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Ricardo was surely right: the abundance of "easy" rents leads to greedy and lazy elites.

A "Post-Ricardian" critique of rentier-capitalism (and its "non-creative" destruction).

A tribute to Geoff Harcourt

José Gabriel
Palma

Abstract

Paul Krugman once said that two of the greatest analytical challenges of economic theory today (comparable to those faced by Keynes in the 1930s) were the huge deterioration of market inequality in high-income countries, and Latin America's underperformance. The main aim of this paper is to tackle simultaneously both challenges, while adding a third: the post-1980 underperformance of advanced Western economies. This article tries to answer these three puzzles returning to the classics, especially Ricardo. For him, the original sin of capitalism is that it will always have rentiers lurking around in search of "easy" rents; and that under certain conditions, in a laissez-faire economy they are bound to get the upper hand. If so, they would transform capitalism into a self-destructing rentier paradise. In other words, what has happened in the West (North and South of the Equator) since their 1980s neo-liberal reforms are basically facets of one and the same phenomenon: the inequality augmenting, investment weakening and productivity-growth retarding impact of a specific type of rentier-based accumulation. And the key link between them is the negative impact that a rentier-based increased in inequality can have on investment. If so, Krugman's puzzle would not really be much of a mystery after all! So, perhaps what's needed now is to develop a "post"-Ricardian perspective, where the "post" is about devising mechanisms that could "compel" rentiers to use their rents productively —something unthinkable in Ricardo's time! Otherwise, the current process of "rentierisation" —of which financialisation is just one (although leading) aspect— is bound to continue being as toxic for inequality, investment and productivity growth as for our democracy.

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Ricardo was surely right: the abundance of “easy” rents leads to greedy and lazy elites. A “Post-Ricardian” critique of rentier-capitalism (and its “non-creative” destruction). A tribute to Geoff Harcourt

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[Rentier’s interests] are always opposed to
the interest of every other class in the community.
David Ricardo

[Rentier’s] right has its origin in robbery.
Landlords …love to reap where they never sowed,
and demand a rent even for the natural produce of the earth.
Adam Smith

At particular times, a great many stupid people
have a great deal of stupid money.
First editor-in-chief of The Economist

Of all forms of tyranny the least attractive
and the most vulgar is the tyranny
of mere wealth, the tyranny of plutocracy.
Theodore Roosevelt

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Introduction

Paul Krugman, when commemorating in Cambridge the 75th anniversary of Keynes' General Theory, said that two of the greatest analytical challenges of economic theory today —comparable to those faced by Keynes in the 1930s— were the huge increase of inequality in high-income countries, and Latin America's underperformance.[2] The main aim of this paper is to tackle both challenges, while adding a third: Latin America is not alone in terms of underperformance, as advanced Western economies have not only become more unequal since their 1980s neo-liberal reforms, but they have also underperformed since then, and significantly!

If the US today had its current level of GDP, but with the share of income of the top 1% having remained stable since 1980 (when Reagan was elected), this small group would earn today almost 2 *trillion dollars less than they currently do*.[3] In turn, for the other 99%, of course, it would be the other way round. But this almost 2 trillion dollars gift for the top 1% due to increase inequality is just one side of a post-1980 toxic coin; the other being that if the share of investment in GDP had also remained stable since 1980, overall investment would now actually be about US$1 trillion *above its current level.*[4]

Instead, on average, an amount not that dissimilar from this *'missing' investment trillion* has been spent annually in stock buybacks by corporations in the S&P 1500 since the 2008 financial crisis.[5]

In other words, while simply thanks to increased inequality the top 1% in the US now earns annually *an "extra" amount about the size of Korea's entire GDP* (or more than Brazil's), the level of investment *is below* than what it would be otherwise as a share of GDP *by an amount similar to the combined GDP of Sweden and Norway*. A true rentier's paradise.

