Making Capitalism Great Again? A Critique of the "Rentier Takeover" Thesis

Abstract

Michael Hudson argues that a new form of financial capitalism has displaced the industrial capitalism of Marx's day. Unlike earlier capitalists, whose pursuit of lower costs led to improvements in the organization of production, the typical wealth owner today is a passive rentier who, like a feudal landlord, merely claims the surplus from existing production processes. Some form of this vision of financialization is widely held, but, I argue, misleading. It exaggerates the differences between historical and present-day capitalism, and misses the ways in which "finance" and "industry" form complementary parts of a single process.

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Michael Hudson argues that the industrial capitalism of a previous era has given way to a new form of financial capitalism. Today's financial capitalists, unlike capitalists in Marx's day, now claim their share of the surplus by passively extracting interest or economic rents broadly, rather than through control of the production process. Like landlords and other non-capitalist elites, their pursuit of private wealth does not develop the forces of production, broaden the social division of labor, or prepare the ground for socialism. Pursuit of rents, unlike market competition, generates pressure neither for improvements in the production process, nor for cost-reducing public investment. So the transition from industry to finance as the dominant form of surplus appropriation has been associated with economic stagnation and a withdrawal of the state from social provision (Hudson 2021).

Other writers have told versions of this story, but Hudson's is one of the more compelling I have seen. I am not, however, convinced. I do not think that "financial" and "industrial" capital can be separated in the way he proposes, or that their historical evolution can be understood as a transition from one to the other.

Let's start with the idea that industrial capitalists support public investments in areas like education, health care or transportation because they lower the reproduction costs of labor.

This argument is not wrong, at least for some times and places. But one is struck by the lack of discussion of other ways in which industrial capitalists seek to reduce the cost of labor—by lowering the subsistence level of workers, or reducing their bargaining power, or extracting more work effort, or shifting employment to lower-wage regions or populations. The idea that the normal or usual result of industrial capitalists' pursuit of lower labor costs is public investment seems optimistic.

Meanwhile, the case against landlords—grouped by Hudson with finance—as a force for capitalist progress is not as straightforward as the paper suggests.

Ellen Meiksins Wood argues, convincingly, that the origins of what Hudson calls industrial capitalism should really be placed in the British countryside, where competition among tenants spurred productivity-boosting improvements in agricultural land (Wood 2002). Similarly, Gavin Wright argues that one of the key reasons for greater public investment in the ante-bellum North compared with the South was precisely the fact that the main form of wealth in the North was urban land. Speculators promote canals, roads, and other forms of public investment in hope they would lead to land value appreciation (Wright 1978).

In New York City, the first subways were built by a company controlled by August Belmont, who was also a major land speculator. In a number of cases, Belmont—and later the builders of the competing BMT system—would extend transit service into areas where they or their partners had assembled large landholdings, to be able to develop or sell off the land at a premium after transit made it more valuable. (Hood 2004)

Belmont can stand as synecdoche for the relationship of industrial and financial capital in general. As the director of social resources to subway creation, he appears as an industrial capitalist, contributing to the development of the forces of production as well as reducing reproduction costs by giving workers access to lower-cost housing in outlying areas. As the speculator profiting by selling off land in those areas at inflated prices, he appears as a parasitic financial capitalist. But these were two sides of the same activity—the first was only carried out in expectation of the second.

As this example suggests, it seems to me that the two modes of profit-seeking that Hudson calls industrial and financial are not the distinct activities they appear as at first glance.

It is true that the development of a new, more efficient production process involves real gains for society while land speculation, for instance, does not. But how do those social gains come to be claimed as profit by the capitalist? First, by the exclusive access they have to the means of production. And second, by their ability to sell at a price above their costs of production. On both sides, market power or rents are essential to industrial capitalism.

Hudson is aware of this, of course, and notes that to Marx, owners of industrial capital are also "part of the rentier class in principle." If he followed this thought further I think he would find it creates problems for the larger dichotomy he is arguing for.

Capital is a process or a circuit: M - C - P - C' - M'. We often think of this circuit as happening at the level of an individual commodity, but it applies just as much at larger scales. We can think of the growth of an industrial firm as the earlier part of the circuit where value comes to be embodied in a concrete production process, and payouts to shareholders as the last part where value returns to the money form.

Industrial production doesn't require that its results be eventually realized as money. But industrial *capitalism* does. From that point of view, the financial engineers who optimize the movement of profits out of the firm are as integral a part of industrial capital as the engineer-engineers who optimize the production process.

My second concern is with the historical dimension of the story.

As Hudson notes, when Marx wrote it was common—though hardly universal—for the same individual to both hold the ownership rights over a firm and manage its day to day operations. In a modern corporation, by contrast, production is normally in the hands of professional managers, while the surplus flows out to owners of stock or other financial claims. This indeed gives the capitalist class a financial character it did not have in Marx's day.

The conversion of most large enterprises to publicly traded corporations took place in the US in a relatively short period starting in the 1890s. Even at the time this was perceived as a momentous change, and if we are looking for one historical break I think this is where to locate it. Already by the early 20th century, the majority of great fortunes took the form of financial

assets, rather than direct ownership of businesses. We can find contemporary observers like Veblen describing "sabotage" of productive enterprises by finance in terms very similar to the ones that someone like Michael Hudson uses today (Veblen 1963).

