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The Five Lies Of Rentier Capitalism

by Guy Standing on 27 October 2016

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We live in the age of rentier capitalism. It is the crisis point of the Global Transformation, during which claims made for capitalism have been wholly undermined by a developing system that is radically different from what its advocates say. They assert a belief in 'free markets' and want us to believe that they are extending them. That is untrue. Today we have a most unfree market system.

How can politicians say we have a free market system when patents guarantee monopoly incomes for 20 years, preventing anyone from competing? How can they claim there are free markets when copyright rules give guaranteed income for 70 years after a person's death? Far from trying to stop these and other negations of free markets, governments are creating rules that encourage them.

The twentieth-century income distribution system has broken down. Since the 1980s, the share of income going to labour has shrunk in most economically significant countries. Real wages on average have stagnated or fallen. Today, a tiny minority of people and corporations are accumulating vast wealth, not from 'hard work' or productive activity, but from rental income.

'Rentiers' derive income from possession of assets that are scarce or artificially made scarce. Most familiar is rental income from land, property, minerals or financial investments, but other sources have grown too. They include the income lenders gain from debt interest; income from ownership of 'intellectual property'; capital gains on investments; 'above normal' company profits (when a firm has a dominant position); income from subsidies; and income of financial intermediaries derived from third-party transactions.

A Keynesian Error?

Keynes famously dismissed the rentier as 'the functionless investor' who gained income solely from ownership of capital, exploiting its 'scarcity value'. He concluded in his epochal *General Theory* that, as capitalism spread, 'it would mean the euthanasia of the rentier, and, consequently, the euthanasia of the cumulative oppressive power of the capitalist to exploit the scarcity-value of capital.' Eighty years on, the rentier is anything but dead; rentiers have become the main beneficiaries of modern capitalism's income distribution system.

As neo-liberalism took shape in the 1980s, the concept of 'competitiveness' became an obsession. A country could only grow fast if it were more competitive than others, and this meant having lower production costs and greater profitability than 'competitors', as well as lower taxes on potential investors.

Classical political economy had focused on trade, driven by 'comparative advantage'; countries should specialise in those goods and services they were more efficient at producing relative to others. Suddenly, the message seemed to be that all countries had to be better at the same things.

The game became finding ways to attract and retain foreign investment, boost exports and limit imports. This led to the justification for cutting direct taxes, particularly on capital, and providing subsidies to investors. But corporations and financiers have used their power to induce governments and supranational finance to construct a global framework of institutions and regulations that enable elites to maximise rental income. The claim that global capitalism is based on free markets is the first lie of rentier capitalism.

IP Rights And Subsidies

Since 1995, with the passage of TRIPS (Trade-Related Aspects of Intellectual Property), which bind all WTO members, intellectual property has become the prime source of rental income: this arises through market power created by trademarks, copyright, design rights, geographical indications, trade secrets and patents. Knowledge-intensive industries, which now account for 30 per cent of *global* output, are gaining as much from intellectual property (IP) as from the production of goods or services. This represents a political choice to grant monopolies over knowledge to private interests, allowing them to restrict access to knowledge and to raise the price of obtaining it or of products and services embodying it.

The claim that IP rights encourage risk-takers is the second lie of rentier capitalism. Many patented inventions are based on publicly subsidised research. It is the public that pays, through taxes that finance the research, higher prices for patented products and loss of the intellectual commons. And most innovations that yield large returns through patents and so on are the result of a series of ideas and experiments attributable to many individuals or groups. For instance, Bill Gates made a pebble of a contribution to a Gibraltar of technological advances. There is no moral reason for him and his ilk to receive the whole Gibraltar of reward.

Many patents are taken out not for use but just to block others using the ideas. And worst of all, plutocratic corporations are 'hoovering' up thousands of patents, thereby turning the monopoly income that would come from applying one or several into a veritable avalanche.

The third lie of rentier capitalism is that the institutional structure of capitalism built in the globalisation era is 'good for growth'. To the contrary: it has hindered growth and made what growth that has occurred less sustainable, with rising ecological costs that are partly the outcome of rentier mechanisms, notably trade and investment accords, of which there are over 3,000. There is no evidence that those promote investment. Most studies have found only weak or non-existent correlations between those treaties and investment flows. Nor is there much correlation between opening up to foreign investment and growth. Instead, the correlation is with financial instability.

A fourth lie of rentier capitalism is the claim that profits reflect managerial efficiency and returns from risk-taking. In reality, the increased profit has gone to those receiving rental income, much of it linked to financial assets, IP rights and the edifice of subsidies given to capital.

To top it off, the undemocratic ISDS (Investor-State Dispute Settlement) process gives multinationals insurance against changes in government policies deemed to affect their profits. Imagine us having the right to sue governments if we thought changes in policies affected our incomes.

Profitable Platforms

Another source of rental income is the emerging platform capitalism, exemplified by the likes of Uber and TaskRabbit. This is transforming the labour market, directly, by generating labour for millions of 'taskers', and indirectly, through its impact on traditional suppliers of invaded services.

The platforms maximise profits through owning the technological apparatus, protected by patents and other forms of IP rights, and by the exploitation of labour, taking 20% or more of earnings. They are rentiers, earning a lot for doing little, if we accept their claim that they just provide technology to put clients in touch with 'independent contractors' of services.

The point is that incomes from labour are dropping for the precariat, while rental income is mounting. And so we come to the fifth lie of rentier capitalism: the claim that work is the best route out of poverty. The army of taskers and the precariat in general stand testament to that lie.

In sum, the challenge is to achieve Keynes' euthanasia of the rentier. It will be a struggle, but it is feasible. It requires a new income distribution system, one element of which would be a basic income paid from a levy on all forms of rental income. Without that, a dark age threatens. Politics will grow uglier, unless rent-seeking can be curbed and unless the need for basic economic security for all is recognised and met.

This article draws on the author's new book, *The Corruption of Capitalism: Why Rentiers thrive and Work does not pay* (London: Biteback).