To state the obvious, sustainable growth comes from enriching the productivity ecosystem as a whole, not the flow of income to a few individuals. It really never ceases to amaze me how little of the deluge of extra income appropriated by the rentier-elite in the high-income OECD is now diverted to do something socially useful on the production side. In Latin America, instead, this "inequality-investment" asymmetry is a local tradition.

The same asymmetry takes place if one looks at it from the point of view of wealth: if in the US this distribution had also remained as it was in 1980, the top 1% would today have only about half its wealth —and the top 0.1% a third, and the top 0.01% just a fifth.[6] That is, had the share of household wealth remained stable since 1980, *the top 1% would own today about 20 trillion dollars less than they currently do* (and, again, for the other 99% it would be the other way round). And this "extra" amount —this gift for the top 1% due to increase inequality— is larger than *the total wealth* of Germany, United Kingdom or France, and one much larger that the combined total for Latin America and Africa put together.

Even so, in the US investment languishes and productivity-growth (as in Western Europe) fades away. This toxic trilogy of a rentier-led increase in 'market' inequality,

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[2] Krugman (2011).

[3] Saez and Zucman (2020a). For different estimates of income and wealth-inequality, see Saez and Zucman (2020b).

[4] Share of investment in GDP when Reagan was elected (1979) vs. its (harmonic) mean post-2008. WDI (2022). For the same inequality-investment 'asymmetry' in Western European countries, see Tables 1 and 2 below.

[5] https://www.spglobal.com/spdji/en/indices/equity/sp-composite-1500/#data. Stock buybacks in 2022 dollars. As a Reuters Report remarks, stock buybacks are especially useful "to enrich the bosses …when business sags" (https://www.reuters.com/investigates/special-report/usa-buybacks-pay/). Buyback data may include payments for preferred shares.

[6] Saez and Zucman (2016), and (2020a).

declining investment rates and collapsing productivity-growth is the crux of the matter in solving Krugman's puzzles.[7] But Ricardo had already said as much.

The key proposition of this paper is that Krugman's analytical challenges *are facets of one and the same phenomenon*: a rentier-based accumulation becoming hegemonic in the West (North and South of the Equator) and then leading simultaneously to the above mentioned sequential trilogy. In turn, its basic dynamics follows a fundamental logic that resembles Ricardo's analysis of the interrelationship between distribution and growth.[8]

All things considered, Ricardo's key contribution in this area is to show how the fate of a capitalist economy crucially hangs on the difficult coexistence of rentiers and capitalists. And one of his greatest early insights was that in a laissez-faire economy rentiers could easily trigger an 'inequality-augmenting and growth-retarding' dynamic —unless international trade and technological change gave capitalists a helping hand by revitalising profits.

Basically, the original sin of capitalism was that it will always have rentiers lurking around in search of "easy" rents; and that the invisible hand (so to speak) *would have no capacity* —even in competitive markets— *to "compel" them to use their rents productively* (as it would vis-à-vis capitalists' profits).

Furthermore, as from a social point of view rents are just a mere transfer payment towards rentiers, at least as far as "non-produced" assets are concerned these transfers are basically a waste of resources, as they are "…unnecessary to call forth the (fixed quantity) of [their] productive services".[9]

In turn, as capitalists are the only ones who save and invest (their future flow of income, as opposed to that of rentiers, depends on them doing so —and efficiently), a larger share of the surplus for rentiers would squeeze operating profits, and with it investment and productivity-growth. And this was exactly what was likely to happen, because for Ricardo (under certain conditions and at a given state of knowledge and natural environment) in a laissez-faire economy rentiers were bound to get the upper hand, and then aim at that —e.g., placing an import tariff on grain imports, which would *only* benefit landlords at the expense of everybody else, including "…the profits of manufacturers and the welfare of consumers".[10]

