade, or services (which are the sectors within "Restricted Business"). In other words, *they pay a lot of rent*. In effect, this graph compares profit rates in sectors where landowners do not intervene to capture excess profits, with sectors in which they do.

Landowners do not intervene in industrial production to the degree they do in agriculture, because the portion of profits extracted as ground rent is minimal. This is because there is not as strict a monopoly on industrial land as there is for agriculture. Manufacture of durables, for example, requires very little land per unit of value produced relative to agriculture. Also, manufacturers are generally not too picky about the quality of their land—a factory can more or less be built anywhere there is flat solid land. Landed property will demand its tribute from the factory owner, but the sum for major industry is a very small fraction of profits.

This is where Harvey's concept of monopoly rents becomes important. Generally, the landowner has significant power within agriculture because it is a sector that requires high acreage of a specific quality (agriculture requires soil, good weather, and abundant water) as withing mining (mining requires mineral deposits). Monopoly rents, however, bring the power of the landowner into a new terrain: the city. In the city it is especially easy for landowners to refuse to release the unused land under their control unless paid such a high rent that the market prices of commodities produced on that land are forced above value. In this instance, the rent charged creates the monopoly price. This form of monopoly rent can be important in all urban sectors and affect the cost of food grains as well as the cost of working-class housing (Harvey, 2007, p. 350).

A small bakery requires only a very small footprint of land, and needs no particular terrain or weather—hence, in a non-urban area a bakery generally would not be a high-rent-paying business, manipulable by landowners. However, in a city with limited commercial storefronts, a landowner has significantly more power to raise rents on such an enterprise.

Withholding land from the market.

"He leases only when a lease-price can be paid." (Marx, 2015, p. 745)

The power to withhold land from use is the greatest absolute power of landowners (see Chapter 1 and 2). Where productive capitalists must keep high turnover rates, repay loans, and realize profits before commodities lose value, landowners are characterized by a longer temporal scope and the financial stability to keep their land vacant. If they own their land with no debt or low debt, landowners increase their power to manipulate rents through withdrawal of land. This distinguishes them also from finance capitalists, who must constantly put their loan capital in motion to evade threat of inflation or other drains on hoarded money. While the price of land may rise and fall, land itself remains.

This tendency reveals itself in widespread vacancy rates throughout every real estate sector. Moreover, vacancy rates generally *increase* when housing markets go up. In the United States, rents and vacancy rates both climb together from the 80s to 2009 (see Figure 4-11). Likewise, rising vacancy rates have accompanied China's property boom over the last 20 years (Figure 4-5).

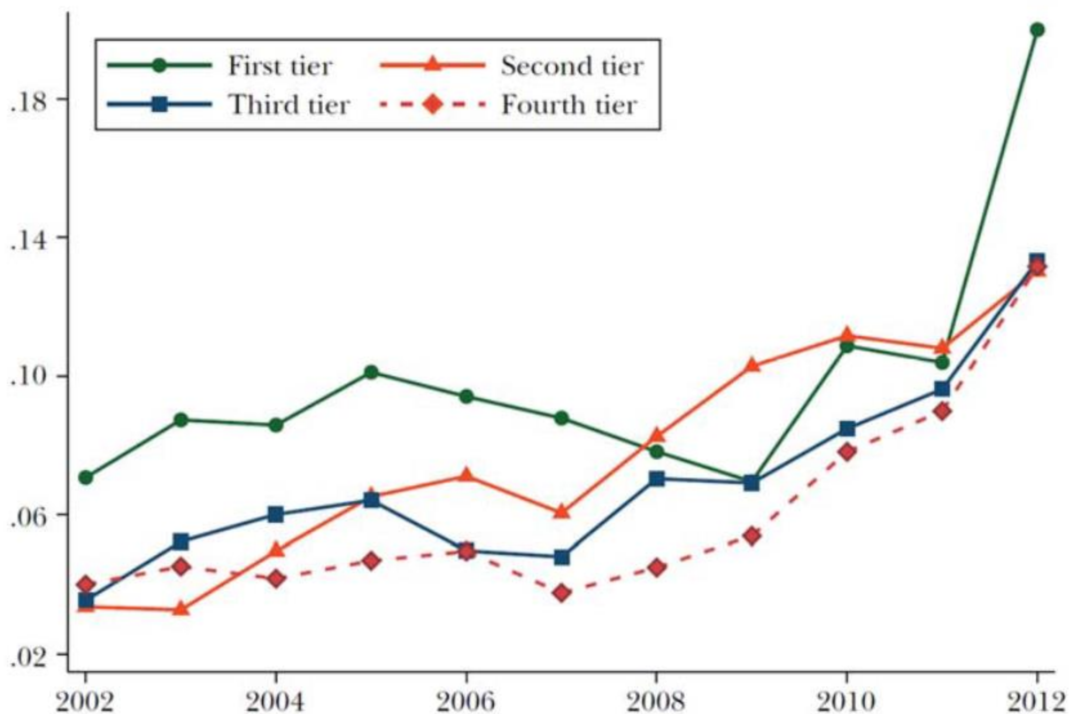


Figure 3: Vacancy Rates for Chinese Cities, 2001–2012

Source: Glaeser et al. (2017)

Figure 4-5
Vacancy Rates for Chinese Cities, 2001-2012

Government policy.

Landowners have generally benefitted from favorable policies from the US federal government. They have frequently pushed their agenda by holding up the small family farmer as the imagined beneficiary of their proposals, and have often come into conflict with industrialists.

Throughout most of the 19th century, debates raged about how to sell the so recently stolen U.S. federal lands. On one side, Northern industrialists argued that land should be sold at

high prices and heavily taxed in order to subsidize industry and protect it against the labor shortages it was soon to experience due to westward expansion. On the other side, politicians argued the land should be sold cheaply, making it available to the "actual settler" and protecting him from the "monopoly of speculation" (Gates, 1973, p. 9).

On the surface, the latter position triumphed, and land was made available cheaply for sale across the country. However, the minimum amount of acreage required by each individual to purchase was large enough to prevent most "small farmers" from being able to afford it, and so tenancy swept across the country apace with western expansion. The Democratic party was dominated by "Land- and currency-speculators who were undermining "subsistence" agriculture in the west" (Post, 2012, p. 100). Even while President Jackson publicly deplored "that feature of public land policy which permitted speculators to buy land in unlimited amounts" (Gates, 1942, p. 324), his administration promoted enormous speculative land sales between 1835 and 1837, in which at least 29,000,000 of the 38,000,000 acres of "public" land stolen from Native Tribes and Peoples went to large landholders (Gates, 1942, p. 321). Almost all of these large land disbursals went to cotton plantation owners using hyper-"efficient" and hyper-brutal exploitation of slave labor; in Mississippi alone, 8.3 million acres (almost 1/3) went to speculators of slave plantations (Baptist, 2016; Woods, 1998, p. 45).

Jackson clamped down on large land purchases in 1836, aiming to "save the new states from a non-resident proprietorship, one of the greatest obstacles to the advancement of a new country and the prosperity of an old one" (quoted in Gates, 1942, p. 324). However, large landholders would continue to amass land by hook or by crook. Lands given to states for internal use such as education and infrastructure—through the Military Bounty Acts (1847, 1855) The Graduation Act (1854) and the Homestead Act (1862)—created secondary land markets (Passel, 1975, p. 84). Vouchers for land proffered by these Acts were bought and sold,

and eventually amassed into large landholdings—often at cheaper rates than the government had been charging for direct land sales.

Large public land grants themselves were not eliminated so much as redirected to railway companies, who, as Marx put it, became the "greatest landlords" (Colean, 1950, p. 10; Marx, 1879). Men who had been dry goods traders were able to amass over 175,000,000 acres of land between the 1850s and 1870s (an amount of land larger than Texas), giving birth to a new wing of the landowning class in the US. This is another example of how the US government favored the emergence of major landowning factions at the expense of small scale settlers, despite their rhetoric.

In the 20th century, Agriculture continued to receive special treatment from the government, especially when compared to other sectors. Goldstein (1989) describes a strong divergence between agricultural policy and industrial policy, summed up as "trade liberalization for industrial products and trade protectionism to maintain farm incomes for agricultural products." While American industry was opened up to global competition, American agriculture was sheltered and subsidized.

Goldstein (1989) notes that the protection of agriculture was in part due to the strength of interest groups advocating for agriculture; she fails to mention that these lobby groups were by and large wings of what Clyde Woods calls the Southern Plantation Bloc, closely allied with Roosevelt. The inauguration of 20th Century agricultural policy was the Agricultural Adjustment Act (AAA) of 1933, a "planter-dominated affair" (Woods, 1998, p. 123). The AAA enacted an array of subsidies, primarily paying farmers to destroy crops and reduce acreage so as to raise prices. These subsidies propped up troubled agricultural firms, and also ensured the continued flow of ground rents to agricultural landowners. Moreover, these subsidies "allowed planters… to end their responsibility for the survival and reproduction of African American labor" (Woods, 1998, p. 122). Not only did agricultural subsidies protect the income of planters, farmers, and

agricultural landowners, but they enabled the Plantation owners of the south to sever some of the last ties between Black farmers and the land of the south.

The structures set in place by the AAA have persisted throughout the 20th century. It is widely acknowledged that support to the agricultural sector protects the rental income of agricultural landowners—many have even argued that the primary beneficiaries of agricultural subsidies are not the farmers, but the landowners (Alston, 2007; Kirwan, 2009). Figure 4-3 shows that the higher gross farm income during the 80s and 90s (as compared to the 50s and early 60s) is primarily due to agricultural subsidy. Without this subsidy, rents would ostensibly have had to decrease for farmers to be able to afford them.

The Anti-Trade nationalism pushed by President Trump panders to racist whites' fantasy of a lost America, and it conveniently also protects the rental income of the landlord class. Suppressing imports in high-ground-rent sectors such as agriculture ensures continued income which can be directed toward rents. A similar dynamic was present during the famed Corn Law debates of the 19th century. The tension between landowners and capitalist producers over tariffs was the crux of the conflict over whether to tax corn imports. Landowners were the primary lobbyists for corn laws, as the movement of capital to other countries for corn production meant the bottom falling out of their rental income. Further, keeping prices of corn high ensured they could continue to charge high rents.

The genetic code of the US government is disposed toward the protection and advancement of landowning class power—whether this is particular to all capitalist states, to colonial settler states specifically, or to the US State in particular is an important question for future research.

Raising prices of High-Rent Commodities.

I call "High-Rent Commodities" those commodities whose production requires proportionally high rental payments. It is in the interest of landowners that high-rent commodities continue to be costly, and rise in price if possible. Every dollar increase in the sale price of wheat above the production price is another dollar landowners can charge to wheat producers in rent.

There is also an indirect struggle between landowners and capitalists over wages: capitalists want to suppress wages, while landowners want wages as high as possible so that workers can pay ever higher prices for High-Rent commodities. When commodities are purchased by the working class, they purchase them out of their wages. Wages are paid (generally) by capitalists. If high-rent commodities are *necessities*—such as, for instance, housing—then as they rise in price, workers need higher wages to pay for them. If capitalist raise workers' wages, allowing them to pay higher rent, the worker watches the price of their labor power rise while their quality of life does not. Capitalists, in the meantime, are footing the bill for landlords' hiking the price of high-rent commodities by paying their workers higher wages.

For example, while inflation has been negligible in recent decades even given all the economic indicators that usually induce inflation[15] —the cost of *housing* has spiked. This is largely due to the fact that rental housing (or rather, the land beneath it) is a crop that can't be grown in China or Mexico. Urban and suburban housing, as well as prime rural housing, is subject to the monopoly rents discussed above. The landowning class can raise urban residential rents without any change in how apartments are produced or consumed.

This dynamic plays out in areas with extremely high and increasing ground rents and rent gaps. In San Francisco, businesses ranging from small local joints to major multinationals,

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[15] See Saad-Filho (2019) for explanation for our contemporary lack of inflation.

have closed or moved operations over the last decade due to their inability to find employees who can work for the wages the company is able to pay, and/or because of the increased overhead of commercial rental costs. Local establishment *Mission Pie* closed its doors in 2019, citing their inability to pay a living wage in the face of soaring housing costs in San Francisco (Eskenazi, 2019). Macy's announced the firing of over 1000 employees in San Francisco in February 2020 (Hanbury, 2020), citing the unaffordability of local office space and rising wage demands due to housing. Macy's gave some of their fired workers the option to reapply to locations in New York and Atlanta, where the company owns commercial properties and is headquartered. Employees hired in those places will receive a wage cut commensurate with the lower cost of living (housing).

But as we venture into the territory of residential rents, we face a problem: while the classic Landlord-Tenant relationship in ground rent theory is between a landowner and a *capitalist tenant,* here we find working class tenants with an entirely different relationship to the space they rent.

Capitalist-As-Tenant

If you ask a regular person (aka a non-capitalist, non-landowner) about "rent," they will probably talk about residential rents they have paid, couldn't pay, or managed not to pay. Ground rent theory has been unable to account for this type of residential rents because in Marxian and classical ground rent theory, *the tenant is the capitalist,* and *ground rent is paid out of profits,* while in urban residential rents, the "tenant" is generally a proletarian. Seminal texts on ground rent from Marx, Ricardo, and Von Thunen discuss agricultural rents almost exclusively. Marx mentions that his analysis of agricultural ground rent can be applied to the rent of mines, and potentially for urban rents, but does not elaborate.

In classical ground rent theory, the capitalist farmer rents farmland from the landlord, and the rent is paid out of their profits made on the land. The "rent" paid by a proletarian "tenant," on the other hand, is drawn out of their wages. The value they produce happens *elsewhere*. In the working class tenant's relationship to their landlord, the capitalist appears to be absent.

Consequently, ground rent theory has only been loosely applied to residential rents. Neil Smith made an essential intervention in his theory of the *rent gap,* which applied the theory of capitalist competition to an analysis of the rental market; David Harvey has correctly emphasized the monopoly character of urban landownership (Harvey, 2007; Harvey et al., 2009; Smith, 1987, 1996).[16] However, it has remained impossible to apply ground rent theory directly to residential rentals.

Here, Engels' uneven text on *The Housing Question* has an important insight: the relationship between a residential landlord and working-class tenant is described as a "quite ordinary commodity transaction" (Engels, 1887).[17] The working class tenant is a consumer of the commodity *home*.

David Harvey also refers to residents of housing as consumers of that housing – "The occupiers of housing consume the various facets of housing according to their desires and needs… All occupiers of housing [be they owner-occupiers or renters] have a similar concern – to procure use values though laying out exchange value" (Harvey et al., 2009, p. 163). This clarifies the difference between the working-class residential tenant and the capitalist tenant:

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[16] Anna Haila wrote the promisingly titled Urban Land Rent, but the book does not actually offer any insight on how to make sense of residential rents vis a vis land rent theory.

[17] Engels falters as he continues, suggesting that the rent is decisively determined by the given relation between supply and demand.

the former pays rent in order to consume a use-value, the latter pays rent in order to produce surplus value.

Interestingly enough, the Bureau of Economic Analysis treats rent in a similar fashion. The housing stock provides a flow of housing services that are consumed by persons who rent their housing, and by persons who own the housing they occupy (referred to as "owner-occupants"). In the National Income and Product Accounts (NIPAs), owner-occupants are treated as owning unincorporated enterprises that provide housing services to themselves in the form of the rental value of their dwellings. Thus, Personal Consumption Expenditures (PCE) for housing services includes both the monetary rents paid by tenants and an imputed rental value for owner-occupied dwellings (measured as the income the homeowner could have received if the house had been rented to a tenant). (Bureau of Economic Analysis, 2019)

But if working class tenants are consuming produced use-values, and landlords in capitalism are defined by their disengagement from value production (see Chapters 1 and 2), who is producing this commodity "home"?

Like all value production in capitalism, the production of the use value "home" involves mixing living with dead labor. In apartment rentals, a capitalist must enlist living labor (superintendents, plumbers, carpenters, administrative staff, security personnel, and so on) to valorize the dead (the building, materials used for renovation and upkeep, mops and garbage bags).

In many cases, the capitalist firm producing home and selling it to tenants is a distinct legal entity from the landowner. Often today these firms are called "property management companies." They supposedly collect "rent" from "tenants" for the landowner, but in terms of ground rent theory this is a mere appearance—in reality, the capitalist property management

company sells the commodity *"home"* monthly to people "renting" apartments. After this sale, the property management company pays ground rent to the landowner.

Long-standing landowning companies (those companies over 40 years old, say) often act as both the capitalist and the landowner of residential property. For example, Trinity properties is one of the biggest high-end luxury apartment rental companies in San Francisco, founded in 1949, and both owns and manages their properties.

It is common for high profile "financialized" residential landowners to employ a subsidiary company to manage their properties; the companies remain legally distinct, but profits are mostly kept in-house. For example, Veritas Investments—San Francisco's biggest residential landowner—purchases high value residential property which is managed by their subsidiary Greentree Investment, while another subsidiary handles the leasing process.

