SUBPRIME CRISIS AND MARX’S THEORY ON GROUND RENT

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Abstract: Most studies of the subprime crisis have taken into account the significance of the banks in general but not the specifically important role of mortgage loans including the crucial factor of private landed property. Marx’s theory on ground rent serves as a key in a deeper understanding of the subprime crisis and in differentiating the class interests. Referring to Marx’s theory on ground rent especially the topics of landed property, differential and absolute rent, price of land, mortgage, and fictitious capital, an analysis is given of the consequences of ground rent under monopolist capitalism, in particular on the recent subprime crisis, which has its winners and losers. The article concludes with the bourgeois and the proletarian solution of private landed property.

Key words: Marx’s theory on ground rent, subprime crisis, private landed property, mortgage-backed securities, fictitious capital

The crisis of 2008–10, also called subprime crisis, reached its first culmination point in the USA with the collapse of Lehman Brothers and then it became a major crisis worldwide, recalling the historic capitalist depression of 1929–32. Most studies about the crisis have taken into account the significance of the banks in general but not the specifically important role of mortgage loans including the crucial factor of private landed property. However, mortgage-backed securities (MBS) have been the most important basis for the deepening global development of the crisis.

Because of that, we want to analyze the impact of landed property and its claimed right to ground rent on the various classes during the crisis. Marx’s theory
on ground rent will serve for us as a key in differentiating the class interests not only between bourgeoisie and proletariat but also within the diverse factions of the bourgeoisie and some parts of the petty bourgeoisie.¹

First, we will outline the course of the crisis, then we will analyze those parts of Marx’s theory on ground rent relevant to our subject, inadequately studied even by Marxists to date. Next follows the application of the theory on the subprime crisis. From this, consequences concerning significant class interests will be drawn and some aspects on ground rent in socialism will be examined.

Thus, we hope to show that Marx’s theory on ground rent supplies an important component to explaining this crisis in more detail. Also, explanation of the crisis in this way should encourage the search for practicable ways out of the current crisis and out of continuing crisis-proneness of capitalism.

1. Development of the “Subprime” Crisis

Since 1982, a massive import of capital took place to finance the current account deficit of the USA (see Figure 1). From 1997 onwards, additional monetary capital flows into the USA, because US bonds were seen as “safe haven” in the light of the diverse crises (including Asia, Russia, and Argentine).² Besides security, interest rates were crucial for the accrual of capital. From the Euro-Zone, considerable capital movements flow into the USA, because yields on securities have been

![Figure 1 US Balance of Payments](https://mjperry.blogspot.com)

Figure 1 US Balance of Payments³
significantly higher than in the Euro-Zone. In mid-1999, average yields on bonds in the USA exceeded those of the Euro-Zone with 1.1 percentage points; yields on 10-year bonds had a spread of interest of 1.6 percentage points. Except from the beginning of 2002 to mid-2003, interest rates for bonds have been permanently higher in the USA than in the Euro-Zone. This did not change before the end of 2007 (see Deutsche Bundesbank 2008).

The amounts of money capital to be invested worldwide were estimated at around US$70 trillion. To attract this money for investments, convenient structured products like MBS were created. Because of this capital import, the demand for securities with an attractive rate of return increased massively. In the course of this, fixed income securities with a higher yield than US government bonds or foreign bonds were on demand. Investment banks dealt with this demand by issuing MBS and others. The interest rates for US government bonds have been relatively low because of the policy of low interest rates of the US Federal Reserve and because of the global saving glut. The real yield on 10-year inflation-indexed US Treasury securities decreased from ca. 4% in 1996 to less than 2% in 2004 (see Bernanke 2008). Therefore, it was possible to sell AAA-rated MBS with small add-on interest rates and with relative low-risk surcharges to investors. As the volume of mortgage bonds based on prime mortgages became insufficient to supply the demand for securitization of MBS, increasingly junior mortgages and subprime mortgages were securitized to MBS and sold through network marketing, banks of all sizes, and investment companies.

The classification as subprime mortgage loan takes place by the time the debtor was insolvent in the past, a foreclosure was documented, or the debtor was in arrears. As indicators for subprime classification, the ratio of debt service to income (DTI) ratio as well as the ratio between the principal of loan to the value of the real-estate object (mortgage loan to value rate: LTV ratio) was used. Debtors with a low “credit score” DTI more than 55% or a LTV more than 85% are classified as loans in subprime market. Besides the market segment of subprime mortgages exists a market segment for “A-loans” prime mortgage loans. For these loans, no full income statement is required. Because of low duty of documentation, those loans are as well called “Low doc/no doc loans” (Springer Gabler Verlag 2013).

The way this business works, the participants in this business, and the profiteers of this are shown in the following schedule: The borrower obtains a loan from a lender. This may be done with the help of a mortgage broker. In many cases except financial irregularities, the lender and the mortgage broker have no further interaction with the borrower after the loan is made. The borrower pays his monthly repayments not to the bank, but via a servicer to the mortgage bank which had issued the bond secured by the mortgage. The mortgage loan had been sold to this mortgage bank with its securities; the mortgage bank had bundled the...
loans and securitized them into bonds and sold the bonds by using a trustee and an underwriter. Then the rating agencies and the credit enhancement provider play their role. The bond, produced in such a way, will be sold then from the issuer to the investor. The investors themselves get support from all kinds of consultants again. Selling the bonds at home and abroad, banks, and network marketing are charging profit margins and brokerages. And finally in every transaction, the Secretaries of Treasuries of the different governments hold out their hands, operating a quasi-function in concealment. This astonishing structure is absurdly parasitical above and beyond the underlying transaction which involves buying or selling of land/building, or buying real estate. Generally, it bears down on material production and on the real economy, which cannot manage without this financial system to process business internationally on a large scale (see Figure 2).