In other words, the toxic influence of rentiers could deprive capitalism of its inbuilt capacity to boost productivity-growth, even lead it (as in Ricardo's model) towards a self-destructing "stationary state" —one that has more than a passing resemblance to the current Western scenario and its own version of the Ricardian trilogy. Thus, rentiers could well become the kings of the jungle, but in this gloomy scenario they were destined to end up living from a stagnant or even shrinking pie —as in this "stationary state":

> …[T]he very low rate of profits will have arrested all accumulation, and almost the whole produce of the country, after paying the labourers, will be the property of the owners of land and the receivers of tithes and taxes.[11]

From this Ricardian perspective, the key growth-retarding feature of rents went beyond them being "unearned" income —or even 'robbery' (as in Smith): it was all about what rentiers did with their income afterwards!

The bottom line is that in Ricardo's world there was no invisible hand translating rentiers' private self-interests into social benefits:

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[7] 'Market' inequality is that before taxes and transferences.

[8] Ricardo (1815) and (1817).

[9] Stigler (1952, p.17). "Non-produced" (non-financial) assets can be tangible (e.g. natural resources), or intangible (e.g., patents, leases and licenses; see Section 5.1 below).

[10] Ricardo (1815). For him, as the return on capital in agriculture has its own logic and dynamic, it would also influence the rate of return in other industries via capital movement across sectors (Ricardo, 1951, pp 23-4).

[11] Ricardo (1817, p. 120-21).

> …[T]he interest of the landlord is always opposed to the interest of every other class in the community. I shall greatly regret that considerations for any particular class, are allowed to check the progress of the wealth and population of the country.[12]

Therefore, and not surprisingly, for Ricardo the main problem with economic theory at his time [with the partial exception of Malthus] was that

> Adam Smith, and the other able writers to whom I have alluded [Turgot, Stuart, Say and Sismondi], not having viewed correctly the principles of rent, have, it appears to me, overlooked many important truths, which can only be discovered after the subject of rent is thoroughly understood. (Ricardo, 1817).

Among these 'truths', none more so than the one already mentioned above: markets, even competitive ones, have little capacity "to compel" owners of "non-produced" rent-bearing assets to use their rents productively —in fact, the same is the case with owners of financial assets. Greedy and lay-back rentiers were then not only bound to lack "animal spirits", but were also likely to be hoarders rather than movers and shakers of new economic activities.

This sets Ricardo apart from the more "optimistic" narrative of other classical economists, from Smith to Marx (as well as that of more contemporary ones, such as Schumpeter), for whom in a *laissez-faire scenario —and the more unregulated, the better—* capitalists will always have (one way or another) the capacity to develop the productive forces of a society *in a systematic way*.

Not for Ricardo: if rentiers take the upper hand this can easily lead to an "inequality-augmenting, investment-weakening, and productivity-growth-retarding" scenario —I shall call this Ricardian trilogy the "inequality-underperformance" rentier-syndrome for short. And the key dynamic in this interaction is the negative impact that a rentier-led increase in 'market' inequality was bound to have on investment. One of this paper's main hypotheses is that any similarity of all this to the current Western scenario is not purely coincidental.

But, as stated, for Ricardo there was hope as the cavalry could come to the rescue in the form of technological change and international trade —as they could revitalise profits (and so investment and productivity-growth on the way). Therefore, from a Ricardian perspective the only real puzzle in Krugman's analytical challenges is why we are now experiencing a post-modern twist: in the current rentier's paradise, the West is moving towards a Ricardian gloomy "stationary state" scenario *despite their helping hand*.[13]

My take on this is that perhaps Ricardo should have emphasised a bit more forcefully that those two favourable conditions, which could save capitalism from its own rentier self-destructiveness, were not *sufficient* conditions to help profits keep up with rents. In the real world, they could only generate *market opportunities* to revitalise profits —and investment and productivity-growth on the way—, *but these need to be taken up*.

