Agricultural rent and its adverse effect on the rate of profit in the case of El Salvador and Mexico

Topic: Policy Analysis in Developing Countries

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This study examines the existence of absolute rent and its implications on the profit rate in El Salvador, using the matrix from 2006, from the perspective of the classical theory of labor value an input-output analysis. We also present a comparison with data from Mexico. Authors like Capraro (1985) show agricultural rent as a surplus profit sector. The rent, like a particular form of surplus profit or extraordinary gain â€œcomes from limited, natural and unreproducible land and for the same qualities are monopolizable and privately appropriable.â€• Also, he affirms that rents rise â€œfrom the fact that there are market values reflecting producers that are more productive, lowering market values below the average social values as a result of the particular operating conditions of their capitalâ€• (Capraro, 1985:59). In this sense, the extraordinary gains would be a product of the average profit. Therefore, the central hypothesis of the study is that within the agricultural sectors there exist productive units that can generate agricultural profit. The appropriation of this for these sectors would generate a reduction in total added value. For El Salvador, we use an input-output matrix containing data for 44 sectors for 2006. Using the methodology from Brody (1970) and Shaikh (1990) and the Leontif production function, we calculate the total employment multipliers. We then compute two price vectors: direct prices and market prices. We then approximate the Marxian rate of return as the ratio of profit to capital. In this way, we obtain the rate of profit by sector and on aggregate. Subsequently, we eliminate the agricultural sectors and obtain a new modified rate of profit which we use for comparison. The results show: 1) that absolute rent will cause a fall in the profit rate. This phenomenon is observed in both El Salvador and Mexico. Specifically, we observe a decrease in the rate of profit for Mexico in the years 1970, 1980 and 2003, and for El Salvador in 2006. 2) We observe a gap of 13% between the rates of profit for sectors with and without rent, this we evaluate econometrically. 3) In line with the definition of absolute rent, we observe that the compositions of capital of the agricultural sectors are below the social average. Finally, we find an interesting result. With the data from Mexico and for each of the years, we find that trade increases the rate of profit in comparison with a virtual absence of this. This is consistent with earlier points made by this theory.