Figure 2  Securitization Practices (FDIC 2007)

Through the process of mixing up good and bad solvencies, and through displacing the valuation of securities by “rating,” newly originating risks were
put across to all market participants and thus socialized. It is evident that in such a complicated structure, mistakes, untidiness, and fraud exist. The rating agencies may be cited as an illustration. Owned by financial capital, they took higher fees to produce AAA-ratings for the later issued MBS; the data for which was delivered by the paying customer. As a result, from July 2007 on, more than 90% of AAA-ratings granted in 2006 and 2007 had to be devaluated to default (D).

As the market for traditional mortgages and mortgage bonds (prime mortgages) did not increase as fast as the demand for investment bonds grew, mortgage and investment banks demanded and financed increasingly mortgage loans inclusive of securities, which were subprime or junior prime loans, to obtain material for securitization: “From 1994 to 2006, subprime lending increased from an estimated $35 billion, or 4.5 percent of all one-to-four family mortgage originations, to $600 billion, or 20 percent of originations” (Bernanke 2008).

Thus, mortgage and investment banks created enormous profits (issuing securities, selling brokerage, rating charges, etc.) through which the financial sector as a whole participated (see Figure 3). In this battle over higher profits and market shares among the US investment banks, other banks were also involved, for example, Bankers Trust, a subsidiary of Deutsche Bank.

In 2007, the market for MBS collapsed completely. From 2006 onward, prices for landed property had started to decrease, and then they decreased more rapidly. Many mortgage loans defaulted overnight; refinancing of mortgage loans with adjustable interest rates could not be carried out because the level of interest

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**Figure 3** Bank Profits in the USA (Net Income, All FDIC-Insured Banks 1995 to 2005)\(^6\)
rates had been increased by the Fed (the US Central Bank), from 2004 onwards (see Figure 4) due to the deficit of the balance of payments (see Figure 1) and the current account deficit of the USA has grown enormously during this period, under the banner of so-called war on terror. Because of this, the financial needs of the USA have grown enormously and pushed the interest rates up.

Because of rising interest rates, in many loans, the insolvency of the debtors was exposed. As prices for real estate steadily rose until 2007, loans and bonds secured by real-estate were considered as more or less free of risks in general. According to the testimony of Warren Buffet, the expectation was that prices for real estate could not fall drastically. The, apparently, functioning practices of securitization and the pressure of monopolistic competition involving the biggest banks of the world were stronger than the understanding that overproduction of fictitious capital has to be corrected by eventual crisis outbreak. As demand for change became inevitable, Lehman Brothers was sacrificed so that Goldman Sachs, J.P. Morgan, and others might survive.

Within the exposition of the background to the crisis, it became obvious that a crucial element was that of loans for real estate, crucially involved in the extent, depth, and length of the crisis. The basis for loans on real estate is the price of landed property. As we will see, price of landed property is capitalized ground rent.

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Figure 4  American Interest Rate 1990 to 2013 (FED)
2. Marx’s Theory of Ground Rent

2.1. Landed Property

Ground rent is a fee which the user of the land has to pay to the owner of the land to get permission to use the land. As surface on earth is limited, all the land (inclusive of everything which is below) has a limited number of owners which have the full power of disposal. In feudalism, most of the land was owned by aristocratic lords and the clergy who tilled the land with bondsmen; mineral resources were owned by the Sovereigns, which gave the right of use to early bourgeois associations.

The form of ground rent as money-rent came into existence during the transition from feudal to capitalist relations of production. It superseded the feudal forms of exploitation such as “socage and render.” Clearly, landed property and its forms are an expression of historic specific conditions of production.

2.2. Ground Rent

As in agriculture, also in housing construction—similarly relevant—the separation of land property and production and housing (as well as other forms of land usage) was significantly completed. Typically, substantial landowners lease land to capitalist tenants and to farmers:

Capitalist ground rent reflects the relationship between the three classes of bourgeois society viz between laborers, capitalists and land owners. Surplus value created by laborers falls at first to the capitalist tenant. A part of the surplus value remains with him as average profit on his capital. The other part of surplus value which constitutes an excess above average profit has to be transferred from the tenant to the owner of the land. Capitalist ground rent is that part of surplus value which remains after deduction of average profit of capital laid out in the enterprise and is paid to the land owner. Frequently the land owner does not lease the land but employs laborers and operates himself. In this case rent and profit falls solely to him. (Akademie der Wissenschaften der UDSSR [Institut für Ökonomie] [1955] 1971, 208; translated from German)

Marx underlines,

With a correct conception of rent, the first point to arise was of course that it does not originate from the land but from the product of agriculture, that is, from labor, from the price of the product of labor, for instance of wheat; in other words, from the value of the agricultural product, from the labor applied to the land, not from the land. (Marx 1976, 141)
This holds true for our issue as well: rent extracted by landowners from real estate does not come from the land, but from labor used by producing buildings. Surplus value in the building industry is created by constructing buildings. Surplus value, which is diverted parasitical by the owner of the land as ground rent, originates from the exploitation of building workers in all stages of construction, from excavation on to the installation of electric, plumbing, heating, and outdoor facilities as well as the development of the piece of land. Surplus value is also created by maintenance and modernization by exploiting labor. No surplus value is created by clerks of property management, brokers, or investment banks. Exploiting those is a requirement that capitalists in those branches get their share in the produced surplus value.

The product or the commodity is in this case residential property. This property, as a rental apartment, for example, can be used and paid for for a longer period of time; for example, for 50 years, rents can alternate, dependent on the location of the property, the condition of the building, the level of interest rates, etc.