However, as the invisible hand (if it exists) has clearly no capacity to help in this area (especially in markets as distorted as the current ones), what's needed is a visible one (policy) creating alternative forms of "compulsion" for these opportunities to be taken up. The Bretton Woods arrangements, and the diversity of routes followed by emerging Asian countries in this respect comes to mind (for the latter see Section 6.2. and Appendix 2 below). Regarding the former, let's not forget that in the US *growth was evenly distributed* between 1946 and 1980, with all income groups growing at the same 2% average annual rate —except the top 1%, *which grew slower*![14] And, at the same time, in the advanced West investment rates and productivity–growth were significantly higher then than after 1980 (see Part 1 below).

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[12] Ricardo (1815, p.

[13] Although, as a share of World GDP, international trade has been going in reverse since the 2008 global financial crisis); see https://www.bis.org/speeches/230216_shin.pdf

[14] Saez and Zucman (2020a).

But the neo-liberal reforms turned this post-war Bretton-Woods growth-enhancing trilogy up-side down. In fact, one of this paper's main hypotheses is that in Western economies their key feature was to change (in a very specific direction) *the particular political and institutional conditions under which the competition over rents took place*. So, rents that are now favoured, *even encouraged*, are not only those that normally end up being used mostly unproductively, but also those related to technical change and international trade have been distorted in this direction.

And this could only happen with the help of a purposely built institutional setting (often including Buchanan-style constitutional limits to change), and a powerful new hegemonic ideology —as the surprisingly *little degree of contestation* over *rentiers' rights to their assets* (no matter what) indicates. This lack of contestation is one of the key ideological transformations brought about by neo-liberalism since it became an all-powerful hegemonic ideology: all the way over to the "new" left, the rights over those assets became sacrosanct. Contestation (no matter what) became synonymous with *a return to a failed past*.

A by-product of this lack of contestation is that in the West (North and South) the costs associated with acquiring, securing or exchanging rights over "non-produced" and financial assets (their rent-seeking "inputs") have become surprisingly small relative to the stakes involved —i.e., their rent-seeking "outcomes". Preferential access to grossly under-priced privatisations, especially in the "Anglo-Iberian" World, are an extreme example of this.

Thus, following Ricardo's logic, I would argue that what has basically happened in the West (North and South) since the beginning of its neo-liberal reforms is that unproductive rentiers (especially those that own financial and "non-produced" rent-bearing assets) have gained the "whip hand", and have built an economy and a political settlement —even an ideology— after their own image. And they have been so successful that not even progressive forces have been able to do their revitalising job. The resulting process of "rentierisation" —of which financialisation is just one (although leading) aspect— is now proving to be as toxic for inequality, investment and productivity-growth *as it is for our democracy*.[15]

Keynes (1919) did refer to the latter issue when he made a contrast between Germany and the US (the late 19th Century's "emerging economies") and "mature" Britain during the (investment-intensive) Third Technological Revolution ─that of steel, electricity and heavy engineering'.[16]

> The new rich …[from those "emerging" countries] preferred the power which investment gave them to the pleasures of immediate consumption. …Herein lay, in fact, the main justification of the capitalist system. If the rich had spent their new wealth on their own enjoyments, the world would long ago have found such a régime intolerable.

Intolerable indeed. But now, even then, there is little or no contestation! I also wonder if Karl Popper would now add to his list of "enemies of the open society" the new breed of all-powerful and despotic rentiers —and their rentier-style obstacle to progress.[17] Or (using his terminology), if he would now call the current rentier-dominated capitalism a new form of "totalitarianism" —due to its 'questionable means' and 'arbitrary power'. Surely he would also declare that the current hegemonic neoliberal ideology, with its naïve idealisation of "rentierism", has become immune from being "falsified" by criticism; and because of its

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[15] By "financialisation" I understand the combined effect of the growing size and dominance of the financial sector relative to the non-financial sector, and the diversification towards financial activities in non-financial corporations.

[16] Pérez (2002).