In other cases, small landowners owning one or several multi-family buildings contract with large national property management firms. All of these different configurations reveal different balances of class interests between landowners, capitalists, and proletarians.

There are many forces and interests at work in the housing market. The existence of the capitalist tenants in the residential rentals market challenges Engels' (1887) comment that: "In the housing question, we have two parties confronting each other: the tenant and the landlord or house owner." We actually have at least *three*: the landowner, the capitalist producer of the commodity *home,* and the consumer of that commodity (either working class or bourgeois). Sometimes a third party complicates the picture further: the lender, who can be either a mortgage-lender, a credit issuer, or an investor. All of these parties have different interests, strengths, and weaknesses.

Too often different kinds of rentals—agriculture, industrial, apartment rentals—are analyzed in isolation from one another leading to an inconsistent theory of rent. But once we

conceive of residential rents as involving capitalist production and working class consumption, we are able to connect urban residential rent and rent of land for agriculture, mining, and timber extraction. This framework allows us to consider absolute and differential rent of industry and agriculture as also pertaining to apartment buildings. We are now able to understand the conflict between capitalist and landowner imperatives in all of these sectors.

Just as a soybean farmer rents farmland, an automobile producer rents industrial property, and a department store rents retail property, a property management company functionally "rents" residential property. In the United States, multifamily rental housing is considered one of four types of "commercial real estate." In practice, residential real estate and non-residential commercial real estate are analyzed separately (as advocated by the IMF – see International Monetary Fund 2006). A developed ground rent theory should be applicable to all instances of landownership and ground rent extraction, while opening up a more rigorous analysis of the differences between these particulars.

In Chapter 1, I analyzed the relationship between rent per acre and levels of tenancy in agricultural land in (Figure 1-3). The chart showed that higher rents correlated with higher levels of tenancy. We can also analyze the same relationship for urban residential rents, and find the same correlation (Figure 4-6).

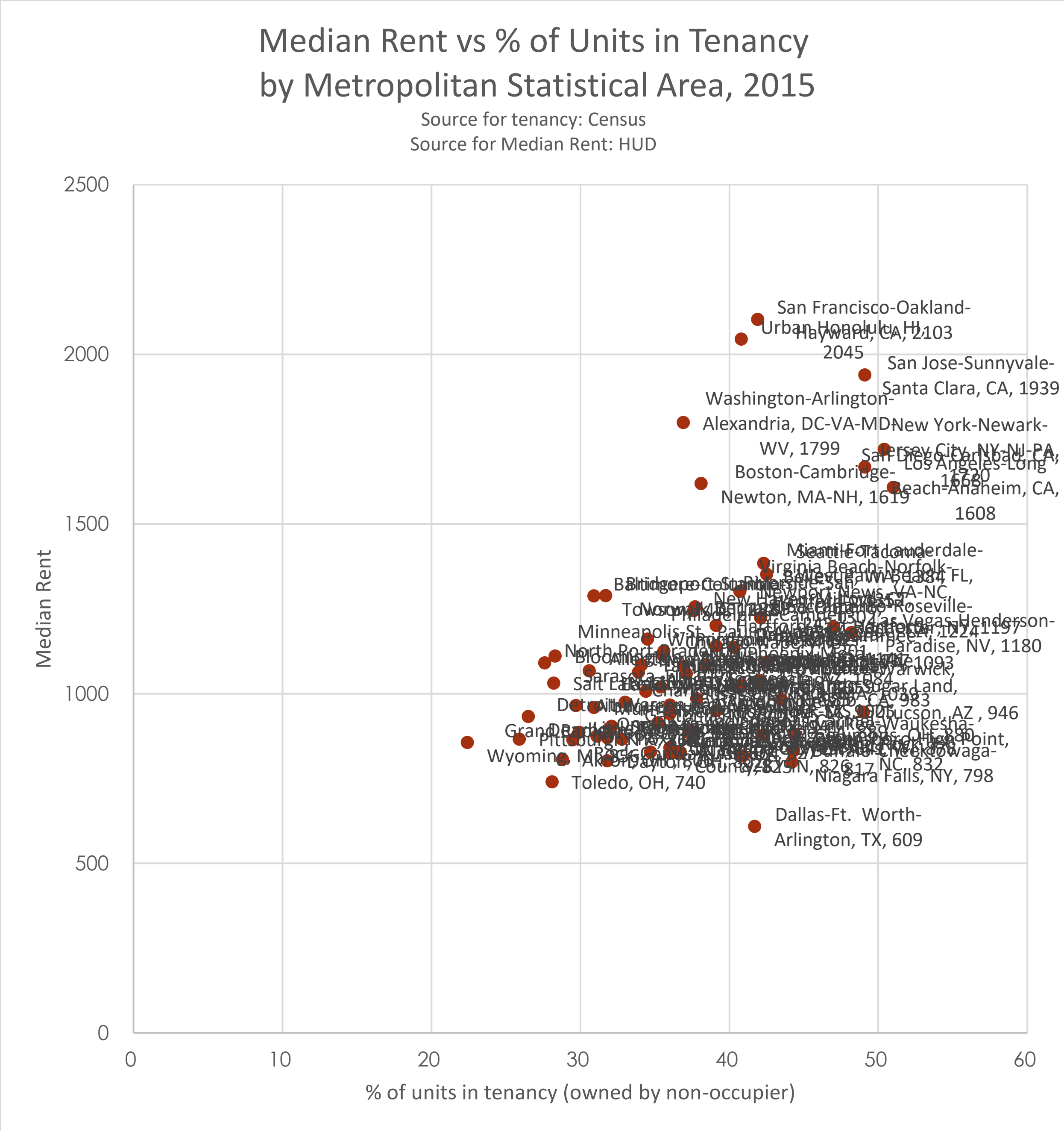

Figure 4-6
Median Rent v. Percent of Units in Tenancy by Metropolitan Statistical Area, 2015

Today, many of the most recognizable names in residential rental markets are, in fact, property management companies which do not own the majority of the properties they manage: Blackstone Management; Starwood Capital; Alliance Residential. Greystar, the USA's biggest

property management company and self-proclaimed "Global Leader in Rental Housing," only owns about 1/3 of the 480,000 units under its management. Additionally, many proletarian tenants erroneously believe their property management companies are their landlords– for example, over the course of many doors knocked during a recent campaign against the big speculative landowning company Veritas in San Francisco, I found that the majority of people believed their landlord was "Greentree," which in fact was the property management company contracted by Veritas. And in a sense, these tenants are correct: their main interface is with Greentree, and most of the pressure points they have are with Greentree, not Veritas. However, for a full strategy for these tenants, they had to develop a clear understanding of the difference between the two companies and how to effectively struggle against them both.

There is a clear distinction between the landowner properly speaking (the owner of the title to the land) and the company that manages and runs a residential building   The latter must be understood as a capitalist company, one that pays rent to a landowner for the right to produce and reproduce the commodity *home* on the rented land. The property management buildings of residential properties are capitalist tenants.

Residential Property Management in 20th Century US

Property management companies were neither so common nor so professionalized throughout the mid-20th century in the United States (Carucci Goss & Campbell, 2008). If they were productive capitalist companies, they were equivalent to at-home weavers, not to industrial linen factories. The property manager of the mid-century was closer to a superintendent than to

today’s major residential management companies like Greystar or Alliance Residential. This may be the reason that Property Management is often overlooked in the study of urban rentals.[18]

Carucci Goss and Campbell (2008) argue that the role of the property manager moves from a pre-1930s “Owner Manager”, to a “Caretaker Manager” in the 30s, an “Emerging Professional Manager” in the 60s, a “Sales and Marketing Manager” in the 80s, and “Income Maximization Manager” in the 90s:

> In the early days of property management, caretaker managers would never have seen their property budgets. They would have been responsible for collecting the rent, making necessary repairs, paying the bills, and turning over the profits to the owner. Emerging professional managers would have been given a budget from the corporate office and expected to manage the property within the budget. The sales and marketing manager may have had some input into the budget, but would be expected to adhere to the budget while emphasizing resident retention. Today's income maximization managers prepare the budget for their properties in consultation with the corporate office so as to maximize the profit for the owner or stockholders. (Goss and Campbell, 2008, p. 17)

Carucci Goss and Campbell (2008) attribute the ascent of the property management to the increasing complexity and difficulty of renting residential units. They argue that in the early 20th century rental housing demand was high, and landlords had a relatively easy time filling vacancies and collecting adequate rents. Landlords could employ minimal management and still expect decent returns. As renting became more onerous, and especially during the economic downturn in the 80s, landowners turned to property management companies to ensure the

[18] Property Managers, for instance, are absent from David Harvey’s taxonomy of actors in the urban housing market—occupiers, Realtors, Landlords, Developers, Financial institutions, Government Institutions (1973).

maintenance of profits. This timeline follows the narrative of financialization theory as well, in which the pre-1970s period in the US was a more pastoral landscape for capitalism, marred by increasing extraction at the onset of financialization/neoliberalism.

However, corporate property management reared its head way before. As early as the late 19th century, realtors were already taking on full corporate property management roles (Davies, 1958, p. 39; Doucet & Weaver, 1991, p. 368). This coincided with a rise in financialization (see Chapter 5 on 19th century financialization). Where there were absentee landlords—and they have been common throughout the history of the US—there were often robust property management companies (Doucet & Weaver, 1991, p. 372).[19] Absentee landlords in agriculture also meant widespread tenancy, which we can see from the first eastern colonies to the slave-holding south (Post, 2012; Woods, 1998). Large scale property management is not new to the 20th century; the fact that it is notably absent in urban residential rents during the mid-20th century indicates that something happened to reduce the market for property management.

Rent prices went down every decade from 1914 to the late 1980s (Figure 4-7), even though vacancy rates were low for much of this period (Figure 4-8). If we understand property management as a branch of capitalist production, why would the residential rental sector be sheltered

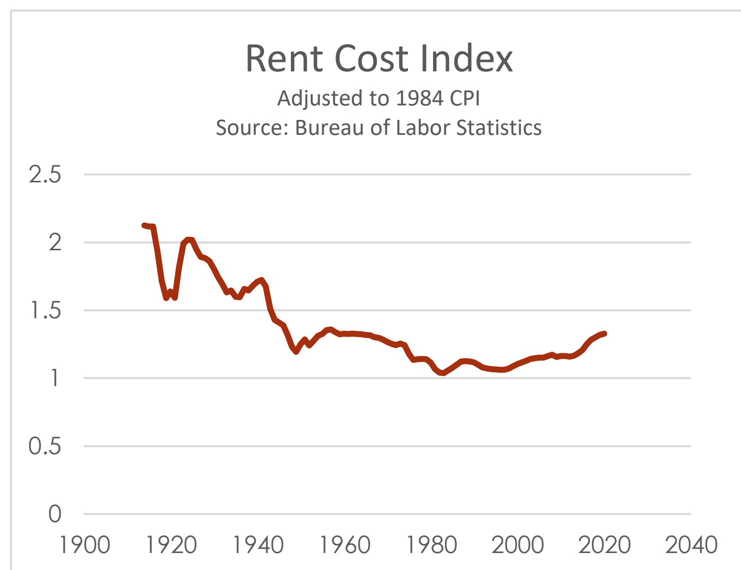

Figure 4-7
Rent Cost Index, U. S. 1914-2020

[19] The correlation between property management and absentee landlords mirrors that between tenant farmers and absentee landlords of farmland.

from capitalist competition for profit rates during the postwar period? Why did landowners seek so little in rent, even given low vacancy rates?

In fact, the mid-20th century was a backwards period for residential property management in the US because tax policy had turned residential buildings into attractive tax havens. If one purchases a building in order to shelter other income from taxes, one need not—and cannot—squeeze too much revenue from that building in rents. Increased income from

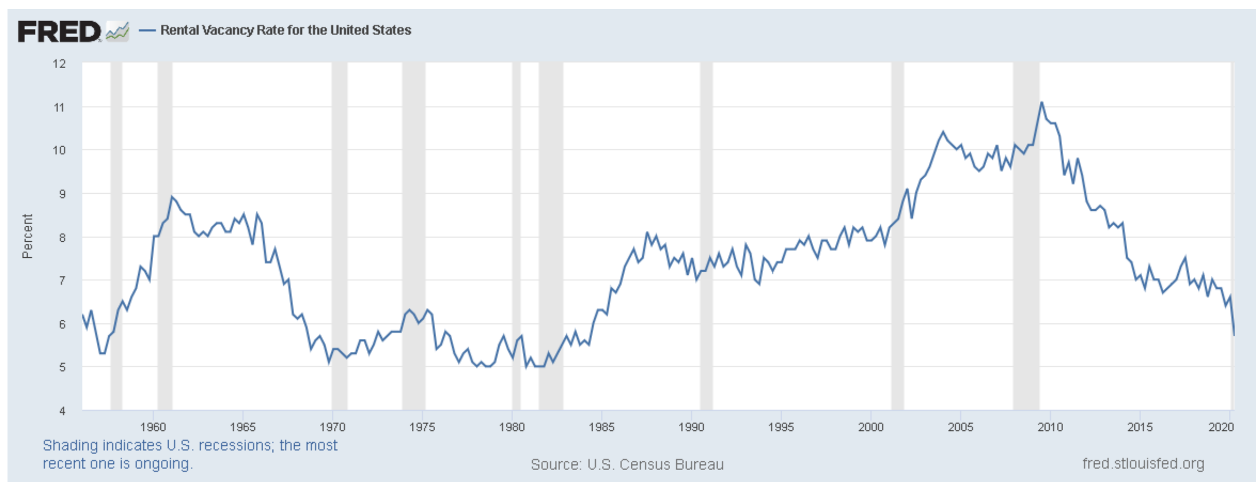

Figure 4-8
Rental Vacany Rate for the U. S.

rents would defeat the purpose. There was little need for more income to be generated by property management companies through increased rents.

The bulk of this tax evasion was enabled by increases in depreciation allowances (Samwick, 1995). In 1954, Congress published the 1954 Revenue Code which increased depreciation deductions for structures by enabling extra depreciation in early years of ownership. The government further liberalized depreciation regulations three times over the next 30 years, culminating in the early 80s when depreciation time dropped to 15 years with rapid depreciation in the first years of ownership. This meant that on a building worth $1 million, not only could you write off almost $70,000 per year in depreciation (1/15th of $1 million), you could claim accelerated depreciation for the first years of almost double that value.

Table III

History of Depreciation Deductions, Non-Residential and Residential Structures, 1950-1993

Rapid Depreciation Techniques: DDB= double declining balance; DB = declining balance; SYD = sum-of-years-digits.

	Non-residential Structures	**Residential Buildings**	**Policy**
1950	40 Years, Linear	40 Years, Linear	
1954-69	40 Years, Rapid Depreciation Available (DDB, SYD)	40 Years, Rapid Depreciation Available (DDB, SYD)	1954 Internal Revenue Code (Eisenhower)
1969-70	40 Years, Rapid Depreciation Available (150%DB)	40 Years, Rapid Depreciation Available (DDB, SYD)	Tax Reform Act of 1969 (Johnson)
1971-80	36 Years, Rapid Depreciation Available (150% DB)	31 Years, Rapid Depreciation Available (SYD)	Asset Depreciation Range (ADR) System (Nixon)
1981	15 Years, Rapid Depreciation Available (175% DB)	15 Years, Rapid Depreciation Available (175% DB)	Economic Recovery Tax Act (ERTA) 1981 establishes Accelerated Cost Recovery System (ACRS) (Reagan)
1982-3	18 Years, Rapid Depreciation Available (175% DB)	18 Years, Rapid Depreciation Available (175% DB)	
1984-6	19 Years, Rapid Depreciation Available (175% DB)	19 Years, Rapid Depreciation Available (175% DB)	
1986-93	31.5 Years, Linear	27.5 Years, Linear	Tax Reform Act of 1986 (TRA86) establishes Modified Accelerated Cost Recovery System (MACRS) (Reagan)
1993	39 Years, Linear	27.5 Years, Linear	Omnibus Budget Reconciliation Act of 1993

Reagan's Tax Reform Act of 1986 closed several tax loopholes for landowners—in particular, the TRA1986 barred landowners from claiming accelerated depreciation on their properties and writing off "passive" losses.

In 1991, Donald Trump told Congress the 1986 tax act was an "absolute catastrophe." As a real estate investor at the time, it had deleterious effects on his industry (Eizenstat, 2017). Here we can see the landlord and capitalist class competing for government favor: Reagan was clearly interested in increasing the power of the capitalist class, and apparently willing to smite a blow to the landowning class in order to advance the interests of capitalists. Conversely, Trump as president has frequently made decisions that are unpopular for national and international capitalist class, but advantageous for a *landowning* class.

For example, Trump has favored increased tariffs and nationalist economic policies, inciting and emboldening various "trade wars" with countries from which the U.S. generally imports. Landowners in the US, will find their ground rent streams secured and enhanced by policies which enforce local production, because this means that capitalist companies are forced to rent land domestically for production, assembly, and so on.