2.2.1. Differential Rent and Absolute Rent

Marx’s theory of ground rent, especially developed in the dispute with Ricardo’s theory, manifested itself primarily in Volume Three of Capital and in the “Theories of Surplus Value.” Profound expert of the works of Marx, V. I. Lenin writes in a popular summary:

Since the area of land is limited and, in capitalist countries, the land is all held by individual private owners, the price of production of agricultural products is determined by the cost of production, not on soil of average quality but on the worst soil; not under average conditions but under the worst conditions of delivery of produce to the market. The difference between this price and the price of production on better soil (or in better conditions) constitutes differential rent. (Lenin 1974a)

On such better land (whether from nature or through amelioration or usage), capitalists gain an extra profit (or surplus profit). Contrary to all branches of industry under complete freedom of competition this extra profit in agricultural production can last for longer periods of time. This is, because in agricultural production, land cannot be multiplied at will, as the quantity of land is limited and the usable area is held by individual private owners.

Building site rent, originated in the construction industry, is paid to the landowner for leasing the site on which residential houses, industrial, trading and service companies, or others are established. With housing estates, the location of the site plays a major role; it has decisive influence on the differential rent and so increases rents and prices of land.
Lenin goes on,

However, the private ownership of land creates a monopoly, which hinders the free flow (of capital from one branch to another—the authors). Because of that monopoly, the products of agriculture, where a lower organic composition of capital obtains, and consequently an individually higher rate of profit, do not enter into the quite free process of the equalization of the rate of profit. As a monopolist, the landowner can keep the price above the average, and this monopoly price gives rise to absolute rent. (Lenin 1974a, 56f.)

Significantly, it is this barrier, the private property of land, hindering the free flow or investment of capital, which is of special interest for the development of the subprime crisis.

2.2.2. The Price of Land

Although unworked land has no value, because it is not a product of human labor, it is (because of the liquidation of feudal commitments and restrictions) the object of buying and selling. The reason for that is the historic transformation of land into private property. Buying and selling of land creates per se not a cent in favor of land fertility, new machinery, or jobs. On the contrary, buying and selling deprives resources of productive use. This is similar to buying and selling of whole companies in the course of monopolization in the industry, through which as well no progress of the conditions of production is achieved.

For the owner of the ground, price for land is principal rent for a certain period of use.11 The principal amount of rent must at least yield the same rate of return, as the rate of return of savings deposits for the same amount of money would deliver.

“It follows, then, that the price of land may rise or fall inversely as the interest rate rises or falls if we assume ground rent to be a constant magnitude” (Marx 1970, 636). The price of land is all the higher, the higher the rent and the lower the interest rate (Akademie der Wissenschaften der UdSSR [Institut für Ökonomie] [1955] 1971, 215).

If the interest rate by tendency approaches zero—and the real interest rate (adjusted by the rate of inflation) had this tendency since the 1980s—price for land tends to go to infinite. And this is regardless of whether ground rent is in the form of rent, lease, or other forms. The same principle also explains why Warren Buffet and others were on solid ground at first glance, thus negating the risk of decreasing prices for land as a result.

The tendency of price of land to rise is also supported by other facts. Besides the “growing demand for shelter,”12 Marx states, “. . . agriculture becomes relatively less productive in relation to the industrial product the value of the agricultural
product rises and so increases ground rent” (Marx 1976, 12f). Similarly, the like has to be considered for the building industry which, in spite of important technical achievements, is still relatively underdeveloped (low organic composition of capital) and contributes therefore to an increasing rent.13

2.3. Mortgage

In all phases of a building project, typically, banks are involved. Through this, all other participants previously mentioned (see Figure 2) come into play. In those cases, private home builders are engaging construction companies and banks are involved in lending. They finance the purchase of land. They finance the payments for the building companies according to the construction progress and also the purchase of building machinery and building material. They finance employees’ wages. During the construction process, the investor sells the dwellings (if necessary by calling in brokers or other middlemen). The buyer of the dwellings (private use or investment) finances the purchase by a bank loan again. Typically, bank loans are collateralized by mortgages. For those, there are different forms as a result of historic and nation-state conditions, legalized to different jurisdictions. The function of the mortgage differs according to the variation of different historic and legal framework conditions in which it is used. The mortgage plays an important role in the transformation process of legal titles from common or feudal property into capitalist private property and its concentration in a few hands. This applies to the peasant clearing within the 18th, 19th, and 20th centuries as well as for the neocolonial “land grab” of the 21st century. In the agriculture sector as well as in the area of housing construction, or industrial buildings, mortgages are used mainly as collateral for loans.

Through a mortgage on an exact designed plot of land or leasehold, the repayment of the capital given as a credit and the payments of principal and interest are supposed to be guaranteed. Should the debtor get into arrears, the lender can accelerate the loan and use the “right of lien” to sequester or to foreclose the plot of land. In the majority of cases, interests on arrears are part of the mortgage agreement, approximately to expropriate the borrower and mortgage debtor at pace (from peasant clearing by vigorish and interest-slavery in early capitalism to the removal and expropriation of millions of US homeowners today). By using mortgages, the claims of owners of capital to seek repayments of principal, the owners of land to have ground rent paid, and the lenders and banks to ensure interest payments are all secured.

Marx characterized mortgages as “mere titles on future ground rent” and

All of these are not real capital. They do not form constituent parts of capital, nor are they values in themselves. By way of similar transactions money belonging to the
bank may be transformed into deposits, so that the bank becomes the debtor instead of owner of this money, and holds it under a different title of ownership. However important this may be to the bank, it alters nothing in the mass of reserve capital, or even of money-capital available in a particular country. Capital, therefore, represents here only money-capital, and, if not available in the actual form of money, it represents a mere title on capital. (Marx 1970, 474f.)

This means, the mortgage as an entitlement to claim future ground rent is fictitious capital itself. So this makes understandable that the investors in MBS, but also the investment banks, holding MBS, became insolvent for the moment themselves, as the prices for real estate began to fall. At first, the wealthy of the USA were hit by devaluation; but by socialization of the risks by securitization and international trade (see above), the rich in a global extent faced financial ruin. According to this, the rich became rescued by the governments and the burden of the crisis was passed on to the whole society (see an analysis of consequences we have made in Corell and Herzog [2011]). Marx adds, centrally for the understanding of the crisis:

This is very important, since a scarcity of, and pressing demand for, banking capital is confounded with a decrease of actual capital, which conversely is in such cases rather abundant in the form of means of production and products, and swamps the markets. (Marx 1970, 474f.)