[17] For Popper's 'Open Society and its Enemies', see: https://archive.org/stream/TheOpenSocietyAndItsEnemiesPopperKarlSir/The+Open+Society+and+Its+Enemies+-+Popper%2C+Karl+Sir_djvu.txt

fundamentalist view of the virtues of *laissez-faire*, he would now agree that this ideology has become just a new form of "primitive myth".

When Keynes said that we have to save capitalism from capitalists, he surely had those bent on living on "easy" rents especially in mind —in fact, when at the end of the General Theory he writes about the "euthanasia of the rentier", he points in this direction.

In sum, following the spirit of Ricardo analysis of the laws that determine the distribution of income between rentiers, capitalists and labour (what he called "the principal problem in Political Economy"), including the 'parasite' nature of rentiers and the close interrelationship between distribution, investment and growth, this paper tries to unravel Krugman's puzzles. And my contention is that from this perspective, the trilogy at the basis of Krugman's post-1980 "inequality-underperformance" syndrome of Western rentier-capitalism ceases to be much of a mystery after all —except for the issue of why neither technological change nor international trade have been able to do their job (and pull Western rentier-capitalism back from its self-destructive drive towards "non-creative" destruction).

In fact, such was the rentiers' success in this endeavour that the in the new scenario they could even twist them into becoming a new rent-making machine —while their growth-enhancing powers emerge somewhere else in the World (in emerging Asia).[18]

So, perhaps what's needed now is to develop a "post"-Ricardian perspective, where the "post" is about devising mechanisms that could "compel" rentiers to take up those progressive opportunities provided by trade and technological change —something unthinkable in Ricardo's time! Furthermore, there is also the need to provide a roadmap in order to help shift resource allocation towards activities with higher long-term potentials for productivity-growth —as another market failure is that the 'invisible hand' is at best only good at helping with "more of the same" —which is surely not what is needed in the current scenario! The real challenge for this "post"-Ricardian approach is how to turn the 'inequality-augmenting and growth-retarding' rentier-trilogy back into a 'inequality-reducing and growth-enhancing' one.

All this has direct relevance to the current debates in the advanced West regarding the return of industrial policies as well.[19] If a 2 trillion dollars a year gift to the top 1% in the US has had as a response a drop of a trillion dollars in investment, why transferring even more resources to them —via "incentivising" markets for re-industrialisation— expecting different results? In the current scenario, should one 'incentivise' or 'forced' markets to change course? This is the essence of the "post"-Ricardian dilemma. The lesson from Bretton Woods and emerging Asia is that the latter is the way forward —i.e., to generate market "compulsions" for this to happen. That is, should the US give yet another trillion to the top 1% and hope for a different result, or should it finally start given some *conditionalities* to the top 1% for the productive use of what they have already been gifted? That's the real question.

What is really happening is that the rise of emerging Asia, and in particular China, is becoming a real existential threat to Western hegemony. In the case of the US, for example, this is especially true in the area of artificial intelligence (AI) weaponry —as it is becoming a crucial component of the arms race. As a report of the US National Security Commission on Artificial Intelligence recently acknowledge, China could soon replace the US as the world's "AI superpower".[20] As rentier-capitalism seems to be showing all the signs of becoming the

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[18] On how mainstream economics have reacted to this, see Appendix 1.

[19] Even the IMF is now rethinking its position on industrial policy; see https://www.imf.org/en/Publications/WP/Issues/2019/03/26/The-Return-of-the-Policy-That-Shall-Not-Be-Named-Principles-of-Industrial-Policy-46710. For a more critical view, see https://www.phenomenalworld.org/analysis/neomercantilism/

[20] https://www.nscai.gov/wp-content/uploads/2021/03/Full-Report-Digital-1.pdf. On the existential implications of handing over control to superintelligent systems, see Žižek (2023).