Before the TRA 1986, the internal rate of return (IRR) on real estate investment using all the tax-sheltering techniques available was a handsome 21.88%. (This was for high income investors, who were the most common users of the tax shelter.) The bulk of this profit was the result of tax benefits on other investments, not from direct rental payments from the properties. After the TRA, this IRR dropped to 13.15%. The new regulations resulted in negative after-tax cash flows, requiring actual cash inputs during the years between purchase and sale (Samwick, 1995, pp. 8, 30). Now, for the first time in decades, rental properties had to turn higher profits.

Sure enough, the 80s marked the reversal of rent's long descent in real price (see Figure 4-7). Residential rents began a slow increase in the 80s, coinciding with the rise in property management companies.

The growth of REITs in the mid-90s (20 years after the legal form of the REIT was established in the US) can also be seen as a partial response to the TRA of 1986, since the reform made private real estate ownership via limited partnerships less financially advantageous. "Again, the role of the property manager was elevated in importance because as public entities, REITs had to make public their financial information, and REIT stockholders expected a return on their investments. All of this required good management" (Carucci Goss & Campbell, 2008, p. 16).

The property manager played a minor role in the years between 1930-1980 because there was less incentive to maximize profits in residential buildings. But in 1986 there was a rapid introduction of major property management companies into residential rentals alongside a growing imperative to extract higher ground rents. Residential landowners began to demand higher rents from their capitalist tenants, and small-scale property management was not up to the task.

In effect, ground rent extraction became a lesser priority in residential rentals throughout the post-war period. The imperatives both of landowners to extract ground rent, and of capitalist to produce and sell monthly doses of "home" for a profit, were tempered substantially.

During this period, however, mortgage lending expanded. In the 1830s, when the government tightened restrictions on large scale land purchases by big landowners, "only the business of lending money to squatters remained" (Gates 1942, 324). Similarly, here, money

flowed rapidly into mortgage lending, spurred by government policy. This time, however, the government explicitly invited investment into the mortgage market.

Homeownership, Mortgages, Ground Rent

During the post-war peak of residential tax havens, homeownership began to spike. While rents were declining, housing prices rose (Figure 4-10). Rented housing units outnumbered owner-occupied homes until the late 1940s. After this, rentals continued to grow, but owner-occupied homes grew faster (Figure 4-9).

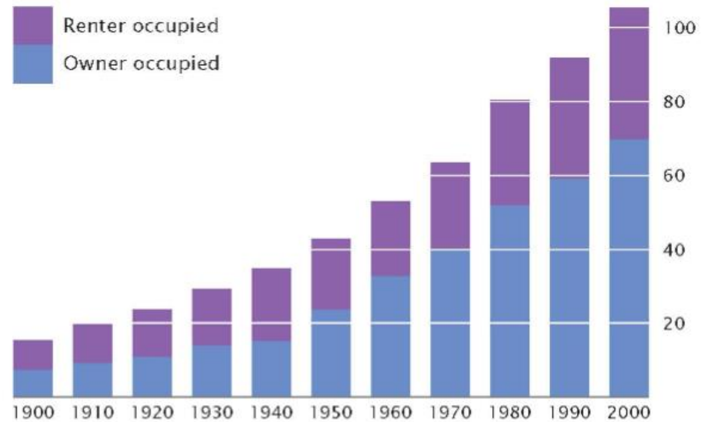

Figure 4-9
Occupied Housing Units by Tenure in U. S., 1900-2000

Source: Suchan et al., 2007, p. 234

The government incited much of this boom in homeownership through expanding and guaranteeing mortgage-lending for homeownership. The specter of communism made class compromise a necessity—at least between capitalists and the upper half of the white working class—and homeownership was central to this compromise. The FHA began backing mortgages in the 1930s, the VA in the 1940s, and in the 60s Johnson began a process resulting in the production of the modern mortgage-backed security. These securities widened the funding available for mortgages, while still insuring all investments with a US Government guarantee of payment (Quinn, 2019).

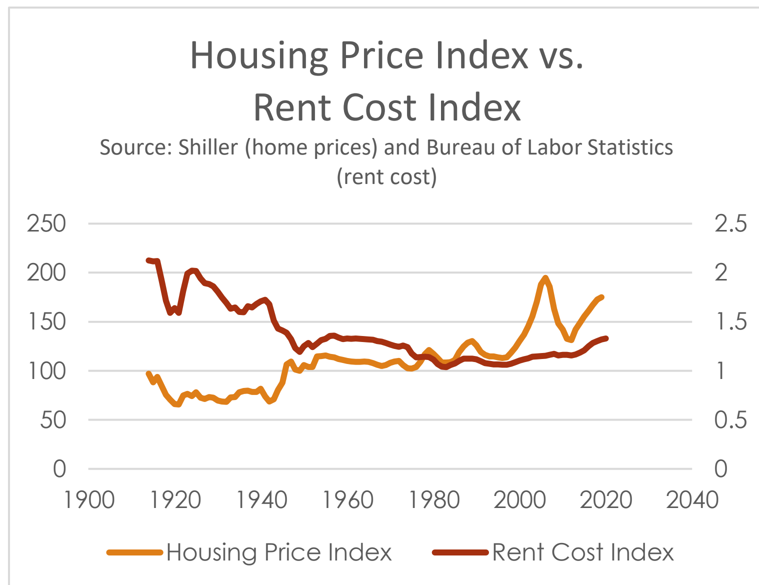

Figure 4-10
Housing Price Index v. Rent Cost Index

U. S. 1914-2020

Leftist scholarship generally marks the 1970s as a turning point. Both proponents and critics of financialization theory view the 60s and 70s as the end of a 'golden age' of strong working-class mobilizations and gains in the USA. Christophers writes that finance is "truly shackled" for the first and only time during the postwar period. Quinn argues that only in the 1970s did the financial class "mobilize power… by taking advantage of political problems that had existed since the start of the nation… [and] through adjustments to a set of partnerships and credit supports that had long been active in the housing sector" (Quinn, 2019, p. 197). Wolfgang Streek called this period "the revolt of capital against the postwar mixed economy." John Weeks points to the post-war moment as the achievement, by organized labor, of a kinder and gentler capitalism (Weeks, 2011, p. 150).

But why did capital only revolt against labor in the 70s? Why did finance's shackles not loosen in the 50s? It is wrong to assume that capitalists (and the finance sector in particular) were unhappy about the compromise with labor, because they benefited from it as well. However, by the 60s profitability had declined significantly, global competition was truly taking off, so both productive and finance capital had to maneuver in new ways to ensure their profit rates. Capital solicited, lobbied, and bullied the government for tax breaks (as it is wont to do) as it sought other ways to counteract falling profit rates (Gilmore, 1999, p. 177). The government proved willing to guarantee expanding amounts of mortgages, enabling ground rent extraction by another name.

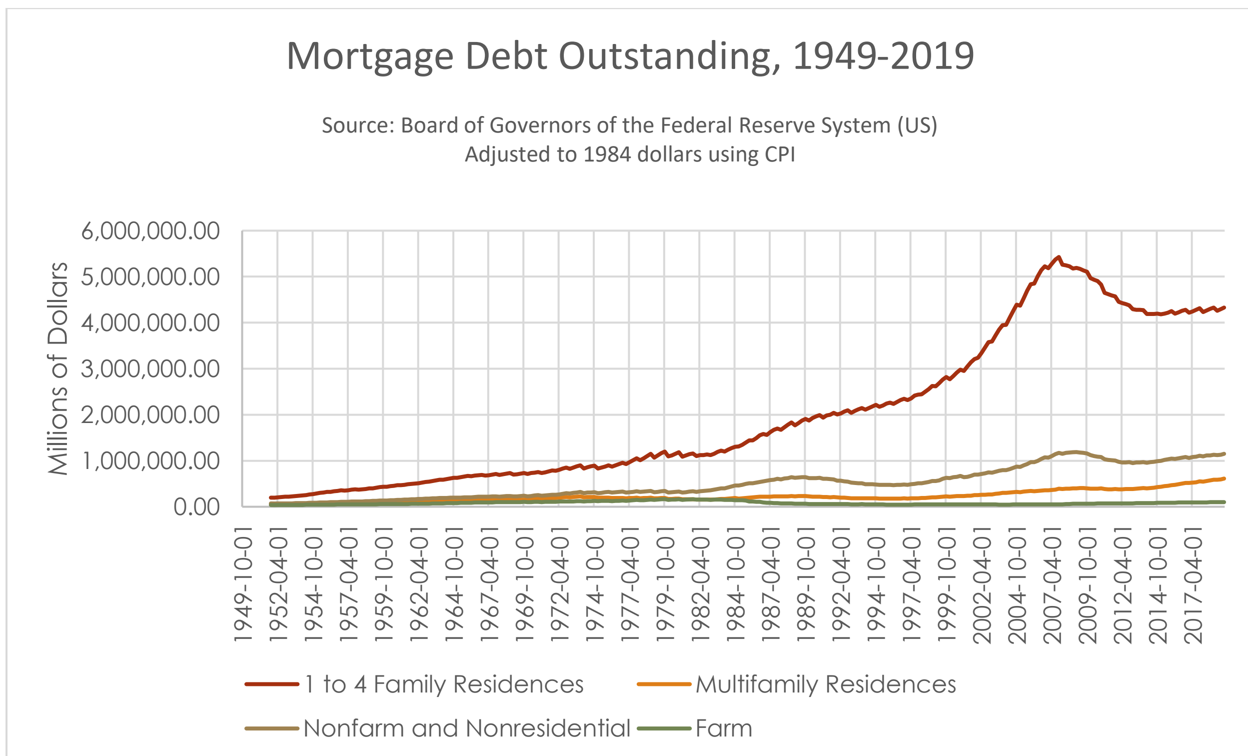

Figure 4-11
Mortgage Debt Outstanding, U. S., 1949-2019

Mortgage lending was shunned by the market after the property market crash of the 1920s. The US government guaranteed mortgage debt through the 50s and 60s, increasing liquidity in the mortgage market in order to advance homeownership (Quinn, 2019). However

arguments about the budget deficit forced the US to innovate techniques of unloading debt while continuing to unload some of the mortgage debt it was accumulating. This gave birth to the modern mortgage-backed security. First through Johnson's failed Participation Certificate program in the 60s, and then through Fannie Mae's "pass-through certificates," the form of the mortgage-backed security took shape. In the latter, mortgage payments "passed through" Fannie Mae directly to holders of the certificates, and titles to the mortgages were placed in a special trust rather than continuing to be held by Fannie Mae. Both the return of the mortgage principal and the interest payments were guaranteed by the U.S. government, even though the debt was no longer on the books.

The form of the MBS was forged in the government at the demand of private investors, but in 1983, First Boston, Salomon Brothers, and Freddie Mac sorted the mortgages into "tranches" and began selling the now familiar type of tiered MBS. The MBS market surged from $20 Billion in 1982 to $265 billion in 1986 (Quinn, 2019, p. 206).

Mortgage lenders and holders of mortgage-backed securities became recipients of enormous flows of ground rent from privileged sectors of the working class. Owner-occupiers are the main buyers of 1-4 unit properties, and the main borrowers of mortgages by far (Figure 4-11). This changed slightly during the subprime crisis – at which point mortgage debt for 1-4 family homes drops significantly.

Major landholders tend to be the main purchasers of multifamily and commercial property—and as we can see in Figure 4-11, they do not borrow so heavily from the mortgage market. Their financing comes either from investors (both public and private), by non-mortgage loans, and through saved liquidity.

Many high-profile companies entering the residential rental market over the last 10 or 20 years are highly leveraged—borrowing from banks at high interest rates—and/or raise cash

through investments to which they are beholden. As recently as 1990, rental housing was not particularly highly leveraged, and showed a “typical” debt to asset ratio of about 35%--less than the corporate sector’s 40%. (Gravelle, 2001, pp. 520–521). However, In 2000 (the last date for which this data is available) the debt to asset ratio for rentals leaped to about 58% (Census, Residential Finance Survey) while nonfinancial corporate debt dipped to about 30% (Federal Reserve Data).

Residential Vacancies and Landownership

While the landowning class tends to be tolerant of vacancy and willing to remove land from the market if they cannot receive their desired payments, property management companies—as capitalist companies—have little such financial flexibility. Large-scale property management companies tend to keep vacancies between 2 and 8 percent – a few percentage points lower than the average 6 to 10% (Andrews & Sisson, 2018). While landowners are beholden only to themselves, property management companies must pay rents to the landlord. If they fail, they jeopardize their own profit margin as well as their contract with the landowner.

Once landowners have recouped their initial investment into land, they make little additional outlay in their properties. Property management companies, on the other hand, constantly advance capital in order to valorize it, and will always have to turn over a designated amount of rent to the landowner. Some institutional landlords, such as REITs, have investors who may sell stock if they are not profitable enough, leading to downturns in valuation and the inability to raise more capital through selling stock. There are also highly leveraged landowners who owe a large proportion of the prices of their properties to lenders. Such highly leveraged landowners forfeit the ultimate power of landownership: withholding land from the market.

The prevalence of residential vacancies, however, suggests that an ample amount of non-leveraged landowners still exist. Nearly 10% of residential units nationally stand vacant—far more units than would be required to house all houseless people, as many homeless rights organizations have pointed out. Office vacancies are even higher at around 12% while industrial is somewhat lower, at around 6%.

In a further substantiation of the theses argued here, Figure 4-12 shows that a rise in vacancies does not correspond with decline in rents. This deals a blow to mainstream analysts who argue unflinchingly that high rents are due to low inventory—a position popularized by the new "Yes in my back yard" (YIMBY) movement that claims that the solution to the homeless crisis is an increase any kind of housing, regardless of whether it is affordable to those with low incomes (California YIMBY, 2020; Joint Center for Housing Studies of Harvard University, 2019).

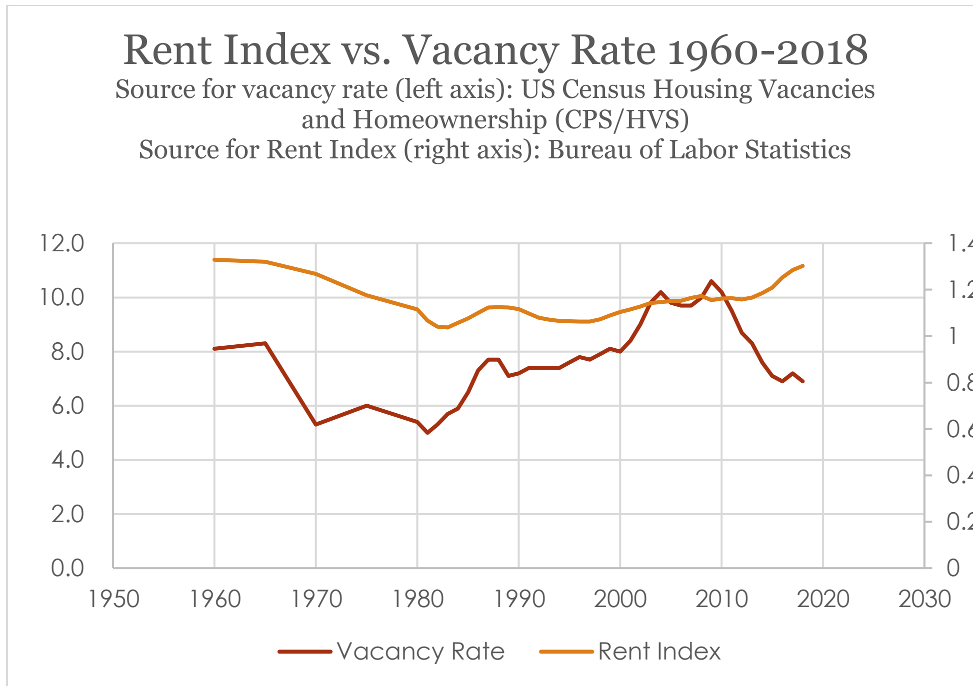

Figure 4-12
Rent Index vs. Vacancy Rate 1960-2018

Even within Metropolitan areas, higher vacancies persist where rents are higher—San Francisco has higher vacancy rates than the greater Bay area while also being home to the highest rents (Figure4-13).

Year Built and Unit Size, 2015

Year Built	San Francisco	Bay Area	California
1939 or Earlier	10%	8%	9%
1940-1979	7%	4%	7%
1980-2015	7%	5%	8%
Unit Size	**San Francisco**	**Bay Area**	**California**
0 Studio	13%	12%	13%
1 Bedroom	12%	9%	11%
2 Bedroom	6%	5%	9%

Source: ACS (IPUMS-USA)

Figure 4-13
Vacancies by Year Built and Unit Size, U. S. 2015

Source: SF Housing Needs and Trends Report 2018

Vacancy also pervades agricultural land—up to 40% of the land grabbed in the "21st century land grabs" of the last two decades remains unused, often to the despair of farmers pushed off that land (Peel, 2016).

Private landownership in capitalism necessarily produces unused lands, often when and where they are most needed. Thus, “in all civilized countries a relatively significant portion of land always remains uncultivated” (Marx, 2015, p. 745).