This explains drastically that there is an intimate correlation between the bankruptcies of the banks, on the one hand, and crisis-induced abundance of commodities and capital, which is more easily darkened by phrases like “Casino-capitalism,” or “bubbles that burst.”

By using mortgages, the banks are holding the key to landed property directly. The owner of the land formally decides whether and in which way the land is built on; in terms of content the banks are in command. In early capitalism, the banks had no essential interest to become owners of land. But in this way, they were able to overcome the barrier of landed property for a free flow of capital by ruining peasant landed property but also by ruining mostly aristocratic landowners. By this, the banks decide increasingly who is allowed to take over the land from the ruined farmer or aristocrat.

In using mortgages, the banks, respectively the financial capital, become potential landowners. When a mortgage loan is not serviced as agreed, the land comes under power of disposition of the lender. In this way, the banks as controllers of financial capital become custodians of capital penetration into the real-estate sector and, in general, all sectors of the economy dependent on landed
property. Yet such penetrating capital has to pay further on toll in specific ground rent for particular usage.

The banks participate in growing prices for land by means of mortgage loans (higher volumes and so higher interest earnings), and, in the case of transfer of property, they can participate in ground rent, directly. The case of default of a loan is incorporated in the loan agreement, inclusive of the interest rate. By securitization of mortgage loans—which is not a phenomenon of the actual crisis, but is banking business for more than 150 years—the banking capital tries to participate on ground rent not only via interest earnings but also by making the limited availability of land itself to a subject of realization, to change the immobility of real estate to mobility. But, by doing this, they expose, by apparently unlimited growing amount of bonds (MBS), the potential valuelessness of existing collateral landed property.

Also, via mortgage, the private property of land became a cornerstone of the global credit system.

2.4. The Consequence of Ground Rent in General

According to Marx, there are a number of consequences for value, price, and profit from the ownership of land and the payable ground rent for its use:

—That, because of the access limited by landed property, less capital is invested in agriculture than in industry. That holds for the builders’ branch of industry and so for the construction of housing and dwellings.

—Because of this, the organic composition of capital of these enterprises on an average is lower as in industrial production. This also applies for the housing industry.

—Because of this, the value of commodities produced agriculturally tends to be higher than for those produced industrially. This also applies for the constructing industry and the produced apartments and houses.

—The price for agricultural commodities (also resources, etc.) is determined by the worst plot of land (mines, oil wells, etc.) respectively by the worst sites or buildings, because capital is only invested when average profit is created.

—Therefore, the prices here tend to be higher as in a market with freedom of competition, which is not dominated by private ownership of land.

—The price must yield at least besides the average profit also the ground rent, and therefore tends to be higher than in industrial production, where ground rent plays a minor part.

—Soaring prices for land lead to soaring prices for housing. The price for an apartment adjusts with capitalized rent for a certain period of usage. Soaring rents depress real wages.
—As the access to land is limited by the monopoly of private landed property, the competition of capital to penetrate those sectors is restricted. For the long term, this results in a stabilization of values and prices on a higher level.

—The reason for the crisis phenomena over the last decades in the agricultural and in the building and housing industry with soaring rents, especially for urban landowners, lies in the lagging behind of the solvent demand due to decline of real wages and combined household incomes.16

2.5. Ground Rent under Monopolist Capitalism

Under monopolist capitalism, which developed in the last third of the 19th century, superseding capitalism with freedom of competition, monopolies come into existence in industry, bearing features previously subject to private property. They offer opposition to non-monopolistic capital penetrating their markets. They can realize prices exceeding the value and realize monopolistic profits, above average rate of profit. They impose a tribute on society chargeable to the working class, the petty bourgeoisie, and the non-monopolistic bourgeoisie. By their ambition to rule world-markets, monopolies stamp down the autonomic development of bourgeoisies and capitalism in many countries worldwide too. To safeguard their rule, monopolies form an alliance with semifeudal big landowners in the less developed countries in the same way as they did in imperialist countries before.17 The monopolists of industry and banks, the financial oligarchy, form an alliance with the big landowners; even so the contradictions between them are not sublated. Ambitions to concentrate industry, banking, landed property, and trade in one single trust, such as General Electric, show, on the one hand, where the development is going to; on the other hand, it shows that, under capitalist conditions, the separation cannot be fully overcome. The struggle about sharing profit divides the different parts of the bourgeoisie again and again. In this way, landed property is used to make access to countries, markets, etc. more difficult for other monopolies. And eventually, the private landowners have an influence within the farming community, which they represent as lobbyists versus governments or international bureaucracies like the European Union (EU), which is not to be underestimated. Lenin pointed out,

But it is quite possible, on the contrary, to imagine a state of affairs—indeed, such a situation is even typical of capitalism—where an improvement in the condition of the small farmers, as a class, results from their alliance with the big landlords, their participation in exacting a higher ground rent from society as a whole, the contradictions arising between them and the mass of proletarians and semi-proletarians, who depend, entirely or at least mostly, on the sale of their labor-power.18
Insofar, the survival of the monopoly on private property of land is closely related to the survival of the financial capital and both contribute to increasing parasitism and decay of imperialism. At the same time, however, contradictions between the factions of monopolists are not overcome, as soon as it concerns the share of the tribute, or the prey, and the transfer of losses resulting of crises.