But this was not a one-way or uniform transition.

In the 1930s, Keynes famously described American capital development as a byproduct of a casino, again in terms similar to Hudson's. An important part of the argument of *The General Theory* is that stock markets have a decisive influence on real investment decisions (Crotty 1990). But in retrospect, it's clear that at that moment the trend was in the opposite direction. The influence of financial markets on corporate managers reached its low point a generation or so after Keynes wrote.

What we see historically is an oscillation, a back and forth or push and pull, rather than a well-defined before and after. And moves in one direction in one place can coexist with or even reinforce moves the other way elsewhere. For example, Hudson—following Marx—points to the fight to overturn the corn laws as an example of the progressive side of industrial capital. But we should add that the flip side of Britain specializing in industry within the global division of labor was that other places came to specialize more in primary production, with a concomitant increase in the power of landlords and reliance on bound labor. Something we should all have learned from the new historians of capitalism is how intimately linked were the development of wage labor and industry in Britain and the US North with the development of slavery and cotton production in the US South (Beckert 2015). In this case as in others, much of what Hudson calls financial capitalism has developed alongside, and complementary to, industrial capitalism. In the present context, it can be argued that much of what appears as financialization today reflects the

fact that looking at the US in isolation we see only part of a global value chain (Bhattacharya and Seda-Irizarry 2017).

Turning to the present, then, it is true, as Hudson says, that in recent decades the holders of financial assets have reasserted their claims against productive enterprises in the US and elsewhere. But I do not think this can be usefully described as a "relapse back toward feudalism and debt peonage." A creditor or feudal overlord stands outside the production process. Peasants and debt peons have direct access to means of production, but are forced to hand over part of the product. Capitalists by contrast get their authority and claim on surplus from control over the production process itself, today as much as when Marx wrote.

There is a widespread view that gains from ownership of financial assets have displaced profits from production even for many nonfinancial corporations, and that household debt service is a form of exploitation that now rivals the workplace as a source of surplus, as households are forced to take on more debt to meet their subsistence needs. But these claims are mistaken—they confuse the temporary rise in interest rates after 1980 for a deeper structural shift. As Joel Rabinovich has convincingly shown, the increased financial holdings of nonfinancial corporations mostly represent goodwill from mergers and stakes in subsidiaries, not financial assets in the usual sense, while the apparent rise in their financial income in the 1980s is explained by the higher interest on their cash holdings (Rabinovich 2019). With respect to household debt, it continues to overwhelmingly finance home ownership, not consumption; is concentrated in the upper part of the income distribution; and rose as a result of the high interest rates after 1980, not any increase in household borrowing (Mason 2018). With the more recent decline in interest rates, much of this supposed financialization has reversed. Contrary to

Hudson's picture of an ever-rising share of income going to debt service, interest payments in the US now total about 17 percent of GDP, the same as in 1975.

Looking at the Forbes 400 list of richest Americans, it is striking how rare generalized financial wealth is, as opposed to claims on particular firms. Jeff Bezos (#1), Bill Gates (#2), and Mark Zuckerberg (#3) all gained their wealth through control over newly created production processes, not via financial claims on existing ones. Indeed, of the top 20 names on the list, all but one are founders and active managers of non-financial companies or their immediate families.

Companies like Walmart and Google and Amazon are clearly examples of industrial capitalism, relentlessly seeking to push down costs of production. Cheap consumer goods at Walmart lower the costs of subsistence for workers today just as cheap imported food did for British workers in the 19th century.

This is in no way to defend Amazon and Walmart, though we shouldn't deny that their logistical systems are genuine technological accomplishments that a socialist society could build on (Leigh and Rozworski 2019). The point is just that the greatest concentrations of wealth today still arise from the competition to sell commodities at lower prices.

Finally, I have some concerns about the political implications of this analysis. If we take Hudson's story seriously, we may see a political divide between industrial capital and finance capital, and the possibility of a popular movement seeking alliance with the former. But while finance is a distinct social actor, I do not think it is useful to think of it as a distinct type of capital, one that is antagonistic to productive capital. As I have written elsewhere, the financial

sector as a distinct institution is better seen as a "weapon by which the claims of wealth holders are asserted against the rest of society" (Mason, Jayadev, and Schröder 2018).

Even if feasible, I am not sure this kind of program does much to support a more transformative political project. Hudson quotes Simon Patten's turn-of-the-last-century description of public services like education as a "fourth factor of production" that are necessary to boost industrial competitiveness, with the implication that similar arguments might be successful today. As a public university teacher, I reject the idea that my job is to raise the productive capacity of workers, or reduce the overhead costs of American capital. Nor do I think we will be successful in defending education and other public goods from defunding and austerity on those grounds.

More broadly, the focus on monopolies and rents suggests that what is wanted is more vigorous market competition. It is a strikingly Proudhonian position to say that the injustice and waste of existing capitalism stem from the failure of prices to track costs of production. Surely from a Marxist perspective it is precisely the pressure to compete on the basis of lower costs that is the source of that injustice and waste.

There is a great deal that is interesting and insightful in this paper, as there always is in Michael Hudson's work. But I remain unconvinced that financial and industrial capitalism can be usefully thought of as two opposed systems, or that we can tell a meaningful historical story about a transition between them. Industry and finance should be thought of as two moments in the larger circuit of capital.

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