Housing has Volume Cycle not a Price Cycle

A similar pattern exists in home sales: in housing slumps, rather than lowering prices to sell properties, homeowners take properties off the market and wait. Leamer (2007) finds that it is more accurate to analyze housing sales volume than housing sale prices, because when sales of housing slows down, prices do not tend to decline substantially – rather, sales volume declines, the amount of homes available on market declines, and with it, jobs in construction, real estate brokerage, etc., decline.(Leamer, 2007, p. 25). This distinguishes land as an asset from stocks and bonds; it can be dangerous to hold stocks during a downturn; they could lose value completely. Land, on the other hand, does not fold in on itself and descend back into the earth; it weathers its own price fluctuations stoically.

Leamer (2007) finds evidence for the fact that landowners are willing and able to hold land if they are not being offered the price they want. This bears itself out in the fact that the housing market has “a volume cycle, not a price cycle.” Interestingly, Leamer says that compared to other landowners, banks do *not* sit on their assets, and that is why we saw a huge price plummet of land in 2008:

> Many homeowners exercised this attractive option [of getting rid of their negative equity] and turned over ownership to their lenders. Unlike traditional owners, banks are not reluctant sellers. On the contrary, they dumped properties on the market… What kind of sales prices do you think those units experienced? But even with this contrary

> evidence, I stick with my view that housing experiences a volume cycle not a price cycle, and that 2007–09 was a never-to-be repeated exception. (Leamer, 2015, p. 48)

The past decade has pushed more people into the position of holding titles to land that they cannot or will not "sit" on, either because they never wanted the land in the first place (banks getting properties through foreclosure) or because they are too highly leveraged. The latter case includes dynamics of "predatory equity," as criticized by numerous NYC nonprofit housing organizations: buildings that are purchased with a high debt-to-income ratio such that the current rental income from the building could not support the mortgage payments (Association for Neighborhood and Housing Development, 2009). Such landlords do everything imaginable, legal and illegal, to evict tenants so they can impose phenomenal rent increases. Interestingly, it doesn't always work, and tenants from Los Angeles to San Francisco to New York have organized effectively to halt or slow evictions, lower rents or fees, sometimes forcing the owner to sell because they cannot meet their promised debt payments.

Capitalist into Landowner

Is it better to be a capitalist or a landowner? This would seem likely to vary depending on the balance of class forces in a given period. However, over the last half century it seems more frequent that capitalists become landowners than vice versa.

Three examples.

The infamous start-up WeWork has attempted to insert itself in the process of renting commercial office space, as well as providing extensive hardware, software and other accoutrements to businesses. Effectively WeWork is a capitalist company selling office rental space, for it tends not to own any property, but rent in bulk and sublease it to businesses. Nonetheless, Wework is known as the biggest "commercial renter" in Manhattan, with 265,000 desks in 287 buildings (Wilhelm, 2018). They operate in 111 cities across the globe. WeWork claims their lack of landownership is one of their

defenses against a recession – WeWork can "stiff its landlords in an emergency" – implying an inherent antagonism between the company and landowners from whom they rent (Evans, 2019; Thompson, 2019). In this sense, WeWork functions as a capitalist company producing the commodity *office space,* and in class conflict with their landowners over rent.

But the story continues: WeWork's founder and CEO, Adam Neumann, has recently been excoriated in the business media for having taken out loans from WeWork to purchase properties which he then leased *back* to WeWork – sometimes *on the same day he signed the purchase papers* (Huet, 2019). In the wake of this minor scandal, along with the dwindling venture capital available to WeWork as it continues to hemorrhage billions of dollars, Neumann has stated he is going to transfer some of these properties at cost to ARK, a new real estate investment fund developed by Neumann and others at WeWork with the purpose of investing in properties in which WeWork operates. ARK works *with* WeWork, is partially owned by WeWork umbrella group We. Co, but is an independent company.

Landownership and capitalist enterprise each have different logics, necessities, and vulnerabilities. WeWork follows a trend in start-ups of being "asset-lite," and so holds no real estate. This is a strategy for start-ups to grow quickly and outsource any large costs which would affect their bookkeeping negatively. WeWork was lauded for raising large amounts of capital in early rounds of funding, partially based on this model. However, WeWork's valuation has plummeted from $47 billion in early 2019, to a tentative $10 billion in September 2019. WeWork has yet to turn a profit, and potential investors do not have confidence it will hold its value. They have delayed their IPO indefinitely.

ARK and Neumann, on the other hand, benefited from the liquid capital available to WeWork, using it to purchase property at negligible interest rates. If WeWork goes under, those properties remain. The tacit suspicion in the business media is that Neumann could be using WeWork investment funds as low-interest mortgage capital to build a real estate portfolio which will be insulated from the failure of the subleasing company WeWork

The McDonalds corporation is another example of profits from a capitalist company being channeled into real estate. McDonalds began purchasing the properties on which it operated early in its life as a successful fast food company. Over the years McDonalds has transitioned into being primarily franchise-run, with now 85% of McDonalds establishments run by independent operators and only 15% corporate-run. While most fast food companies profit from franchises through payments for special recipes, ingredients, and materials, McDonalds also collects *ground rent* from their franchises, which average about 22% of gross profits (Purdy, 2017). As we all know, McDonalds franchises are located steps away from most major tourist destinations and landmarks across the world—from Times Square to Big Ben—and so the ground rents in these locations are extremely high. McDonalds also charges a "McDonalds rental premium" over and above the rent.

McDonalds shareholders have pressured the company to put its land into a publicly traded REIT, particularly in times of slow or negative growth. This would "unlock" at least $20 billion in value in US alone. However, the biggest argument *against* forming a REIT is that a REIT would not legally be able to charge the rental premium, losing this extra monopoly income.

This rental premium is a savvy manipulation of rental contracts, which may best be understood through Harvey's concept of *monopoly rent*. This is a different logic than the production and sale of food. McDonalds has gradually transitioned a significant portion of their company into the role of landowner. As such, they are in conflict with their capitalist franchise owners over the rental price. Collecting rent from franchises has allowed McDonalds to capture 9 to 15% of sales from their franchises, compared to 6 to 10% of other companies like Burger King, Taco Bell, and KFC (K. Taylor, 2017). While it would be difficult to prove that McDonalds' real estate holdings are a factor in its consistent victory over other fast food chains, it seems likely.

This strategy has also been deployed successfully by more sympathetic business figures: Julian Richer, founder of the UK Hi-Fi and TV Retail chain *Richer Sounds,* has been lauded in the media for giving away 60% of his company in shares to his employees, and also for weathering the incursion of

online purchasing platforms via strong business model and good employee benefits. His book *Ethical Capitalism* promotes ethical corporate practices as a route to business success.

Richer rarely mentions that he began to purchase the properties in which he operated his businesses early in the 1970s. His stores are both immune to rent inflation, and have assets to leverage.

> Mr. Richer personally owns the freehold on 46 of his 52 shops, thus shielding the business from the rent rises imposed by UK commercial property landlords in recent years. "Our overheads are only 12 per cent of sales," Mr Richer says. "We can't find out Amazon's costs in detail but we think they are broadly 10 to 12 per cent. But because we do such high volumes from such inexpensive stores and we are so efficient, it means that I've got much deeper pockets than most of my competitors. (Moules, 2013)

Richer was apparently reticent to admit this in his own book, *The Richer Way,* in which he writes:

> When people ask how I can afford so many benefits for staff, I point out that Richer Sounds spends less than 1.5 per cent of its turnover on rent and rates. This compares with typically 10–20 per cent spent by the high-street multiples.
>
> So we can afford good wages and holiday homes because we're not wasting money on property. …
>
> Keeping our overheads down by saving on property suits us very well. We invest in people, not buildings. It also conveys the right message to the customers. Our reputation is for selling good hi-fi at cheap prices and when customers see our shops in cheap locations, they are reassured that they are going to find a bargain. (Richer, 1996)

In any case, it may be easier to palate giving away your company to your employees if you still collect rent on the store's properties. Richer's previous 100% ownership of Richer Sounds only accounted for half of his £160 million fortune.

Many of the largest landowners today in the US made their fortunes first in capitalist enterprise. For example, the two largest landholders in the US and the world are Ted Turner, who began his ventures into real estate with a small fortune in an advertising company, and John Malone, whose family fortune comes from the communications industry. Low-leveraged land ownership provides insulation from fluctuations in sales and commodity prices, and requires relatively little investment year-on-year while continuing to provide basis for rent extraction. As capitalists transition into landownership, they offload the risk of the capitalist enterprise elsewhere (in the case of Neumann, to WeWork; of McDonalds, to the franchise owners; of Richer, to his employees).

For a capitalist to become a landowner, or for a landowner to expand their holdings, they require cheap capital. Once they own low-leveraged land, not even economic recessions are troubling. Moreover, they need not be troubled in any way by engaging in the process of production. It is no wonder that successful capitalists transition into landownership.

Why is the Rent so Damn High? Revisited: The Rent Gap and Beyond

Above, we discussed the recent attrition of businesses from San Francisco as a result of high housing and commercial rents, indicating that rents may be reaching heights that become higher than is possible for people to pay. Residential rents in San Francisco are so high (and transportation to the city from lower-rent areas so costly) that few people who work for the relatively high city minimum wage (currently 15.59 USD per hour) can even afford to even share a room at prevailing rents. The average rental cost for a two bedroom apartment in San Francisco in 2019 was $4,630, which means that working a 40 hour week at minimum wage,

paying income tax, your total monthly income (roughly $2,195) would still be over a hundred dollars short of the average room rental. If you work full time and share a room, you still will be paying more than half your wages in rent. This is a generally untenable situation, leading to overcrowding of existing apartments on the one hand, and widespread abandonment of the city as workplace and living place by low income people on the other.

The catastrophic rent increases in San Francisco over recent decades have led to a renewed surge of public argument about why rents are so high. There are two main camps in this debate: On the one hand, the free-market thinkers who argue that rents are too high because there is too much demand and not enough supply. These people, epitomized in the recent "YIMBY" movement (Yes-in-my-backyard – by which they mean, Yes to *market rate housing* in my backyard), passionately advocates for decreasing regulation on market-rate housing construction, arguing that if the free market were given reign to build as much market rate housing as they wanted, rents would level out. This camp pushed a bill in the California senate, SB50, which would force all municipalities in California to approve high rise market rate housing in the area of all major transit lines. The bill was opposed by many (including small municipalities who argued that they didn't even have fire trucks who could reach a 6 story building, so they couldn't approve the building of 6 story condominiums), and has failed multiple times in the senate, but is only one of myriad movements for similar initiatives throughout the state and country.

The second camp is made up of social justice non-profits and activist organizations who fault improper regulation and enforcement of rent control law as the cause of the rising rents and dwindling affordable housing stock in San Francisco. They cite, for example, the explosion of "Ellis Act Evictions" that wreaked havoc on San Francisco's rent controlled housing stock. The Ellis Act allows rent-controlled tenants to be evicted if the landowning company declares bankruptcy or that it is ceasing to be in the residential rental business—easy to do in the era of

endless subsidiaries. This position argues that the construction of market rate housing only makes the problem worse, and the solution to the housing crisis in San Francisco is tighter regulation, better rent control and the construction of more low-income housing.

The debates raged with such heat between the two sides that in 2016 a San Franciscan tech autodidact named Eric Fischer dedicated some weeks of his life to studying the possible correlations between rent control, housing stock, and average rents in San Francisco. His work was reviewed and adjusted by Matt Tyler, a trained econometrician, and on a scrappy looking set of blogs we can find one of the only serious statistical attempts to understand the causes of rising rents in San Francisco (Fischer, 2016; Tyler, 2016).

Fischer and Tyler found no support for either "side" of the housing debate: no significant correlation between low housing stock and rising rents, nor between the curtailing of rent control and rising rents. The only strong, significant correlation found was between average rents and *average income.*

The relationship between average rents and average income has been surprisingly understudied in the academy. The lone academic text analyzing similar data is "Household expenditures, wages, rents" by Davis and Ortalo-Magné (2011). The authors find that rising housing costs are not substantively related to short housing supply or low vacancy. They find in general that average rental costs and average household income are correlated, but not 1:1. Income and rents increase together and decrease together, but not *at the same rate*. In fact, as income grows, rent grows *faster:* they find that if the income growth in a specific Metropolitan Statistical Area (MSA) outpaces average income growth in MSA by 1 percentage point, the average rental costs will outpace the average rental cost growth by 4.2 percentage points (Davis & Ortalo-Magné, 2011, p. 249).

This means that households of any income that reside in MSAs with high average household wages spend a higher percentage of their income on housing than those in low-income MSAs. They conclude, “wages – not housing supply – determine the relative price of housing in San Francisco or any other high-priced area.” Further, “rental prices disproportionately reflect income differentials” (2011, p. 261).

This leads them to suggest, from data drawn in 2009, that San Francisco is *surprisingly cheap* compared to Pittsburgh—meaning that the amount which income rose in San Francisco should have yielded *higher average rents* in San Francisco as compared to Pittsburgh. That was in 2009, we can assume from the vantage point of 2020 that San Francisco landowners proceeded to correct that error, raising average rents by about 25% since 2009.

And this, of course, is a story of rent gaps (Smith, 1996). These rent gaps are created by rising average wages, rather than, for example, deteriorating housing stock. Rising average wages in a city like San Francisco mean that there is a potential to charge increasingly more for residential rentals.

And wages sure did rise. Over the four years between 2013 and 2017 in the census tract I grew up in, median household income almost doubled from $64k to $113k. In San Francisco, the increase in wages has outstripped all other cities in the US, followed closely by adjacent counties such as Santa Clara.

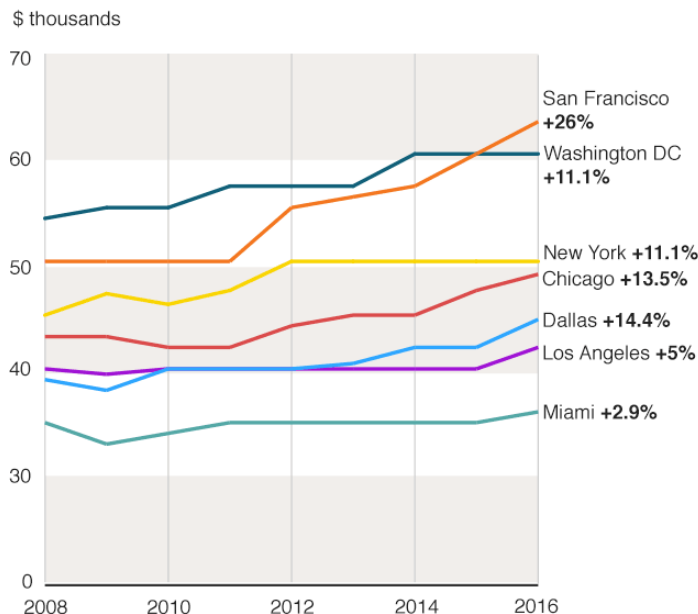

Figure 4-14
Average Earnings Growth in U. S. Cities

***Source:* BBC**

The rub, of course, is that while *some* income is going up, other income is stagnating, increasing at very slow rates, declining, or evaporating altogether. Only certain segments of the population receive these high rising wages – tech workers, business owners and CEOs, etc. The rest experiences very minor wage growth, or none at all. But everyone has to deal with the same rising rents.

This correlation between income and rents coincides with the account we have given above of ground rent theory. In agriculture, if the profit of the capitalist farmers rises (relative to the average profit), the landowner raises rents. So, here, in residential properties, the profits of selling the commodity "home" on a monthly basis can rise steeply with rising household incomes.

But here is an upper limit to rent hikes. Landlords cannot raise rent above what their tenants can pay. This gives us a slightly different picture of the housing crisis that is more politically complicated than a simple story about rent control: rents are rising because *some people can pay them*. That means that *for some people*, their income is rising to the extent that they can afford increasing rents.

What becomes important here is the bifurcation of wage earners: while some people's income is increasing at a rate to keep pace with rising rents, a large group of people's wages are

stagnating, falling, or rising far too slow to keep them housed (Figure 4-15). This is what Davis and Ortalo-Magné attempt to highlight by saying that households that live in high-income MSAs, *whether or not they are themselves high income*, end up paying a higher and higher percentage of their wages in rents.