3. Subprime Crisis and Ground Rent

Certainly, the monopoly on private landed property is not responsible for crisis in general and for subprime crisis in particular. The reasons for the crisis are lying ultimately in the basic contradiction of capitalism, with social production, on one hand, and private appropriation, on the other. With it, necessarily combined, is the overproduction of commodities and overaccumulation of capital. But, linked to the plethora of capital is the drive and the pressure to open up even the most distant corners as investment opportunities for capital especially, as:

—Risks are apparently containable;
—Risks can be shared easily.

Until 2007, this appeared to be factual,

—Because of secular increasing prices for land, which promised to be, during periods of low interest rates, an inexhaustible source for income without labor;
—Because of a worldwide distribution, this "socialized" the risks of subprime bonds.

And so this crisis would not have had to burst, as in the crisis of 1929–32, if banks, central banks as “lenders of last resort” and states had faced it together. But the economic crisis itself lifts the curtain, which makes the imperialism and the financial capital look as monolithic unity; it gives an insight into the war to the knife which takes place between the monopolies inside imperialist countries, between monopolies of various imperialist countries, between monopolies about the influence on their “own” government (and on foreign governments), and between imperialist states. The unity of their contradictions, their alliances, illustrates a temporary caper movie.19

The subprime crisis, as it burst head-on, and suddenly in September 2008 by the bankruptcy of Lehman Brothers, had its direct roots in the falling prices of landed property and so with the devaluation of mortgages; these, as we know, are “titles on future ground rent” (Marx 1970, 474). Together with the mortgages, particularly those “subprime” rated, also the bonds related—the mortgage-backed securities—devalue, as they are titles on future ground rent. But why did the prices...
for landed property fall? Many borrowers became insolvent by rising variable interest rates. This increased the supply with houses/apartments/sites dramatically, going into the hands of the banks, which supplied the market with them again. The wage, or other income of the homeowners, did not increase in the same extent as the interest rates. As every bank acts first on its own, it tries to avoid risks. The borrower, which was paid court to before, was pushed to extreme extent, and in prolonging loans, it now became an enemy. Then the banks terminated the loans to come out of the credit transaction more or less “safe and sound,” by selling the real estate. The simultaneous movement of all banks led on to a collapse of prices of land and its consequences. A deeper significance of ground rent concerning the subprime crisis lies in this too: to make profit and be competitive, the banks must bite the hand that feeds them, in this case, the mortgage loan secured by landed property, taking the risk to fall and to break their neck. To put an end to a system constructed like this will be a great achievement for prosperity of mankind for the future.

Yet more important than for the outbreak of the crisis are prices for land and ground rent during the process of the crisis: higher prices, less flexible to drop, restrict the adjustment during crisis. This indicates that capitalist ownership of land, with its monopolistic character, restricts the adjustment of capacities to solvent demand and restricts the correcting impact of crisis. Through that, crises in agricultural production, in construction industry, and real estate tend to become more severe, longer lasting, and chronic. Adding to this, there are “Keynesian” economic stimulus packages in order to boost the economy by credit-financed building projects. Apart from benefitting the landowner, this widens the gap between production capacities in the building sector and solvent demand. In total it can be seen, the private monopoly on landed property has deepened and prolonged the crisis.

Capitalist avenue of escape is further monopolization. In the USA, in practice, only two out of the big investment banks are still important. In Germany, only Deutsche Bank, among the major banks, has kept its independence. Additionally, the capitalist avenue of escape is government intervention by subsidizing ailing construction companies, banks, agricultural large-scale land holding, etc., briefly rescuing the bourgeoisie.

This results in the stronger entities trying to pass on the burden of the crisis to the weaker ones: the big landowners on the peasants; the agriculture enterprises (also the owners of coal, oil, ore, etc.) onto the industry; the monopoly bourgeoisie onto the non-monopoly bourgeoisie, the petit bourgeoisie, and the working class; the imperialist powers onto the small and dependent countries.

In the end, landed property is a cornerstone that stands against the internationalization of capital, as it stood from its beginning against the industrial capital in
its drive for unlimited expansion. Only reactionaries say that landed property has become a barrier against the encroachments of exorbitant capital, that it would be the support of sustainability, etc. Landed property is still the foundation of national states defined in territorial terms. It is, indeed, an obstacle which will be removed on the road to a classless society and the consolidation of the peoples. Nevertheless, the question remains as to what has to be removed, whether the conditions for the removal are given, and, indeed, how—and from which class—those conditions might be produced.

There is another curiosity of this crisis: constitutive, for a proclaimed nation is the territory belonging to the nation. But the land is not owned by the nation, but by private landowners depriving ground rent, yet loading the risks onto “their” state (save socialist countries). By securitization, US banks worked out to socialize the risks first nationally with the help of Fannie Mae and Freddie Mac, and then worldwide. So, the USA succeeded in loading a part of the burden of the crisis onto other national states. Beyond economic questions, the political entanglements become obvious, which intervene deeply into the sovereignty of nations and impede the options in handling the crisis of the countries involved. This makes the coming out of the crisis more difficult.

To avoid misunderstandings, the German banks, the German monopolies, and the German financial oligarchy bear great responsibility for the development. After the annexation of the global depository receipt (GDR) and the cancelation of the Warsaw Pact, they made a spring on these countries and made large-scale dealings in real estate with acquisitive frenzy. The use of the same cookie-cutter approach as that of the US banks is obvious. In addition to that, the German imperialism has, by winning new strengths (not least by massive wage dumping domestically), increased the pressure on the other imperialist competitors. The consequence of that will be that the German business models are getting more unbalanced and hazardous.

The crisis was the bursting charge which brought landed property as one of the cornerstones of the credit-, banking-, and financial system to a collapse and destroyed the ostensible shelter of economic safety and refuge. Under constraint to make profit and under competition about the biggest share of the cake, the financial oligarchs were pushed to deprive the capitalist economy of one of its last taboos.