"geriatric stage" of Western capitalism, it seems that at least some in the US establishment are beginning to get the point![21]

However, since what Washington and Brussels really want is to regain their geopolitical and military advantage vis-à-vis China, would the return of industrial policy to help them achieve this really facilitate the re-industrialisation of emerging countries, such as Latin America? Also, China's growing influence in Latin America points in a different direction: their bilateral trade (exports plus imports) jumped from US$12bn in 2000 to half a trillion in 2022, making China South America's biggest trading partner.[22] In turn, most Latin American countries have joined China's Belt and Road infrastructure initiative, and China has also lent almost US$140bn to Latin American governments and state companies since 2005. But all that is to help reinforce Latin America's 'extractivist' model, as China is the country that benefits most from it.

In other words, if what the advanced West is really interested is in industries with a military edge, such as AI and quantum computers and its parts —e.g., the subsidies given by the US to Taiwan's TSMC to switch semi-conductor and chip's productive capacities to the US—, would it make it easier for Latin America to device industrial policies to finally start processing their commodities? After all, not only China's growing influence, but also so-called 'trade' treaties, such as the TPP-11, actually point in the exact opposite direction (see below). These are open questions, but the current excitement in some progressive circles regarding the return of 'incentivising' industrial policy in the advanced West seems at least premature.

PART 1: Krugman's analytical challenges

1).- The Western "inequality-investment" asymmetry (a "reverse" catching-up?)

1.1).- The US

As stated, the Ricardian logic behind this asymmetry between the inequality-gift for the top 1% of an annual "extra Korea", coupled with lower investment of a Sweden and Norway dimension is the core of my answer to Krugman's analytical challenges. Figure 1 shows how in a "rentierised" economy, an increase in inequality since the election of Reagan has proved to be as much a twin of under-investment as the law of gravity is of the apple.

The metrics used in this figure is *non-residential* private investment as a proportion of the income-share of the top 1% (which could be considered a proxy for how productive is the use of income at the top). That is, between those components of investment that actually create productive capacities (i.e., private investment in capital equipment and non-residential structures), and the income-share of the top 1%.

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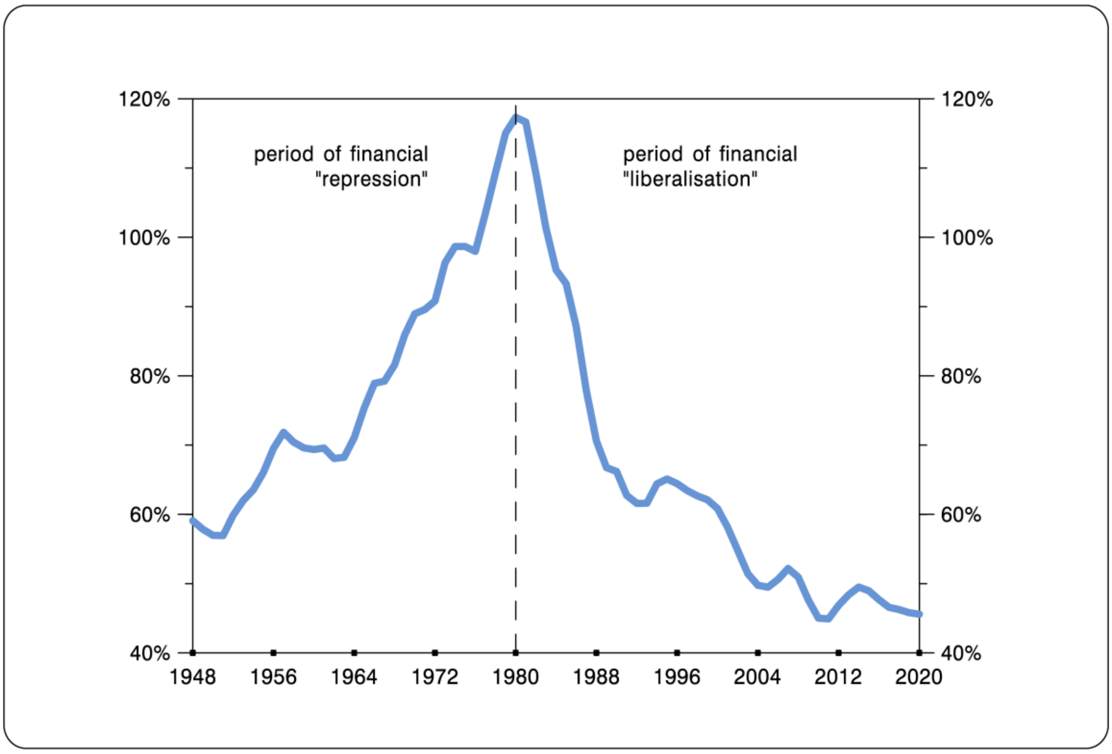
21 https://www.whitehouse.gov/briefing-room/speeches-remarks/2023/04/27/remarks-by-national-security-advisor-jake-sullivan-on-renewing-american-economic-leadership-at-the-brookings-institution/