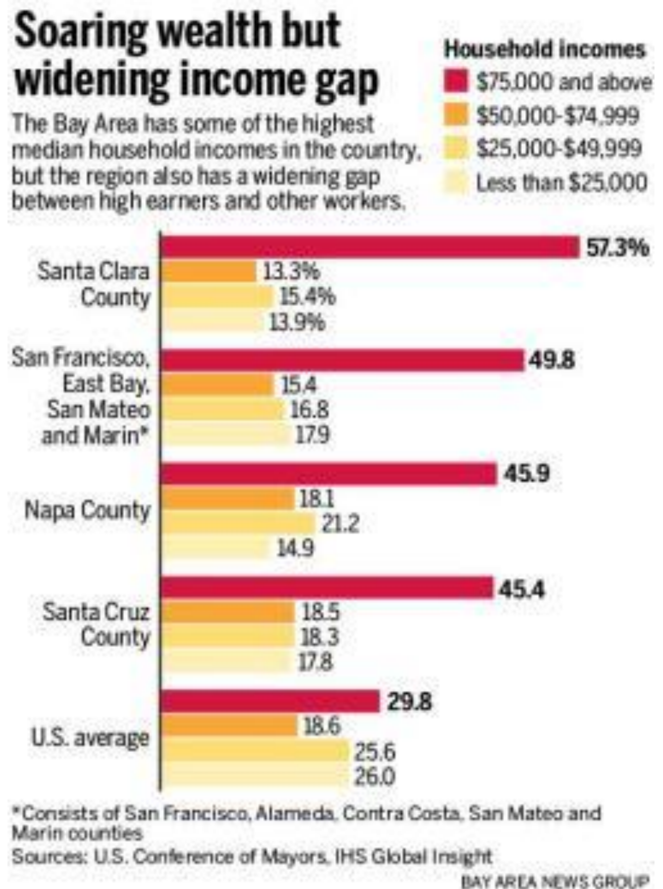

Figure 4-15
Widening Income Gap, Bay Area

If your income is $120k (starting salary for a software engineer at Twitter), you may be annoyed but not devastated about your rent rising from $3,000 (30% of your income) to $4,000 (40% of your income). You are technically debt burdened, but you still have $6000/mo left after paying rent. However, if your income is $34k (yearly salary working at SF minimum wage of $15.59) and you lose your rent-controlled room that you've been paying $800/mo for (30% of your income), and the only rentals on the market start at 3,000 (105% of your income), you better leave the city or buy a tent.

If you are one of many old or differently abled people on Social Security and you are receiving the state maximum amount of $943.72, and you lose your $600/mo. rent-controlled apartment you've had since the 80s, you are in even more dire straits.

For such renters who can afford a maximum of about $650 monthly rent—which includes single parents working part time along with elderly and differently abled—there are effectively zero options other than homelessness. The homelessness population in San Francisco is made up of an enormous amount of people had stable housing in the city up until quite

recently, but lost their low rent apartments. When they were displaced, there was simply nowhere for them to rent in San Francisco, but they also cannot easily move because (a) they receive all their services in SF, and (b) there is nowhere within 100 – maybe 200 – miles that you can rent a room for $650.

Chapter 5 : Financialization

Critiques of "gentrification" in the 90s and 2000s have given way in recent years to critiques of the "financialization of housing" (Aalbers, 2008, 2016; August & Walks, 2018; Brais, 2018; Fernandez & Aalbers, 2016; Fields, 2015; Fields & Uffer, 2016; Gotham, 2009; Marcuse & Madden, 2016; Pereira, 2017; Rolnik, 2013; Romainville, 2017; Wijburg et al., 2018; Wijburg & Aalbers, 2017). Scholarly opposition to "21st Century Land Grabs" in the early 2000s has likewise given way to a critique of the "financialization of agricultural land" (Cotula, 2012; Daniel, 2012; Fairbairn, 2014; Ferrando, 2017; Gunnoe, 2014; Magnan, 2015; Sippel et al., 2017).

The concepts of the "financialization of housing" and the "financialization of land" are intended to mark an *epochal shift* from previous land relations, resulting from deregulation in financial markets as well as the withdrawal of the state from housing provision and subsidies to small farmers. This literature of the financialization of land and housing (FLH) leans on the general theory of financialization epitomized in the work of Krippner (2005), Lapavitsas (2013), and Epstein (2001, 2005). Like the broader financialization literature, FLH literature consistently describes financialized landownership as particularly pernicious in comparison to non-financialized land-based accumulation (August & Walks, 2018; Fields & Uffer, 2016; Gunnoe, 2014), and recommends stronger regulations on financial flows into landownership as a solution to these ills.

There have been some important shifts in capital accumulation through land in the last 40 years that have been well documented and analyzed by FLH literature. As discussed in Chapters 3 and 4, when ground rent or sale price of land is rising, it becomes possible to make

"fast money" from the growing rent gaps. This can involve financing, debt-leveraging, and securitizing—not because parasitic financialized imperatives have taken over the economy, but because this is the way you make the most fast money from rising land values.

This fast land money contrasts with the common long-term orientation of landowners. Speculative land buyers in a hot housing market may purchase rental property at an extremely high debt-to-equity ratio, evict half the low-rent tenants, and triple rents. They often have to increase rental income vin order to pay back investors and lenders.

Long-term landowners, on the other hand, might also buy property—though at a lower debt to asset ratio—evict half the low-rent tenants, and triple rents. The difference is, they do not have creditors to answer to. The obligations of the speculative land buyer to their lenders can lead to increasingly egregious treatment of tenants, or it can lead to weaknesses (exploitable by the tenants) that result in eventual sale of the property.

The ebb and flow of high-debt and low-debt land purchases is nothing new; Debt-leveraged land purchases, securitized rent flows, and risk-assessing investors have been prevalent since at least the 18th century (Frehen et al., 2014; Gates, 1942); displacement and land-based violence have been the norm rather than exception throughout capitalism.

Many scholars have criticized the epochal theory of financialization on which FLH theory is based. However, these criticisms have not been brought to FLH literature. Below, I summarize the epochal theory of financialization as well as the most salient criticisms levied against it.

I advocate a longue-durée approach to analyzing financial cycles. I provide an overview of the ways in which the epochal theory of financialization distorts the analysis of land and housing dynamics. Literature critiquing the financialization of land and housing villainizes "financial" landowners over more benevolent ones and displaces genuine inquiry into the deeper

causes of rising rents, rising homelessness, widespread dispossession of indigenous land across the world, and other forms of violent displacement.

The Epochal Theory of Financializaiton

"Financialization" in the current literature refers to a specific period of capitalism, beginning roughly in the 1970s, during which "financial" motives, markets, actors and institutions take up an increasingly large role in the economy; patterns of accumulation shift away from production and towards the realization of financial profits, and finance often moves outside the properly "financial" sector into other economic spheres (Aalbers, 2015, p. 217; G. Epstein, 2001, p. 1; G. A. Epstein, 2005, p. 3; Krippner, 2005, pp. 174, 181; Lapavitsas, 2013, p. 3). On these accounts, financialization consists in a proportional increase of things financial over things non-financial, and this quantitative shift leads to a "structural transformation of contemporary capitalism" (Lapavitsas, 2013, p. 3); a "novel pattern of accumulation" or "structural shift" in the US economy (Krippner, 2005, pp. 189, 193); even an "epochal" or "systemic" transformation of the *global* capitalist economy (Gunnoe, 2014; Lapavitsas, 2012, p. 484). This shift imposes heightened levels of competition upon capital, resulting in, amongst other things, a heightened disciplining of labor globally (R. Martin et al., 2008). I will refer to these as "epochal" theories of financialization.

Krippner (2005, 2012) and Lapavitsas (Lapavitsas, 2013) have provided some of the most concrete empirical work proving the existence of a period of "financialization," to which many subsequent adherents refer. They "prove" financialization with data showing the growth of total financial assets as percentage of GDP (Lapavitsas, 2013, p. 205), growth in value added in FIRE sector as percentage of total value added (Lapavitsas, 2013, p. 211), or financial profits as proportion of total profits (Krippner, 2005, p. 189; Lapavitsas, 2012, pp. 214–216). Lapavitsas

and Krippner both also emphasize the increase in proportion of financial profits to non-financial profits in non-financial corporations (e.g. Krippner, 2005, p. 185) and regularly remind us that "Accumulation is now occurring increasingly through financial channels" (Krippner, 2005, p. 199). Krippner's account is limited to the United States; Lapavitsas' includes US, Western Europe, and Japan.

These epochal theories of financialization have been criticized from several perspectives and disciplines, finding three central issues: First, the epochal theory of financialization is marred by a temporal and geographical myopia by focusing primarily on the US and UK (and sometimes greater Western Europe, Japan, and Australia) from the 1940s to today (Christophers, 2015; Poovey, 2015). Data from 5 or 6 countries cannot yield a global theory; data beginning in the 1950s cannot accurately assess whether our current period is without precedent.

Second, epochal financialization literature locates the cause of financialization in the period of deregulation starting in the 70s, and epitomized in the 80s by Thatcherism and Reaganomics. If deregulation is the proximate cause, then the prophylactic for financialization is increased financial regulation, and/or popular control over financial institutions (Gotham, 2009; Lapavitsas, 2013; Norfield, 2014). However, the deregulation of financial markets itself was a response to a problem of investors seeking returns that their post-war investments were not providing; profits rates were declining substantially starting in the 1960s. If deregulation had not occurred to widen investment opportunities domestically, investors would have found somewhere else to go—overseas, if necessary, causing the recession in the USA to hit earlier than it did (Kliman, 2011, pp. 191–193).

Third, theories of financialization conflate interest-bearing capital (IBC), fictitious capital, and ground rent all as "finance." These financial forms of accumulation are juxtaposed

to productive forms. Financial violence is presented as worse than non-financial violence, and a "productive" capitalism is treated as more benevolent and desirable than a financialized one.

Epochal financialization literature begins its analysis in the 1940s (or later). This is not a result of reasoned assessment, but of limits imposed by the data; Poovery (2015) and Christophers (2015) have pointed out this coincides with the beginning of comprehensive national income accounts in the USA, developed after the depression in 1947. Only after this was it *possible* to analyze, with government data, the percentage of national wealth that financial activities represented. In the 1950s finance was disaggregated from adjacent sources of income in the calculation of GDP, and not until the 60's did "flow of funds" accounts become part of the national accounting system, which makes it even easier to see the role of finance (Poovey, 2015, pp. 220–221). Krippner and Lapavitsas both acknowledge the lack of data before 1940, but they do not allow this lack to destabilize their conclusions about financializations' epochal nature.

In recent years, researchers have attempted to project economic data about financial indicators back beyond the birth of national accounts. Many have found that there is reason to believe levels of financialization were spiking in the late 19th into the early 20th century. In Figure 5-1 below from Philippon (2011), finance industry as share of US GDP experiences a huge spike prior to WWII that reaches levels not seen again till 1990. In Figure 5-2, Jordà et al. (2014, p. 115) have analyzed domestic bank lending data from 1870 to 2012, finding significant booms in 1910s and 1930s, and hinting that numbers for the 1800s would be significantly higher if it the data included mortgage debt held outside banks, which was common especially in the case of farming (p. 116).

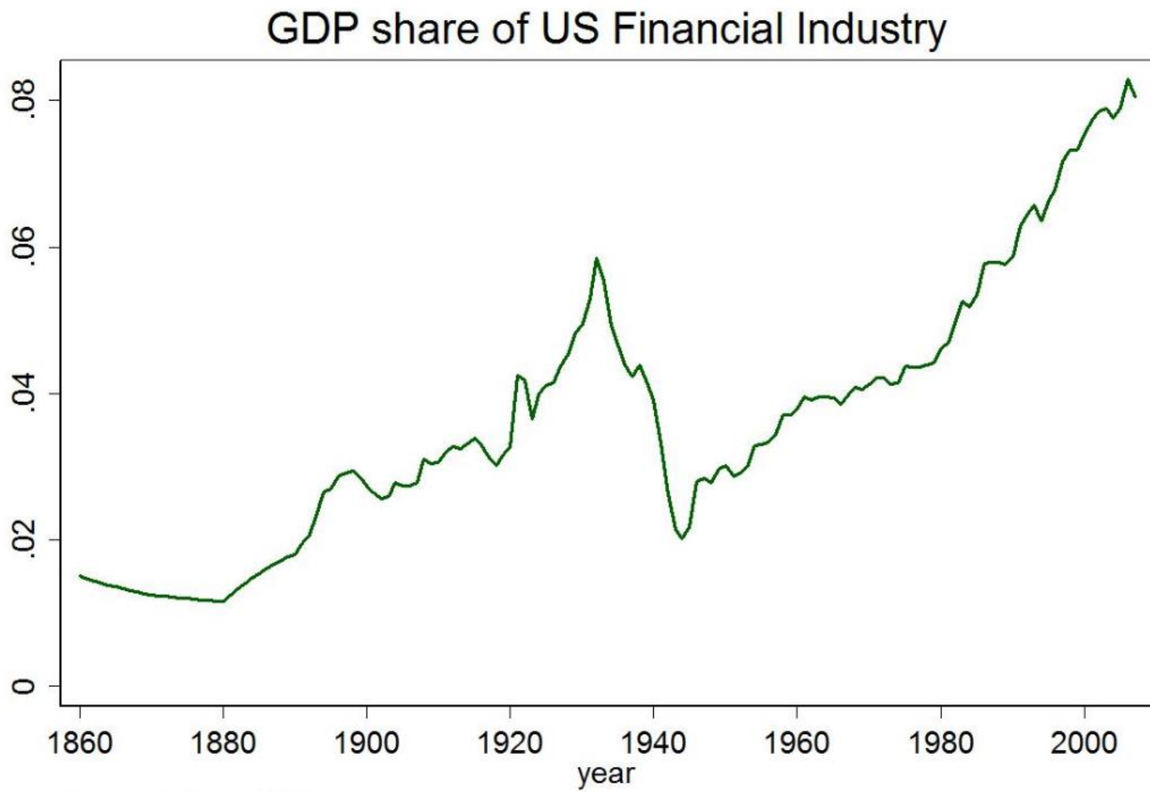

Figure 5-1
GDP Share of U. S. Financial Industry, 1860-2010

Source: Philippon 2011

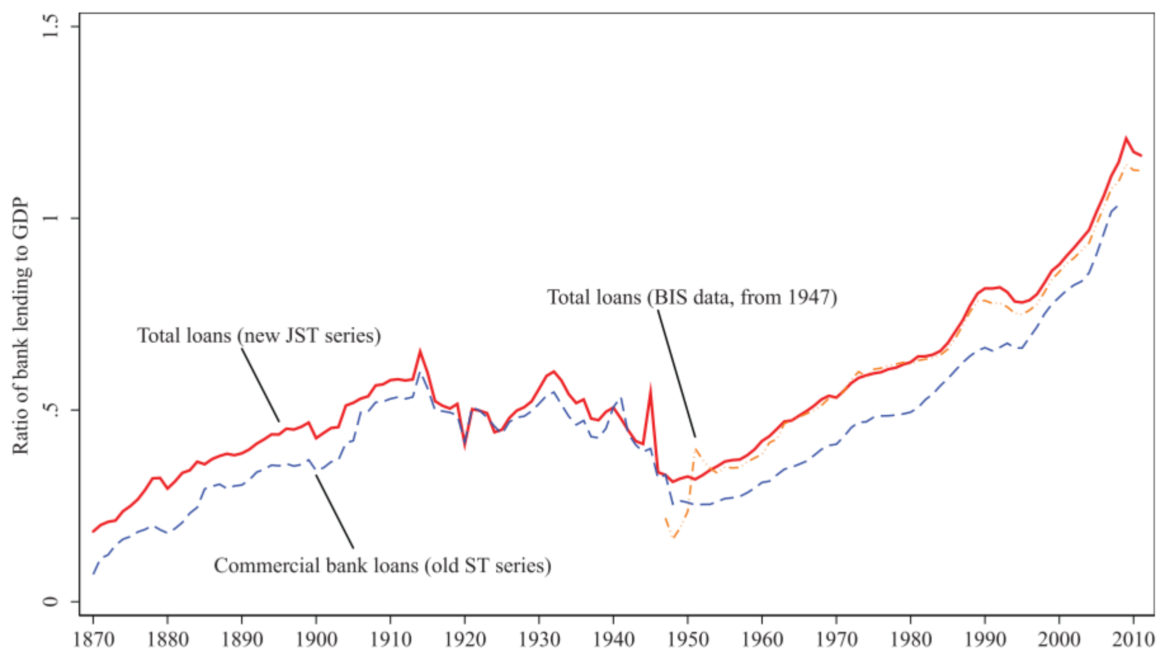

Figure 1. Bank credit to the domestic economy, 1870–2013, with a comparison of data from three different sources: average ratio to GDP by year for 17 countries

Figure 5-2
Bank Credit to the Domestic Economy, 1870-2013

Source: Jordà et al., 2014, p. 115

In both charts, he ascent of "finance" is just as rapid before the two world wars as it is afterward The line becomes steeper in the 80s, right at the time financial indicators catch up with where they were before the World Wars. Ostensibly what investable liquidity existed during the wartime period was either wiped out or found profitable returns in wartime production. During the world wars, the capitalist economy experienced extensive destruction of value, which sets the stage for increased profit rates in productive industries at the war's end (Kliman, 2011).

So began the "golden age" in the US economy, when wages rose. But it didn't last long – by most metrics, the affluent post war era wore itself out by the mid-60s. US began to lose its global position of dominance in manufacture, labor productivity declined and the trade surplus began to reverse itself. "While it was not entirely clear at the time, the mid- 1960s was the

starting point of a painful and protracted transformation of the political economy" (Quinn, 2019, p. 182).