It is notable that in capitalism something without value is rated as prime collateral; by this rationale, irrationality becomes a measurement for economic rationality (however, rationality of homunculus oeconomicus of capitalist provenience). The “recovery” following the crisis and the associated return to the old mechanisms, however, show as well: “For everything reactionary applies,
it will not fall, if it is not knocked down. It is the same principle as sweeping the floor—where ever the sweep does not reach the dust will not disappear by itself.”22

4. The Bourgeois and the Proletarian Solution of Private Property

Nationalization was in general in the interest of industrial bourgeoisie, which themselves would have been saved from diverting surplus value to those freeloaders, the owners of private property. This, as well, was in the interest of a faster development of productive forces and capitalism. However, precondition for this was the state being a state of the bourgeoisie. With the growing threat by the proletariat (in view of the Paris Commune of 1871), the bourgeoisie in the major developed capitalist countries abandoned liquidation of private ownership of land and formed, not only in Germany, an alliance with a long outlived aristocracy and clergy. The nationalization of private property became a task for the socialist revolution. Through this, not only an obstacle for the development of productive forces will be removed but also the base for sovereignty and integrity of national territory will be laid.

In socialist countries as well, where land and the most important means of production are in public ownership, situations can come up raising the issue of private property and ground rent, and the correct approach to this subject is of great importance in determining whether the counterrevolution can win or can be beaten.

In “The Housing Question,” Engels points out,

For the rest, it must be pointed out that the “actual seizure” of all the instruments of labor, the seizure of industry as a whole by the working people, is the exact contrary of the Proudhonistic theory of “gradual redemption.” Under the latter the individual worker becomes the owner of the dwelling, the peasant farm, the instruments of labor; under the former the “working people” remain the collective owners of the houses, factories and instruments of labor and would hardly permit their use, at least in a transitional period, by individuals or associations without compensation for the cost. *Just as the abolition of property in land is not the abolition of ground rent, but its transfer, although in a modified form, to society.* (Engels 1974, 282; emphasis added)

This not only in countries where agricultural production was private for long periods (e.g., People’s Republic of Poland [PR Poland]), but as well there, where parts of land pass over into long-term private usage whether for agricultural or real-estate purposes, in an upward trend (e.g., People’s Republic of China [PR China]). Problems emerge with collective farms (LPG, i.e., agricultural production co-operative in GDR; Kolkhoz in USSR) as well. Here, as well, conflicts come up.
about the amount which the single collective farm has to pay to the whole of the socialist economy to be permitted to make use of a part of the nationalized land.

Also in Cuba a retrograde step concerning private ownership of land was taken. The stage of socialization had to be reduced and private use of land had to be permitted because of the damage caused by default of trade with CMEA (Council for Mutual Economic Assistance) countries. This was an orderly retreat to be able to continue the fight with imperialism from a new line of defense.

As socialism covers a long historical period in which the question, whether the proletariat or the bourgeoisie will triumph, is not finally clear, the issue of dealing with questions of private property of land remains further on a class question: Whether the bourgeoisie wins more space by extending rights concerning private property or whether the proletariat gains ground for faster development of socialism by temporary concessions and temporary steps backward?

Notes

1. In addition to this, the theory also can be helpful to understand other contemporary urgent problems worldwide related to private landed property and to find solutions for them. Here is a fragmentary summary:

- The ongoing expulsion of rural population in countries of South America, Africa, and Asia, thus developing slum areas in towns;
- The increase of real-estate prices in towns, housing shortage in métropoles, with unaffordable rents.
- Land acquisitions (land grabbing) in all parts of the world by so-called investors in correlation with the tendency to undermine national sovereignty respectively for neocolonial purposes.
- The yelling contradiction between the hunger of millions of people and the relative overproduction, spoilage, and the waste of food, in parts financed by subsidies of governments like in the European Union (EU).
- Using food as arms (food power strategy of US imperialism) to ruin farmers and the agricultural base of complete countries to make them dependent of imperialist mercy.
- Trade wars between imperialist countries about the domination of food markets correlated to various subsidizing of their own big landowners and trade barriers and chicane against others. This happens in connection with highly cartelized markets and stock exchanges, concerning wheat, soya, etc., which are dominated by a few powerful monopolies.
- Clearing of rainforests to create profit first by selling the timber, then by clearing the land to extract mineral deposits and use the land for plantation economy and ranching.
- The allocation of the oceans and of the sea floor, especially of the Antarctic, is in full swing. It is connected to military conflicts, natural disasters, etc.
- This is the consequent continuation of what becomes visible in the struggle about oil but also about other raw materials. The Gulf Wars, the war against Afghanistan, threatening Iran, the intervention in Syria, the intrigues about the Caspian oil, and the connected wars in and around Azerbaijan, Armenia, Georgia, Russia/Chechnya, etc. are all manifestations of the struggle of monopolies or groups of monopolies and of the imperialist powers about a new partition of resources.
- The so-called energy turnaround in Federal Republic of Germany (FRG) including such new colonial ventures as “Desertec” raises the question of which land arrays of solar panels, wind parks, power lines, etc. will be used for erection and which materials will be used to produce storage batteries and cables.
2. According to German central bank, “from the countries hit by the Asian crisis, Indonesia, Korea, Philippines and Thailand, ca. 75 bio. US$ flowed off from July 1997 to December 1998, which ultimately ended up in Europe and in the US.” See Deutsche Bundesbank (2000).

3. The current account deficit of the USA increased from 125 bio. US$ or 1.6% of gross domestic product (GDP) in 1996 to 640 bio. US$ or 5.5% of GDP in 2004. See the blog of Mark J. Perry, a professor at the University of Michigan, http://mjperry.blogspot.com/2011/04/another-name-for-trade-deficit-capital.html, accessed October 20, 2013.

