Rentier capitalism does not come with a reset button

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Jerome Roos, *New Statesman*, 20 September 2019

This week, the *Financial Times* launched an eye-opening series of articles on the disorderly state of world politics that calls for a "reset" of the global capitalist system to make it more inclusive and committed to "profit with purpose".

The intervention appears to mark a striking turnaround for a publication that has long been associated with the free-market worldviews of City and Wall Street bankers. But its central message fits a broader pattern in the paper's editorial line; it called for a worker-led economy in the US and has even recommended that an emergency government – led, if necessary, by Jeremy Corbyn – would help the UK settle the Brexit question.

This changing tone reflects an underlying shift in the tectonics of British and global politics. Ambitious calls for reform from a newspaper long associated with the economic orthodoxy would have been inconceivable without the crisis of legitimacy now confronting the political and financial establishment, or the strong pressure exerted by popular movements.

One contribution to the series stands out in particular: the opening piece by Martin Wolf, the paper's chief economics commentator, which presents a damning critique of "rentier capitalism" for having undermined both economic productivity and liberal democracy.

Rentiers are widely considered to be damaging because they extract "unearned" value from the economy. They invest in unproductive assets, such as real estate, or reap excessive profits through the monopolistic control of property or infrastructure. John Stuart Mill wrote of the landlords of his time that they "grow rich in their sleep without working, risking, or economising."

For Martin Wolf, rentier capitalism is a system "in which market and political power allows privileged individuals and businesses to extract a great deal of such rent from everybody else." Calling on business leaders to help bring about a more democratic political system, and a more dynamic and competitive capitalist economy, he ultimately makes the enlightened liberal's case for saving capitalism from itself.

By opposing the "bad" capitalism of the unproductive rentier to the "good" capitalism of productive enterprise, however, the conventional liberal narrative overlooks the fact that the two are inextricably entwined. Such thinking relies on an idealised but entirely theoretical version of capitalism that is pure, uncorrupted and far more benign than it is, or has ever been or, in all likelihood, ever will be.

The reality is that the concentration of wealth and power in the hands of a few privileged rentiers is not a deviation from capitalist competition, but a logical and regular outcome. In theory, we can distinguish between an unproductive rentier and a productive capitalist. But there is nothing to stop the productive, supposedly responsible businessperson becoming an absentee landlord or a remote shareholder, and this is often what happens. The rentier class is not an aberration but a common recurrence, one which tends to accompany periods of protracted economic decline.

It is a shift that tends to occur after economic crises, when less profit is to be had in productive enterprise and money is more effectively spent seeking monopoly rents or moved into speculative assets. Take, for example, the Medici family in Renaissance Florence, when they transformed themselves from textile traders into bankers after the crisis of the 14th century. The wealthy merchants of Amsterdam, too, became "periwig" rentiers as the Dutch Republic declined in the 18th century.

The French historian Fernand Braudel called this regular shift "a sign of autumn" – a symptom of the final phase of a long expansion, which is inevitably followed by a period of disorder and reorganisation.

The same process has been unfolding once more, albeit on a much larger scale, since the economic crisis of the 1970s. Having picked up steam after 2008, it has given rise to a new crop of rentier capitalists and platform monopolists – from Amazon to Facebook, Goldman Sachs to GlaxoSmithKline and Pfizer – that exert not just immense market power, but also great political influence.

The *FT* now calls on "leaders in the boardroom and beyond" to help "reset" capitalism and create a more dynamic and inclusive economy. It is a nice sentiment that would certainly do well over Champagne around the campfire at Davos. But the idea that capitalism's reset button – if such a thing could be said to exist – might be safely pressed from the boardroom is not supported by the lessons of history.

Indeed, if history teaches us anything, it is that the wealthy and powerful have almost no incentive to limit their political and economic privileges – and the systems they have put in place will only serve to entrench them further. When the billionaire investor Warren Buffett discovered that the US government asked for a far smaller fraction of his income than it did from his secretary, he reflected: "There's class warfare, all right, but it's my class, the rich class, that's making war, and we're winning."

In the 1930s John Maynard Keynes, the leading enlightened liberal of the time, still saw "the rentier aspect of capitalism as a transitional phase which will disappear when it has done its work." He firmly believed that "the euthanasia of the rentier, of the functionless investor, will be nothing sudden, merely a gradual but prolonged continuance of what we have seen recently in Great Britain."

Today, however, the rentier continues to enjoy a privileged place in the autumn sun. Far from being disposed of gradually, rentier capitalism has become ever more powerful and durable. Even if it was possible to "reset" capitalism – and even if those in the rentier boardrooms wanted to – it would only rise again.

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