The affluence of the post-war period was hard-won by working class movements, often rooted in the radicalizing experience of the great depression. But the depths of the depression in the 1930s brought value destruction that was far more severe than capitalist advocates at the time anticipated. As a crisis loomed again in the 1970s, officials were willing to do what it took to avoid a similar downturn and consequent massive destruction of value. The weapons of choice were then (as they are now during COVID-19 epidemic) monetary and fiscal policy.

Figure 5-3
U. S. Effective Corporate Tax Rate, 1947-2011

Profit rates declined in the US from 1947 to the mid 1970s, threatening a crisis. Declining profitability was offset by "capital's successful tax revolts, fought out in federal and state legislatures" (Gilmore, 1999, p. 177) (see Figure 5-3).

All this accompanied the resumption of the steep acceleration in debt/GDP ratios and GDP share of the financial industry that preceded the wars (Figures 5-1 and 5-2). We might surmise that without the interventions of the great depression and the two world wars, the acceleration of financialization would have continued along the path it outlined from 1880 to 1910.

All this to say—"financializaiton" is nothing new. In the mid 19th century Marx pointed to an array of methods (we might say "financial technologies") of lending and debt creation as well as "special credit instruments" (Marx, 2015, pp. 504, 508); Arrighi (1994) famously cited four major waves of financial expansion over the last 600 years. Bordo (2008) writes that financial

innovation is a “centuries old phenomenon,” and points out that the very purpose of new financial instruments is to “avoid regulation” (pp. 6-7). Previous waves of financial frenzy, all emerging from declining profit rates in the economy at large, have come to a close in a major war inciting widespread destruction of value.

Christophers (2015) writes that “Only from the mid-1930s to the mid-1970s, in the leading Western industrialized nations, was finance truly shackled.” But Capital is adept at evading any shackles put upon it; the fact that it tolerated financial regulation was evidence that profits were being made despite the regulations.

This period is also characterized by an unprecedented expansion of public housing to which today’s dwindling public housing stock is often compared. From the perspective of 200 years, the 20th century postwar period appears more anomalous than the period of “financialization” which follows it; financialization of the late 20th century appears as a reversion to the norm of secular increase in finance. An even longer analysis suggests cyclical patterns of peaks and troughs—and other moments of working class strength that become subverted as profit rates decline.

Global Financialization in the Longue-Duree: Cycles of Finance, Financial Imperialism, and Surplus Liquidity

A coherent theory of financialization – defined as the increase of profits made through IBC and Fictitious capital relative to profits made in production, accompanied by an increase in the power of financial and financializing firms and their associated governments – requires three elements: (1) a long term perspective, in order to avoid imposing qualitative breaks where there are cyclical patterns; (2) a global perspective, in order to avoid modeling a theory of

"global" capitalism on the economies of the hegemon(s); (3) an understanding of compound growth, surplus liquidity, and the effects of falling profit rates in spurring innovation in finance.

Giovanni Arrighi's (1994) analysis of capitalism in the "longue-durée" contrasts dramatically with financialization theory. Arrighi outlines the rise and decline of capitalist hegemons over almost a millennium. During this time, every major capitalist empire has experienced a shift from production-based capital domination to finance-based or "financialized" economic dominance. Declining "financialized" empires often lend money to assist in the rise of what becomes their successor. The process of financialization – in Italian City-States, the Netherlands, England, and now the US – is cyclical, and tied to a specific region and national economy.

There is some evidence that housing also follows longue-durée cycles (Figures 5-4, 5-5, 5-6).

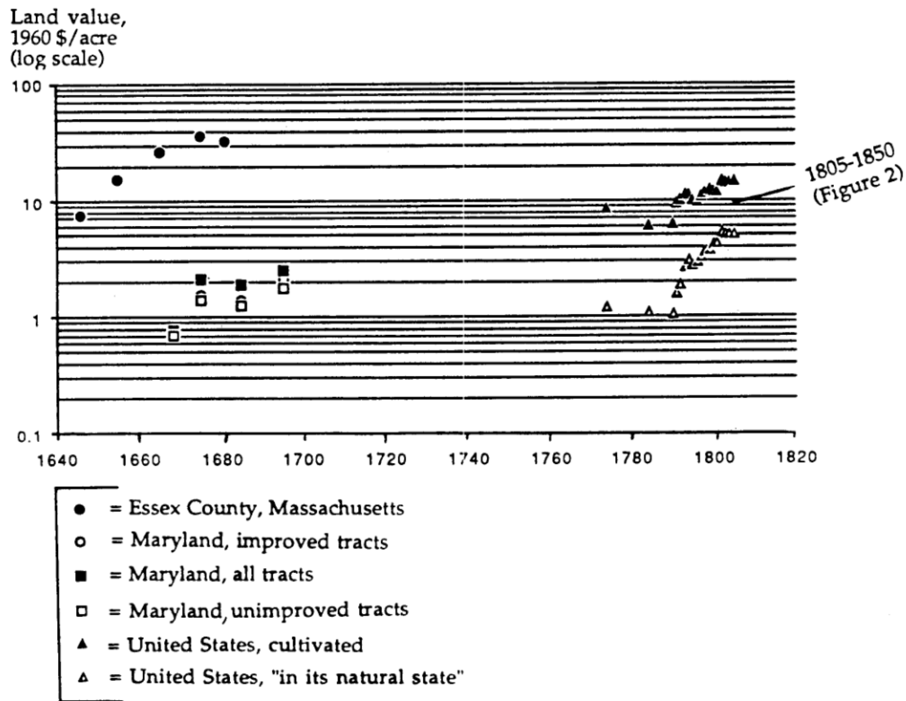

Figure 5-4

Some Early-American Series on Land Values per Acre, 1642-1805

Source: Lindert 1988

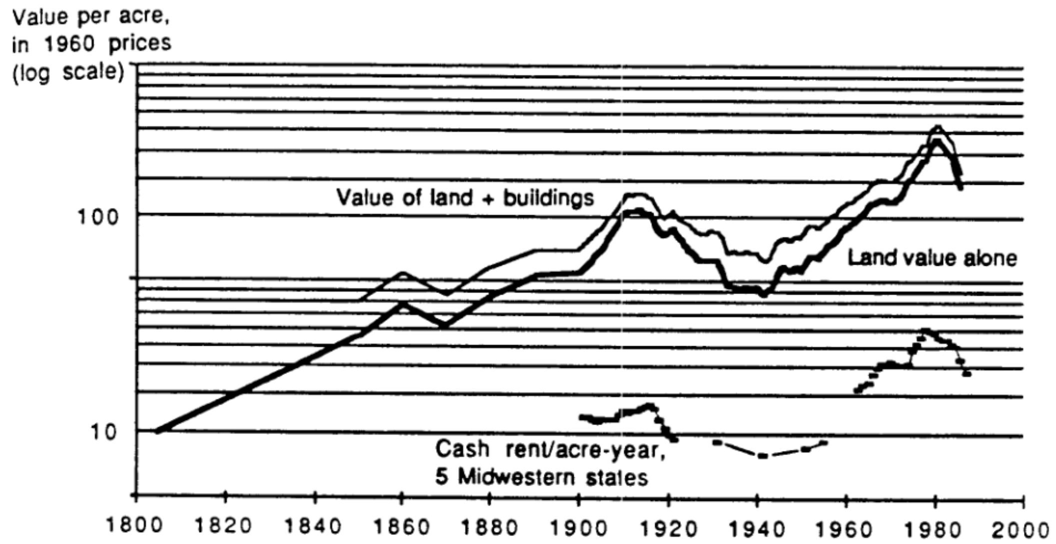

Figure 5-5
The Purchase-value and Rent on U. S. Farmland, 1805-1986

Source: Lindert 1988

FIGURE 33.1

Real Home Price Indexes for the United States 1890–2005 (Shiller 2005), Amsterdam 1628–1973 (Eichholtz 1997) and Norway 1819–1989 (Eitrheim and Erlandsen 2004)

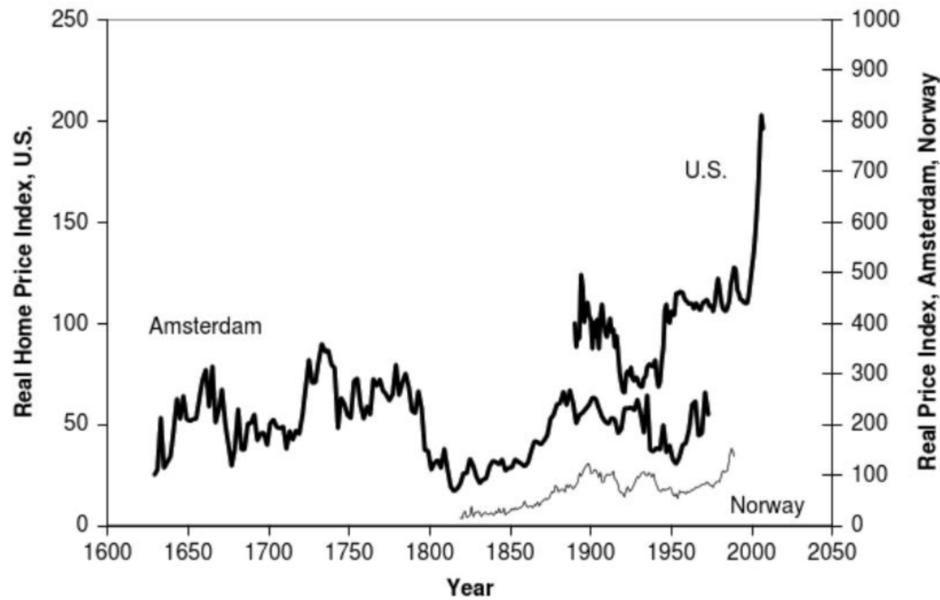

Figure 5-6

Real Home Price Indexes for the U. S. , Amsterdam, and Norway

Source: Shiller, 2006

Tony Norfield (2017) offers a different but complementary account of the financial ascendance of the UK and US that he broadly names *financial imperialism*. On his account, the increase in financial profits that is observable in the US and UK is not the result of a global shift from production to finance; first world finance is, rather, a means of extracting value from *productive countries* with less political, military, and financial power and resources. This implies that while we can track metrics of financialization in dominant countries like the US, Western Europe, and Japan, there is not a global decline in production.

For example, in the early 2000s average growth rates in "developing countries" reached over 7% per year, while "advanced economies" averaged about 2.7% (Ocampo et al, 2010). At the same time, foreign investment in these countries from the global north ballooned from an average of 200 billion in the 90s to an average of about 700 billion from 2003 to the present. Such investment is both financial investment and direct investment, both of which skim profits from ostensibly productive industry in the global south (Tyson & McKinley, n.d., pp. 18–20)

Financialization is cyclical, and ebbs and flows over the history of capitalism. One country's financial profits are often another country's productive ones. Declining profit rates are a siren's song for financialization. These are the tenets of a non-epochal, longue-duree theory of financialization.

Financialization of Land and Housing Literature

FLH literature emphasizes two key shifts: a shift of the *agents* of land-based accumulation, and a shift in the *imperatives* and *strategies* of those agents. In the era of financialized land and housing relations, "mom and pop" or "local, independent" landlords and "family farms" are bought out by "financial" actors such as publicly traded national or multinational investment firms, private equity firms, hedge funds, and Real Estate Investment Trusts. While the mom and pop landlords and family farms were supposedly content to draw regular (or gradually increasing) rents from the land they owned, the new financialized landowners expect either large returns on their investments through the quick resale of land at higher prices ("flipping"), or quickly increasing regular returns through constant rise in rents and fees. Financialized landlords frequently evict or push out current residents (legally or illegally) in order to achieve their expected returns. According to these studies, these financialized imperatives result in increasingly violent forms of dispossession and displacement.

Our goal must not be a return to "less-financialized" landownership. Landowners who precede the supposed epoch of financialization were no angels: "local landowners" in NYC set fire to the Bronx in the 1960s; racist FHA lending policy led to the explosion of white "mom and pop" ownership of rental property; the massacre of Indigenous American peoples (often at the hands of "small family farmers") cleared land for "small family farms," while African slavery and the refusal to enact reparations was over and again the condition for increases in "local" white landownership.

The emphasis on financialization of land and housing can too easily result in nostalgia for productive or small-scale capitalism. But small scale capitalism, by its own logic, always increases in scale; the success of local productive industry in a given economy generally gives way, over time, to financialized economies. We cannot hope to arrest capitalism at any specific stage.

At the same time as FLH scholarship poses the question of land and housing, it simultaneously obscures any analysis of the specific social relations of land by subsuming them into larger question of financialization; in this way, any understanding of the specificity of land markets and land struggle is lost. For example, FLH theory emphasizes that the economics of land relations are subsumed, through the financialization of land and housing, into a larger logic of finance capital, and so the concept of "ground rent" is discarded in favor of "economic rent" or rent-in-general, and any analysis of the "landowning class" is subsumed by a critique of the parasitic "rentier."

An acute example of this conflicted position on rents occurs in ""Value Grabbing": A Political Ecology of Rent" by Andreucci, García-Lamarca, Wedekind, and Swyngedouw (2017).In this essay, the authors insist that the concept of "rent" should refer to all interest-bearing assets (which would then include all credit, bonds and stocks), but every case study they use to substantiate their arguments are struggles over *land*. Their rentier analysis prevents them from

looking at struggles around land *as* struggles around land, and instead abstracts these as struggles over "rents" in general. Their conceptual apparatus draws them away from land at the same time as their concrete examples pull them back to the land. This *pulling away* from land and ground rent theory while simultaneously *pointing toward it* is surprisingly common in recent critical scholarship on the FLH (See also: Pereira 2017, p607; Ward and Aalbers, 2016, p1780; Gunnoe 2014).

The Big Bad Wolf gobbles Mom and Pop?

> The shape that finance takes in many generic and finance-themed land rush accounts alike is that of a big bad wolf who is hungry for farmland. (Ouma, 2014, p. 163)

In the case of urban rental housing, we are told by FLH literature that a "new breed" of landlord has come onto the scene in the last 30 years, which "treats" housing as a financial asset. These new "financialized landlords" or "global corporate landlords" (Beswick et al., 2016) are global investors which may take the form of a real estate investment trust (REIT), a private equity fund, financial asset management firm, or other investment vehicle (Abood, 2017, p. 16; August & Walks, 2018, p. 124; Wyly et al., 2009) These financialized landlords buy up rental properties from the previous generation of landlords who are described as "local real estate operators," "local, independent landlords," or, most sentimentally, "mom and pop" landlords (Aalbers, 2016; Abood, 2017; August & Walks, 2018, p. 124; Fields & Uffer, 2016, pp. 1489, 1492–1493; Teresa, 2016, p. 2). Substantial media reporting also chronicles the rise of the new "Wall Street Landlord" into both housing and farmland (Dezember, 2016; Doering, 2015; Gara, 2015; Philpott, 2014; Richter, 2017).

There are four different factors used by scholars to distinguish financialized landowners from non-financialized landowners: size (how many units or properties are owned); legal status

(a corporation or an individual); behavior (do they flip properties or hold them; do they raise rents steeply or moderately); geography (are they local, national, global); and investment structure (are they self-financed, do they hold mortgages and if so how big are they; do they have investors and if so who are they).

But these different factors do not always line up the way we might expect. While it is generally assumed that a small, individual or family landlord would be the most benevolent, these were the types of people who engaged in some of the most vicious "flipping" during the subprime crisis (Yelen, 2017); likewise, the "slumlord" of the mid-century inner-city was often a locally based and locally-financed entrepreneur. On the other side of the coin, some enormous, national, publicly traded LLCs in the US maintain properties in the long-term, raise rents only modestly, and do not make a habit of eviction or harassment.

The mom-and-pop landowner is an important ideological tool in the US, alongside the family farmer. In much publicly-produced information on who owns residential rental properties in the United States, the data is constructed to emphasize the Individual Owner of rental stock.[20] We should be wary when they factor so prominently in critiques of the financialization of housing and agriculture.

Most FLH literature focuses on a few case studies, and does not analyze shifts in ownership in large data samples. However, there is not good data on who owns residential rental properties in the US—a fact bemoaned by the Acting General Deputy Assistant Secretary for Policy Development and Research at HUD (The US Department for Housing and Urban

[20] The 1991 Census Buerau's Statistical Brief on "Who Owns the Nation's Rental Properties?" States in the first sentence that Individuals own 92% of rental properties. However, those properties could all have 1 or 2 units on them, leaving Institutional investors actually owning the majority of units. Still in 2017, Harvard's Housing Report emphasizes that individuals own 74% of rental properties, while including but de-emphasizing the fact that they only own 48% of rental *units*.

Development) who commented, for example, that "In an interesting data shortfall, researchers don't know the precise number of landlords in the United States" (Richardson, n.d.).