22 WEO (2022).

FIGURE 1

US: the share of non-residential private investment in GDP as a proportion of the income-share of the top 1%, 1948-2020



● Non-residential private investment includes capital equipment and non-residential structures. 3-year moving averages.

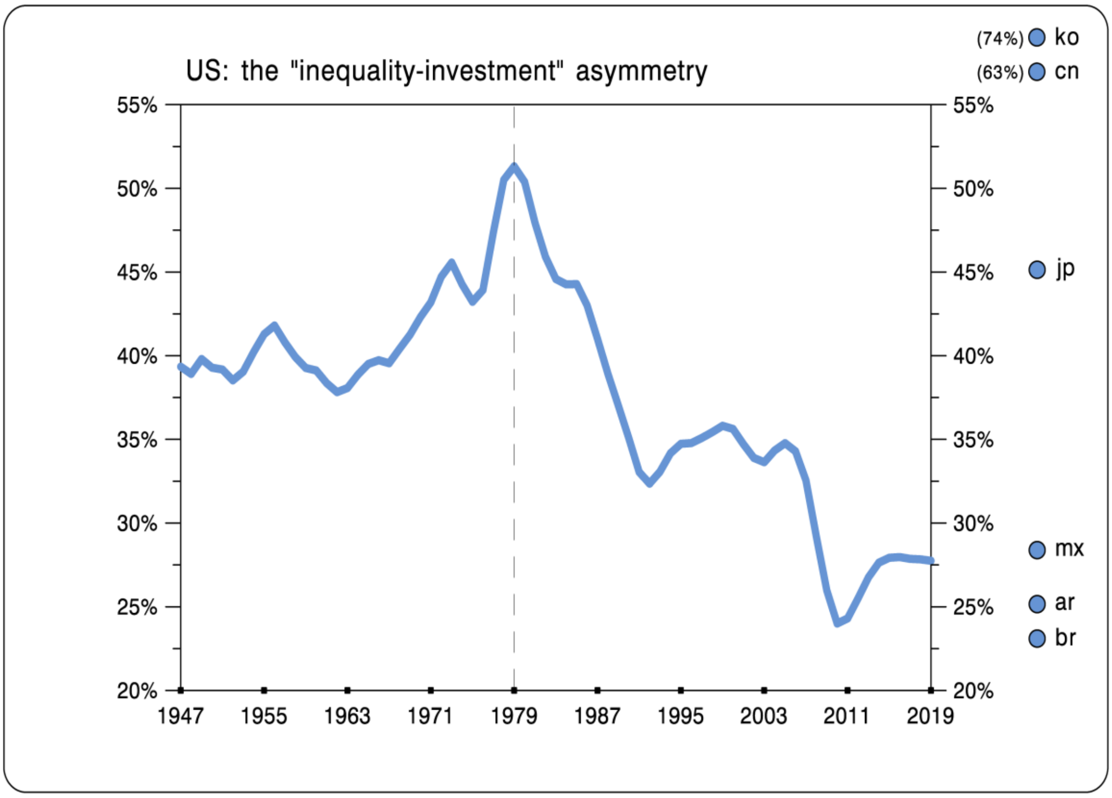
● *Sources*: Private investment and GDP from BEA (2022); income shares from WID (2022).