4. During a broadcasting of This American Life on May 9, 2008, Adam Davidson (correspondent for international business economics of NRP) talked to the head of capital market research at the International Monetary Fund (IMF) about a “Giant Poll of Money,” of the worldwide deposits and savings, on which investment banks and hedge funds are out to make their profits. This staff member of IMF (Ceyla Pazarbasioglu) stated that the volume of deposits and savings had increased from US$36 trillion in 2000 to US$70 trillion in 2007, http://thisamericanlife.org/radio-archives/episode/355/transcript, accessed on December 17, 2013.

5. See “State of Sheila C. Bair” (FDIC 2007). Here the participants are shown as follows:

The securitization structure diagram shows the components of a typical securitization. It is important to note that not all securitizations are identical . . . Nevertheless, the diagram generally illustrates the roles of the various participants in a securitization structure . . .

The key elements to a typical securitization include the following:

Issuer—A bankruptcy-remote special purpose entity (SPE) formed to facilitate a securitization and to issue securities to investors.

Lender—An entity that underwrites and funds loans that are eventually sold to the SPE for inclusion in the securitization. Lenders are compensated by cash for the purchase of the loan and by fees. In some cases, the lender might contract with mortgage brokers. Lenders can be banks or nonbanks.

Mortgage Broker—Acts as a facilitator between a borrower and the lender. The mortgage broker receives fee income upon the loan’s closing.

Servicer—The entity responsible for collecting loan payments from borrowers and for remitting these payments to the issuer for distribution to the investors. The servicer is typically compensated with fees based on the volume of loans serviced. The servicer is generally obligated to maximize the payments from the borrowers to the issuer, and is responsible for handling delinquent loans and foreclosures.

Investors—The purchasers of the various securities issued by a securitization. Investors provide funding for the loans and assume varying degrees of credit risk, based on the terms of the securities they purchase.

Rating Agency—Assigns initial ratings to the various securities issued by the issuer and updates these ratings based on subsequent performance and perceived risk. Rating agency criteria influence the initial structure of the securities.

Trustee—A third party appointed to represent the investors’ interests in a securitization. The trustee ensures that the securitization operates as set forth in the securitization documents, which may include determinations about the servicer’s compliance with established servicing criteria.

Underwriter—Administers the issuance of the securities to investors.

Credit Enhancement Provider—Securitization transactions may include credit enhancement (designed to decrease the credit risk of the structure) provided by an independent third party in the form of letters of credit or guarantees.


8. For example, in Germany today the feudal background from which land property evolved into capitalism is noticeable. Many substantial landowners derive from aristocracy and once again staked out claims—after the annexation of the GDR—on land which was expropriated after 1945. In Germany, landed property of the Catholic Church and a bit less of the Protestant Church is considerable. The issue of compensation for church property which was confiscated by the “Reich” (secularization of 1803) is not finally regulated by law even today; the German government still pays annually substantial amounts of money to the two main churches, €459 million in 2012 (see Handelsblatt, January 16, 2014).

9. Marx criticizes Ricardo first of all for the faultiness of the postulated tendency of progressing from better to worse plots of land and falsifies the “law of decreasing land yield” (by citing natural science in agriculture and also growing cities). He reveals the latter as an attempt to blame nature for the contradictions and limitations of capitalism.

10. Marx states, concerning this, in the chapter titled “Chapter 46. Building Site Rent. Rent in Mining. Price of Land” (emphasis added),

Wherever rent exists at all, differential rent appears at all times and is governed by the same laws, as agricultural differential rent. Wherever natural forces can be monopolized and guarantee a surplus-profit to the industrial capitalist using them, be it waterfalls, rich mines, waters teeming with fish, or a favorably located building site, there the person who by virtue of title to a portion of the globe has become the proprietor of these natural objects will wrest this surplus-profit from functioning capital in the form of rent. Adam Smith has set forth, as concerns land for building purposes, that the basis of its rent, like that of all non-agricultural land, is regulated by agricultural rent proper (Book I, Ch. XI, 2 and 3). This rent is distinguished, in the first place, by the preponderant influence exerted here by location upon differential rent (very significant, e.g., in vineyards and building sites in large cities); secondly, by the palpable and complete passiveness of the owner, whose sole activity consists (especially in mines) in exploiting the progress of social development, toward which he contributes nothing and for which he risks nothing, unlike the industrial capitalist; and finally by the prevalence of monopoly prices in many cases, particularly through the most shameless exploitation of poverty (for poverty is more lucrative for house-rent than the mines of Potosi ever were for Spain), and the monstrous power wielded by landed property, when united hand in hand with industrial capital, enables it to be used against laborers engaged in their wage struggle as a means of practically expelling them from the earth as a dwelling-place. One part of society thus exacts tribute from another for the permission to inhabit the earth, as landed property in general assigns the landlord the privilege of exploiting the terrestrial body, the bowels of the earth, the air, and thereby the maintenance and development of life. Not only the population increase and with it the growing demand for shelter, but also the development of fixed capital, which is either incorporated in land, or takes root in it and is based upon it, such as all industrial buildings, railways, warehouses, factory buildings, docks, etc., necessarily increase the building rent . . . The demand for building sites raises the value of land as space and foundation, while thereby the demand for elements of the terrestrial body serving as building material grows simultaneously.

Marx cites further the testimony of a big building speculator in London, Edward Capps, given before the Select Committee on Bank Acts of 1857. He stated there, “No. 5435”:

I think a man who wishes to rise in the world can hardly expect to rise by following out a fair trade . . . it is necessary for him to add speculative building to it, and that must be done not on a small scale; . . . for the builder makes very little profit out of the buildings themselves; he makes the principal part of the profit out of the improved ground rents. Perhaps he takes a piece of ground, and agrees to give £300 a year for it; by laying it out with care, and putting certain descriptions of buildings upon it, he may succeed in making £400 or £450 a year out of it, and his profit would be the increased ground rent of £100 or £150 a year, rather than the profit of the buildings at which . . . in many instances, he scarcely looks at all. (Marx 1970, 781ff.; without footnotes)
11. See “The price of land is nothing but capitalized and therefore anticipated rent” (Marx 1970, 816).