We know that business owned units have grown faster than individual owned rental units over the last 25 years (Figure 5-7). We know the debt-equity ratio increased across the board for residential rental units from the 60s to 2010, after which it began to fall (Figure 5-8). We know that some units are purchased by highly-leveraged investment entities (Figure 5-9) but that REITS own a small fraction of rentals.

What is missing is integral research into who owns residential properties in the US.

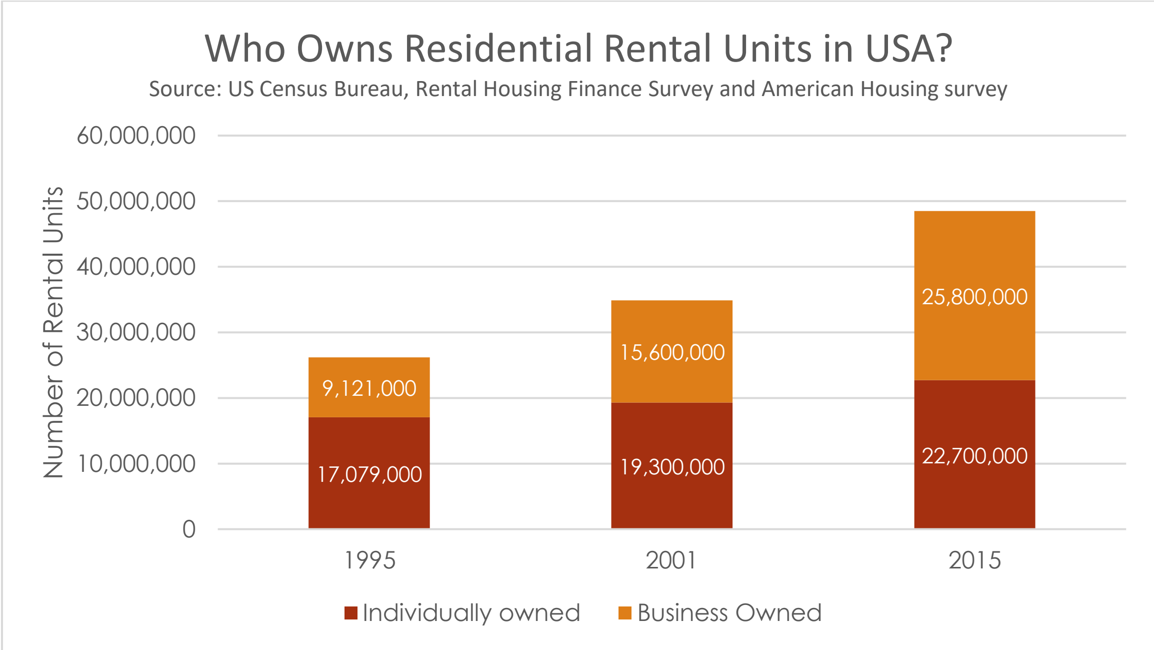

Figure 5-7
Who Owns Residential Units in the U.S.?

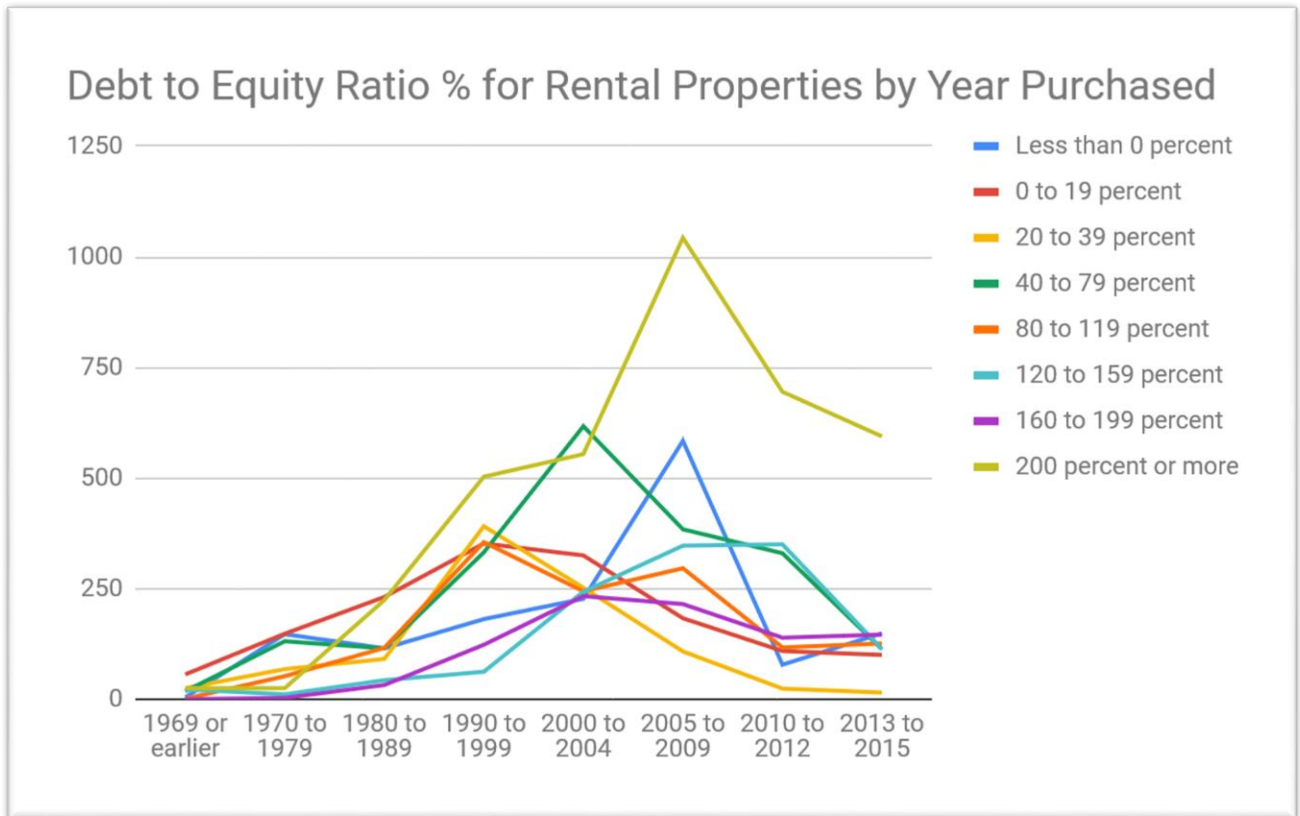

Figure 5-8
Debt to Equity Ratio % for Rental Properties by Year Purchased

Source: Rental Housing Finance Survey, US Census

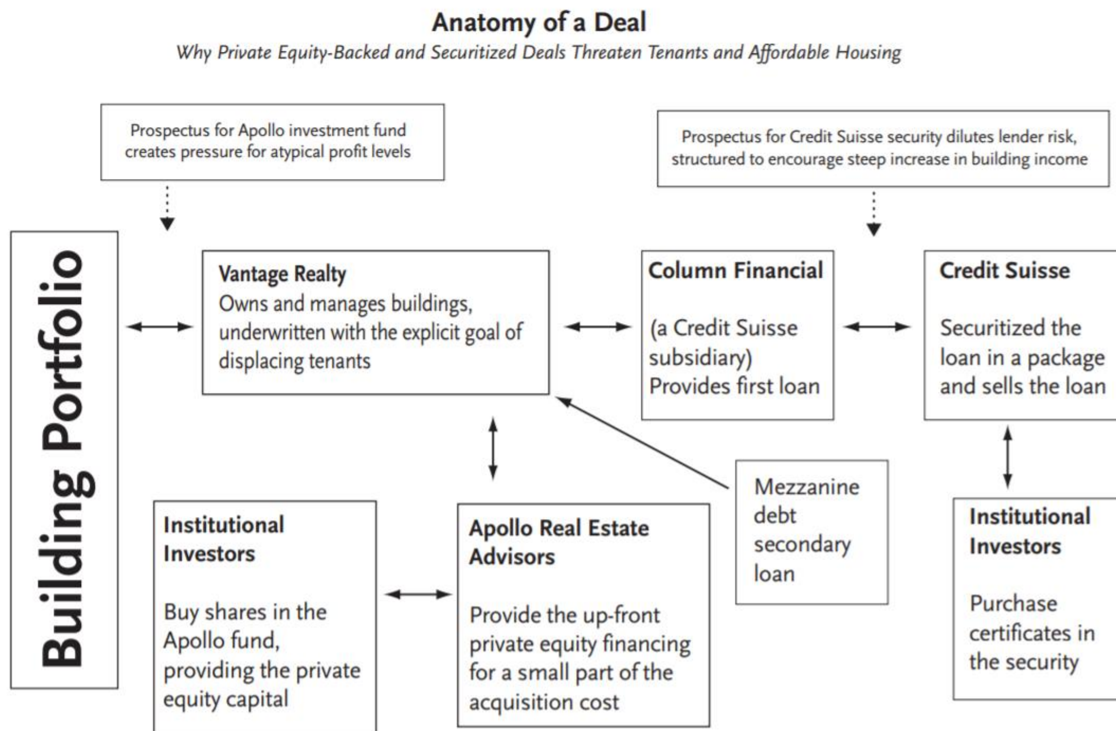

Figure 5-9
Anatomy of a Deal: Private Equity Threatens Affordable Housing

Source: (Association for Neighborhood and Housing Development, 2009)

The many death knells of the Family Farm.

A slew of papers have recently analyzed the "small but rapidly growing phenomenon" of private sector financial investment in agricultural land (High Quest Partners, 2010). As these texts have it, "the financial sector is taking an interest in farmland as never before" (Philpott, 2014). In a thorough analysis published by the Oakland Institute in 2009, Ross chronicles the "speculative mania" that the financial sector has "recently" generated for California farmland (p. 3). Fairbairn (2014), heavily cited by Ross, marks 2007 as the year in which farmland shifted from an "investment back-water" at the turn of the 21st Century, into a "desirable alternative

asset class" (p. 777-778). Gunnoe (2014) writes that "we are witnessing an unprecedented integration between finance capital and landownership" (p. 478). The victims of this are the "family farm" or supposedly small local businesses (Fairbairn, 2014; Gunnoe, 2014; High Quest Partners, 2010).

Both Ross and Fairbairn caution against financialized investment into farmland, arguing that it could "put upward pressure on land prices and make it even harder for young and beginning farmers to become owners," thereby creating "long-term trends threatening our agricultural heritage" (Ross, 2009, p. 3). The Oakland Institute Report concludes by saying

> If more is not done to protect family farmers and ensure they have reliable access to land, then the recent spate of land grabs across the US could literally change who owns the country in the decades ahead. The dangers of this trend, in both the short- and long-term, cannot be overstated. (p. 21)

This is not the first time the incursion of finance into agricultural land has raised fears. In 1983, Colton (1983) warned of the impending "substitution of family farm corporations for individual farmer/operators and the aggregation of farm ownership and operation into larger corporate conglomerates." Colton argued that this presented a threat to "The structure of mid-American's rural 'way of life'... predicated upon the family farm as a basic social and economic unit."

A decade earlier, in 1971, The Ralph Nader Task Force published an exhaustive report entitled *Power and Land in California* which also claimed to chronicle a "recent" phenomenon: "Entities now pouring vast new resources into California land speculation: professional groups, conglomerates with vast political power, and the financial industry" (Fellmeth, 1971). They emphasize the important "new" trend in which "The Financial industry (banks, savings and loan associations and some insurance firms) is enormously involved in land development" (p. I-32).

A century and a half before that, the financializaiton of agricultural land (by another name) was denounced by President Jackson (see Chapter 4).

If the financialization of farmland is denounced in the 1830s, called "new" in 1971, "new" in 1983, and "new" again in 2017, we should be wary of the notion.

Clyde Woods (1998) notes the common phenomenon of "absentee planters" in antebellum Mississippi due to "high levels of capitalization and indebtedness" which means that it was only the extremely capital-rich landowners, often living abroad, who could afford the land (Woods, 1998, p. 47). Financing practices on slave plantations also transformed as land prices rose, growing closer to the picture often painted of "financialized landownership": "Now planters were able to finance production by mortgaging the land instead of providing cotton merchants with a crop lien" (Woods, 1998, p. 77).

In the year 1934, a date marking a halfway point between financialized land of slave plantations and financialized agriculture today, Woods writes that an estimated 30% of all southern cotton land was held by life insurance companies and banks (p. 122) – entities we might today call "financialized landowners."

The recent uproar about the "financialization" of farmland and timberland in the United States emerged to amend and augment the ballooning literature describing "21st century land grabs" which were understood to occur generally in "underdeveloped" countries, often countries in which agriculture occupied a prime position in the economy. The Financial Times chronicled, for example, land grabs in Ethiopia and Myanmar in 2016 as part of a series entitled "The great land rush," the summary of which reads:

> Across continents, big investors are pouring in billions into one of the world's most precious resources – land. They promise progress. But their arrival can upend livelihoods and spark life-and-death struggles. (Burgis, 2016)

The media reports on the global land grab exploded after the food crisis of 2007/8 sparked global attention to farmland.[21] The studies on the financialization of agriculture and timberland in the U.S. were intended to show that here too, in the "developed" United States, financialized interests are setting their sights on agricultural land.

But U.S. land that is being "financialized" is land already used to produce goods for the market; the bulk of land "grabbed" in the global south is land used primarily for subsistence (farming, hunting, gathering, grazing, etc.).[22] These are two categorically distinct moments: on the one hand, the integration of new land into the global capitalist system, mirroring original accumulation—on the other hand, the transfer of value-producing agricultural land from one set of hands to another. These two moments are collapsed in the villainization of the "financialization of agricultural land."

In the US and Australia, most major land purchases involve the sale of land by one large corporation to another *larger* corporation. (Fairbairn, 2014; Sippel et al., 2017). In the developing world, it is more common for appropriated land to be without title (though not unused) and uncultivated by capitalist standards (though not by local standards). In these cases, land as yet unmortgaged becomes mortgaged; rent that's never been securitized becomes securitized; land not yet privatized and titled is become privatized and titled (or "enclosed").

The critique absorbs the act of enclosure (the new incursion of capital into land) into the act of upselling (the buying out of small capitalist farmers and landowners by larger ones). In doing so, it emphasizes the conflict between landlord and capitalist farmer (however "Local" and family-oriented) over the class conflict between landowner and proletarian (for lack of a better word).

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[21] For an exhaustive review of both media and institutional reports of the "land grab" of last 20 years, see Cotula (2012).

[22] Or, land that is not "used" yet, at all, by humans, but for the lighter touch of nomadic peoples.

Further, this critique shuts down an analysis of resistant and militant forms of land relations which are attacked by new enclosures.

"Financialization of Land and Housing" and Racial Capitalism

FLH scholarship can be appreciated for acknowledging and analyzing the way that the "financialization of land and housing" intensifies a global color line in which racialized and indigenous groups are dispossessed and displaced. In the US, social relations of land in capital are always racializing. The racist violence of, for example, the subprime crisis was but a new iteration of racializing and particularly anti-Black federally-supported policy and practice (Dymski, 2009, p. 152; Keeanga-Yamahtta Taylor, 2019). This means that even during the post-war period of relatively low financialized activity, the low ebb of "predatory finance" and the supposed reign of "mom and pop" landlords and "family farming," the beneficiaries were disproportionately white people and communities.

Financialization is not the culprit of racial disparities in homeownership and landownership. Recently the mainstream news issued a flurry of reports arguing that "Black Homeownership Drops to an All-Time Low" (Kusisto, 2019) after recent data released from the census showing that Black homeownership had dropped from a peak of 50% (in 2004) to less than 41% (in 2019). However, this drop actually returns Black homeownership to its levels before the Fair Housing legislation of 1968, meaning that *both* the gains and the losses in homeownership occurred during the so-called period of the "financialization of housing." In terms of rural land, the amount of southern farmland owned by Black people declined by 80% between 1900 and 1970—all prior to the so-called "financialization of farmland" (McDougall, 1984).

The lauded renter protections of rent stabilization and vacancy control currently represents the most radical horizon of "progressive" housing activism [COVID19 EDIT: this no

longer true, now "CANCEL RENT" is the call, which is an excellent change]. FLH literature criticizes financialized landowners for subverting and steamrolling such regulations. However, rent regulations have been far less effective in protecting long-term stable housing and community continuity for Black and Brown people (Conley, 2018). This is true even though the most militant tenant struggles have often been waged by Black and brown people, and women and LGBTQ people within those groups.

FLH literature runs the risk of idealizing all things non-financialized. It is essential to recognize that even in the quiet decades of financialization of land*, racialized expropriation, displacement, and destabilization were still the norm.*

Gunnoe (2014), for example, criticizes the financialization of timberland while valorizing a sector that has devastated Indigenous communities and their environs for centuries. He describes how the US timber industry has historically dealt with the need for enormous amounts of timber required in order to maintain this capital-intensive production The 19th Century found companies "exhausting timber supplies" as they moved west "in search of virgin forest" (p. 490). Gunnoe describes as a "hostile takeover" in the 1980s of the major timber firms by high finance.[23] The companies' land was liquidated and sold to TIMOs (Timberland Investment Management Organizations), which usually manage land for institutional investor clients, and REITs specializing in timberland, which both own and manage the land.