12. In larger cities, the prices for land increased during capitalist development because of high differential rents. So, skyscrapers in the center of towns are not only a manifestation of technical progress but also a manifestation of the limits of profit calculation driven by the pressure of ground rent, which literally is pushing up the heights of the buildings. The obvious calamitous crowding in inner-city traffic shows the mark of ground rent, which enriches every square meter in certain locations for the owner of the land, and brands public areas like parks or streets as pure waste. In such locations, landowners claim a monopoly rent and impose a tribute on the society, which pushes up the rents in the towns universally. All the time, affordable housing becomes scarce as a result. Yet, in wealthier countries, slums are created again and become “deprived areas,” as the riots during recent years in Paris or London indicated.

13. But Marx points out that the faster development of the industry compared to the agricultural/building industry is not insurmountable. “This is a historic disparity that can disappear” (Marx 1976, 87).

14. This only applies by taking into account all of the agricultural production worldwide. Big agricultural plants can have a higher organic composition of capital than those in the industrial production.

15. See “The Housing Question” (Engels 1974, 282). Especially since 1989, since the downfall of socialism in Europe, the ruling class does not even need to make easing state interventions as the former program of “social housing” in FRG. Housing subsidies being reduced, public services like libraries and swimming pools are going to rack and ruin. Only in this context, the unashamed involvement of publicly respective US institutions like Fannie Mae and Freddie Mae, in the operations of the investment banks, is possible and understandable. Something that was created initially in the “New Deal” 1938, to “protect” the workers from communist tendencies, appeared not to be necessary any more to the financial oligarchs, since they felt safer again, after the fall of the Soviet Union.

16. In regard to the difference of agricultural sector and building sector, Marx points out “... that ground rent ... solely originates from surplus profit (this part of the surplus value, which is not adopted to the general rate of profit) which is contained in the raw product and is paid by the farmer to the land lord” (Marx 1970, 70). Marx makes an exception concerning “building houses,” as the rent in this case is not paid out of a raw product but out of a “fabricated product” (70) and so the surplus value created in the building sector is adopted in the equalization of the average rate of profit.

17. An example for this is Saudi Arabia. It is state owned and ruled by a very small stratum of big ground owners. When the curtain of Monarchy, Sheiks, religion, and romantic desert is taken away, there are oil wells owned by big landowners. They claim royalties for the privilege to exploit the oil wells. The earnings gained by the big landowners flow mainly back into the imperialist centers, after deduction of expenditures for a luxurious lifestyle and the safeguarding of it (army, police, and adequate equipment). The earnings get invested in real estate and bonds of all kind. Things have come full circle. However, the characteristic of this circle is that a totally parasitic class claims a part of the fruit of labor of capital production outside this relationship. Together with this go rows among monopolies and imperialist countries about their share of the deposits from Saudi Arabia about delivery of weapons, food and other consumer goods, consultants, etc. The example of Saudi Arabia, above, has its parallel in German history: 1878 initiated protectionism (parallel to the oppression of the workers movement) with protective duty on wheat, timber, livestock, and iron. Concentration of coal, iron, and steel (bearing elements of private property and ground rent) to heavy industry especially in the Ruhr area created the development of the most aggressive parts of German financial industry, which supported prematurely Hitler’s accession to power. And nevertheless, the big landowners especially in Prussia (Junker) were those which put in place President Hindenburg, field marshal of World War I, who backed the appointment of Hitler, as Chancellor of the Reich.
18. See V. I. Lenin, “New Data on the Laws Governing the Development of Capitalism in Agriculture,” Part one, Chapter 15. This work has been written at the same time as “Imperialism, the Highest Stage of Capitalism” (Lenin 1974b, 93).

19. Corell (2001) also writes, . . . while France wanted to make use of the situation in Germany to hold down German imperialism, while the US and the UK tried to make use of the German crisis to weaken France, Deutsche Bank was planning to make use of the crisis to eliminate its most aggressive competitor. This is the answer to the question asked above: By whom and why was the Danatbank let down on July 11th 1931?

The crisis of overproduction, which began in summer 1929, was the real background for the collapse of the stock exchange in October 1929. However, the collapse had no resolving function, but only exacerbated the crisis of overproduction itself. The economic crisis only makes the transformation of the produced commodities into money more difficult. It so increases the demand for credit, if the process of production is to be continued. At the same time by this the crisis enlarges the risks for the lenders, for the banks, for the state and other domestic and foreign lenders, the credits get “frozen,” default, and are not paid back. Through this the conditions develop that the credit crisis can turn into a banking crisis. Even to overcome the banking crisis only for a short period it needs the intervention of the government by credits again, i.e., support by using fictitious capital as bond issues, promissory notes, etc. By this nothing is spend on the expansion of production, but only for the financial recovery of the bankers.

According to the growing government debt on one hand the pressure on the currency increases to devaluation, on the other hand the creditworthiness decreases outside of the country’s territory. By this the pressure increases on the working people in their home country, which has to cope with less social welfare benefits (by increasing demand caused by the crisis) and higher taxes (potential for tax income decreased by the crisis) which are squeezed out to service the government debt, and the drive for exterior expansion to force the credit worthiness, for example by the ability to go to war and to extend their own home territory.

20. At this point, we do not go to a deeper analysis about the influence to the development of the crisis by rating agencies, national legislation (like net capital rules), or regulation authorities (like the Securities and Exchange Commission [SEC] in the USA or the BaFin in the FRG) or international regulations (like Basel II).

21. Here applies what Hegel says, referring to certain mathematical formulas, that, what ordinary common sense finds as irrational, is the rational, and its rational is the irrationality itself (Marx 1970, 787).

22. See Mao Zedong’s article “The situation after the victory in the war of resistance against the Japanese Aggression and our policy” (Mao 1996, 17).

References


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