Gunnoe suggests that the slide from "agrarian capitalist" landowners to "institutional landowners" is a negative and deleterious one: "Where agrarian capitalists are actively involved in the production of commodities, and view the land as a necessary condition of production that must be sustained in order to facilitate expanded reproduction (M-C-M'), institutional landowners view land primarily as a portfolio asset, and are therefore primarily concerned with

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[23] Diamond International and Crown Zellerbach, Potlatch Corporation, Pacific Lumber Company, and Hammermill paper.

maximizing returns to investors, particularly in the form of asset prices appreciation (M-M')" (2014, p. 496). Financialized landowners are "rentiers" who "contribute little" to the local economies in which they are situated; agrarian capitalists are, on the contrary, "actively involved" in production and expanded reproduction.

In an effort to emphasize the evils of finance and elevate "productive" capitalism, Gunnoe goes so far as to valorize big timber, an industry that is responsible for centuries of attacks on Indigenous communities and profound destruction of environment through the transformation of vast forests to fields of stumps. They are also responsible for the development of dozens of hydroelectric dams, which further wreck the environment and disturb Indigenous life in myriad ways.

Gunnoe elevates capitalist white settler ownership and control over timberland so long as it's not "financialized." Here, "non-financialized" implies a limit on the *size* of a company, as well as on geographical proximity. But capitalist firms necessarily grow and scale up, or they fail. The financialization of timber farming does not indicate a shift in the nature of accumulation, it is a necessary step in the path.

Financializaton of Housing, or Housingification of Finance?

Real Estate, not finance "in general," is leading much of the boom of "financial activity" over recent decades. The increased ratio of bank lending to GDP since the 1970s (Figure 5-2) is due almost entirely to increases in mortgage-lending. Studying 17 countries, Jorda et al. (2016) go so far as to suggest that "To a large extent, the core business model of banks in advanced economies today resembles that of real estate funds: banks are borrowing (short) from the public and capital markets to invest (long) into assets linked to real estate" (Jordà et al, 2016: p. 115).

Similarly, Hudson and Gunnoe note that "Real estate accounts for approximately 70 percent of bank lending in Britain and the United States and some 80 percent of capital gains in the U.S. economy are land price gains." (Gunnoe, 2014, p. 485; Hudson, 2014, pp. 145–146).

Raquel Rolnik points out that "In the US, UK, Denmark, Australia and Japan, residential mortgage markets today represent between 50% and 100% of gross domestic product (GDP)" (Rolnik, 2013, p. 1059).

Rognlie (2015) shows that while net capital share of aggregate income has risen in the last several decades, this increase comes "entirely from the housing sector: the contribution to net capital income from all other sectors has been zero or slightly negative, as the fall and rise have offset each other." He argues that we must revise the story we tell of labor ceding ground to capital since the 1970s; the increasing net share of capital "consists of a large long-term increase in the net capital income from housing, and a more volatile contribution from the rest of the economy" (2015, p. 50).

Lest we think that the rising housing share in national income accounts is a result of speculative housing valuations, Albouy et al. (2009) find that "Rising rents appear to be the

primary driver of the rising housing share in the national income accounts, and, to a lesser degree, the affordability crisis in rental markets" (p. 28).

Many of these scholars suggest, based on this data, that housing is being taken over by finance. However, what if we are experiencing the opposite: the housingification of finance?

But of course it is not just housing: Clapp et al. (2017) show that financial vehicles based on agriculture and farming has spiked in the last two decades, making farmland one of the hottest new investment opportunities worldwide. This is reflected in the literature chronicling the financialization of global agricultural land (High Quest Partners, 2010; Holt-Giménez et al., 2011; S. J. Martin & Clapp, 2015).

What we have on our hands is a steep rise in *ground rent extraction* relative to interest and profits—at least within the United States, the EU, Australia, Japan, and China. In the US, over the last fifteen years, the "Real Estate, Rental, and Leasing" sector has contributed almost double to the GDP as "Finance and Insurance," and represents nearly double the value added by private industries as percentage of GDP (see figures 5-10 and 5-11). Real Estate, Rental, and Leasing has been a more stable industry, and reliably contributed positively to GDP (even during the subprime crisis is 2007-8) compared to the volatile Finance and Insurance sector (Figure 5-12).

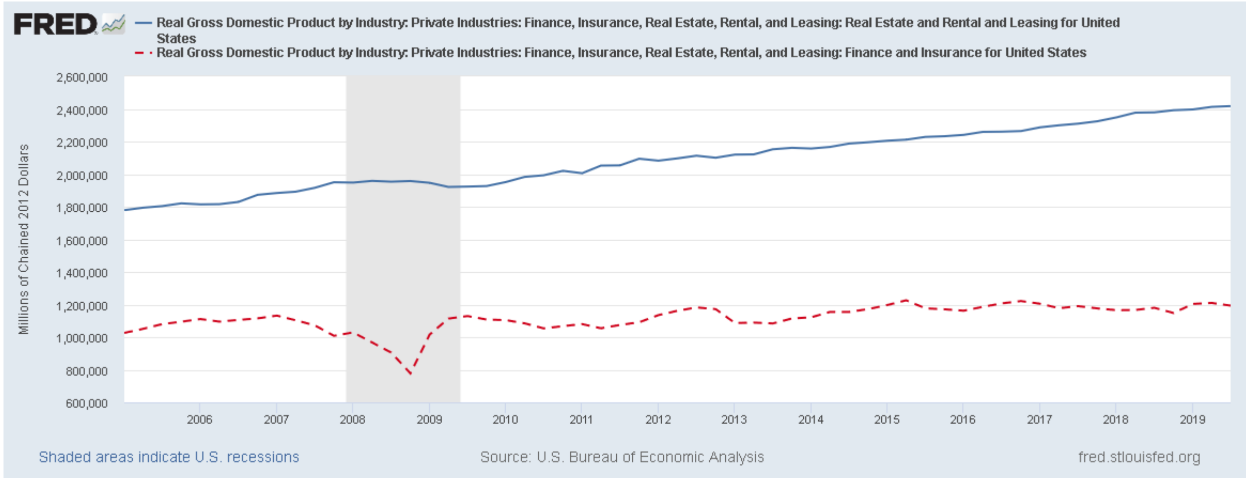

Figure 5-10
***Real GDP for Real Estate v. Finance and Insurance, U. S. 2005-2020*l**

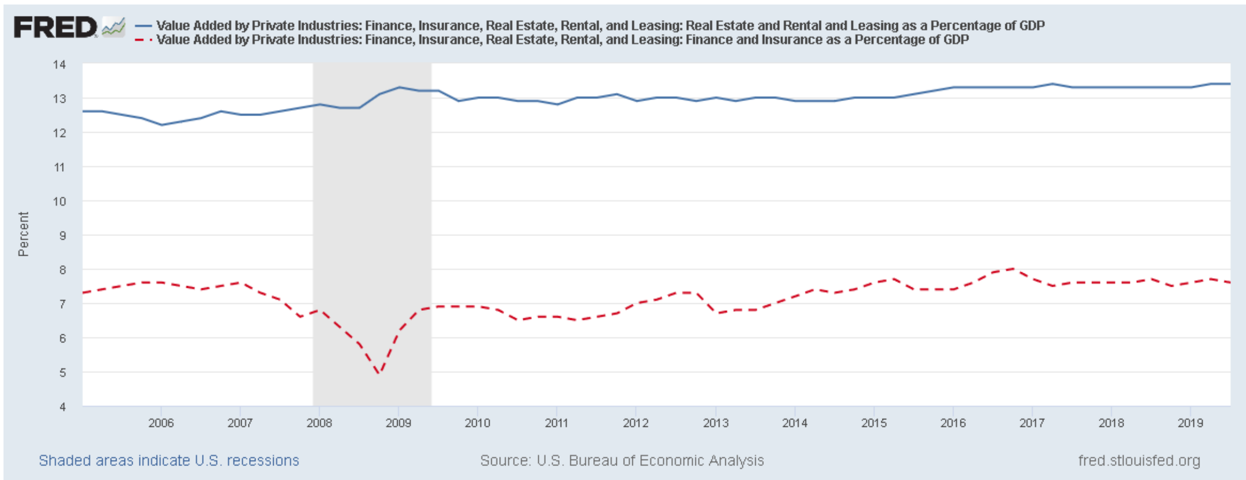

Figure 5-11
Value Added as Percentage of GDP, Real Estate v. Finance and Insurance

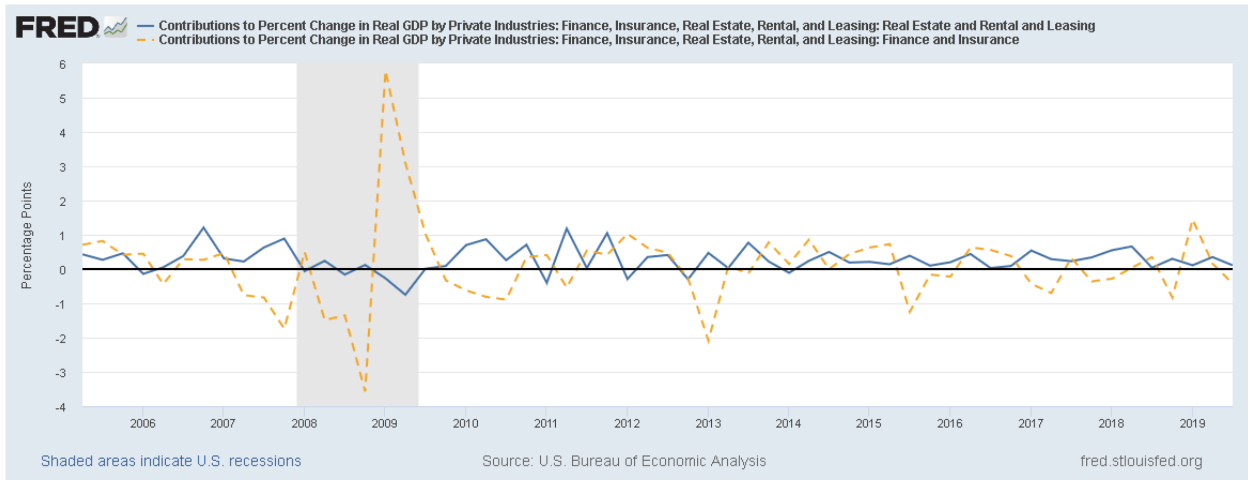

Figure 5-12
Contributions to Percent Change in REAL GDP: Real Estate v. Finance and Insurance

Marginal and neoclassical economics have noticed the trend as well; Alex Tabarrok of the blog *Marginal Revolution* argues that productivity gains in tech, bio-tech, and finance have gone "not to producers but to non-productive landowners"(2018). He points to the geographic concentration of these industries as proximate cause (for example: San Francisco and Silicon Valley). He writes, "High returns to land have meant lower returns to other factors of production."

The mainstream marginalists explain these dynamics through supply, demand, and overzealous housing and land regulation (Albouy, 2009; Rognlie, 2016, p. 51). These economists only manage to call for the same old solutions: to deregulate and encourage growth in private market.

In the void left by the dismissal of ground rent theory and the theory of a landowning class, there has been no theoretical apparatus specific to the social relations of land, and so it is conceptually difficult to articulate why and how land and housing play such a peculiar role in "financialization." Any account of the "financialization of housing," then, remains a theory of the absorption of yet another arena (housing) into the hungry belly of finance. This bolsters the

ongoing villainization of a monolithic finance sector, blaming “financial actors” for recent waves of land-based violence and displacement.

If, however, we revive a theory of the specificity of ground rent in the social relations of land, we can consider a different interpretation. We see an increasing amount of what may have been interest-bearing capital plunged into land markets of one kind and another. This suggests an increase in breadth and power of the landowning class, as the recipients of ground rent, and it reveals the urgency of analyzing the specific dynamics, limits, and tendencies of ground rent extraction and landowning class interests.

Conclusion

Above, I have investigated the theoretical basis of landed class struggle in the capitalist mode of production. I present this as a challenge to those who argue that landed class struggle is in any way contingent, accidental, or unnecessary to the CMP.

I have drawn on, extended, and in some cases questioned theoretical categories developed by Karl Marx. I have also drawn heavily on the work of social theorists who have examined the role of land and of place in the dynamics of capitalism, and especially of the production and reproduction of urban spaces in the context of frameworks rooted at least in part in Marxian ideas. Here, I wish to point out several arguments that, as far as I know, are unique to my investigation.

First, in Chapter 2, rather than treating Marx's typology of ground rent as a method for analyzing where rents come from, I show that the theories of absolute rent and differential rent each reveal an essential aspect of the capitalist mode of production. The concept of absolute rent illustrates the power of the landowner to *withdraw land from the market* – a power that distinguishes landowners from other classes, and that leads to recurrent dynamics within capitalism such as high vacancy rates during real estate booms. The concept of differential rent reveals the fact that land (or we might say space, in order to include water rights and air rights) is the *only value-less, monopolizable resource*. All other raw materials and potentially value-less resources either require labor to collect and process them (e. g. minerals, water), and so gain a value, or they are not monopolizable (as in basic chemical processes such as the fact that hot water evaporates, or that calcium helps strawberries grow). Being located on a specific plot of land requires no labor, and is monopolizable through various means – from fences to SWAT teams.

In Chapter 3, I make two claims based on my analysis in Chapter 2 of ground rent as social form: first, I argue that mortgage-lenders are actually landowners who collect ground rent in the form of "interest" on mortgages. Second, I argue that land-based securities – from REIT stock to mortgage backed securities – behave differently on the market than non-land-based securities because they are based to a degree upon actual flows of ground rent.

In Chapter 4 I intervene in discussions of urban land rent, arguing that residential tenants are *not* tenants in terms of ground rent theory; they are *consumers* of the commodity *home*. "Home" is produced by a capitalist company (often today a "property management company"), which valorizes labor in the usual ways. This capitalist producer is sometimes a tenant paying rent to a landowner, and at other times the capitalist producer is also his own landlord (mirroring the phenomena of agricultural landowners who are also farmers of the land they own).

Also in Chapter 4, I suggest a new way of understanding why urban rents rise. Explanations for the increasing unaffordability of rents usually range from the right wing "there's not enough housing, build more!" to the left wing "there's not enough rent regulation; pass more!" Applying the same methods Marx used in analyzing agricultural rents, I suggest instead that residential rents rise as the income of tenants rise; that landlords will raise rents whenever they can, and that the limit to their ability to raise rents is the income of their tenants. The income of their tenants is, here, the income of the property management company, whose income is based upon their monthly sale of the commodity home, and so is correlated with the income of working-class renters.

In Chapter 5, I criticize what I call the *epochal* theory of the "financialization of land and housing." While this literature argues that finance is taking over land and housing, I argue the opposite: a larger and larger portion of global "financial" revenue is taking the form of ground

rent. This "housingification of finance" (or, more accurate but even less pronounceable, the "ground-rentification of finance") is an important avenue for future research.

Two ideas which I have touched upon in this dissertation demand the most elaboration and future research. They are (1) my concept of "High-rent commodities," and (2) the relationship between the state and the landowning class. I describe "High-rent commodities" as those commodities whose production process involves paying a large amount of rent proportional to the whole capital outlay. The "High-rent sectors" producing "High-rent commodities" are sectors in which landowners have the power to increase the price of the commodities by threatening withdrawal of their land, thereby creating absolute rent. Future research might ask, Which sectors are high rent sectors? How does the landowning class affect these sectors? How does this play out in moments of class struggle?

As for the landowning class and the state, this relationship begs clarification both on the highest level of abstract theory, and as an avenue of concrete historical study. Marxian state theory has never moved out of its infancy, and I suspect that investigating the landowning class' relationship to the state can take us to a new stage in understanding the particular role and nature of the state in capitalism.

As noted in the introduction to this dissertation, this work was motivated by my own engagement with urban struggles in the United States, which led me to want to understand more clearly the way in which land and landownership fit into the broader dynamics of contemporary capitalism. I have said little about the implications of this largely conceptual investigation – aimed at clarifying core concepts and their interrelationships – for people's struggles in urban and rural spaces over the right to land, and I will not resolve this here.

I will say only this, although many of my readers will already know it: Nothing will permanently fix the housing crisis within capitalism, nor return agricultural and rural land to

"the people" so long as the capitalist mode of production persists. Because the ownership of land can yield massive riches, the rich will continue to own land. When necessary, landlords will subvert regulation, overturn law, or defend their ground rent illegally.

This is no reason to give up pursuing housing and land reform, because control over territory and mobility makes further organizing possible – every space carved out can be useful. Control over land, territory, and mobility is essential for overturning the capitalist mode of production. As we continue to fight for rent regulation, for municipal funding for community land trusts, for reparations in the form of land grants, for full public housing, for the freedom to cultivate the land for subsistence rather than profit, we can also have one eye on a horizon beyond this world.

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