What happened in relative terms to non-residential private investment in the US after the 1980s neo-liberal reforms resembles the downhill part of a vertical loop in a roller coaster. In fact, since the early 2000s it has hardly reached its level of depreciation (as measured in the national accounts) —and at times, it actually became negative in "net" terms.

Figure 2, in turn, illustrates the same asymmetry, but this time between overall private investment (equipment, structures and residential investment) and the income-share of the top 10%. At the same time, at the right-hand edge, this figure indicates this ratio for some other countries in 2019.

FIGURE 2

US: how Latin America points towards the shape of things to come in a "rentierised" World. Private investment as a share of GDP as a proportion of the share of income of the top 10%, 1947-2019



● The acronyms for countries in this and the following figures are those of their internet domains. Private investment includes equipment, structures and residential investment. 3-year moving averages.

● *Sources*: Private investment and GDP from BEA (2022); income shares from WID (2022).[23]

When Reagan was elected, overall private investment in the US was roughly equivalent to half the income-share of the top 10%; however, this ratio has now fallen by about half —*to a level characteristic of Latin American countries*.[24] It is remarkable to see how neo-liberal reforms triggered the advanced West to embark upon a process of what I have called "reverse catching-up" with the tropics.[25] And, unsurprisingly, this downward-convergence has come hand in hand with a remarkably poor productivity performance (see next section).

It is remarkable to see how neo-liberal reforms triggered the high-income OECD into embarking upon this process of "identification" (so to speak) with some features characteristic of highly unequal middle-income countries. It seems that Latin America was not really such an "aberration" after all; perhaps, as Figure 2 indicates, it was just a forewarning of the shape of things to come in a "rentierised" world!

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[23] Unless otherwise stated, data in this paper will be shown only until 2019 due to the Covid-19 pandemic.

[24] It's been argued (e.g., Durand, 2000) that in today's world one needs to have a global rather than a country perspective, as elites (both in advanced and emerging countries) also invest abroad. They certainly do, but their global income is also highly underreported in national statistics. So, the Western "inequality-investment" asymmetry is likely to take place whether one looks at it at global or at national level.

[25] See Palma (2010), (2019b), and (2022b).

As is well known, one key Washington Consensus promise was that if their package of policies and structural transformations were implemented, what would follow for developing and emerging economies would be a process of "catching-up" with the production frontier. If everyone 'behaved', there would be a process of "upwards" global convergence. And this convergence would occur not only in levels of productivity, but also in institutions, in inequality and so on.

Market deregulation with financial liberalisation and "subsidiary" (or, rather emasculated) States, globalisation and financialisation did indeed achieve a process of convergence across the world —but in the opposite direction! Instead of encouraging Latin America to 'Europeanise', it led the high-income OECD to "bananise"; i.e., to resemble countries where mobile rentier-elites feel that they have a God-given right to the whole surplus —and to use it mainly for their own enjoyment.

In the preface to the first volume of Capital, Marx claimed that "The country that is more developed industrially shows to the less developed the image of its own future." For him, therefore, albeit for different reasons, the direction of the convergence would be of the kind also predicted by the Washington Consensus. However, "rentierisation" seems to have done the opposite: it led the advanced West towards acquiring some features characteristic of some highly unequal middle-income countries, such as mobile élites creaming off the rewards of economic growth, and of 'magic realist' politics that although lacking any self-respect, do at least have plenty of originality.[26]

I never thought I'd live to see the US being led, as it was until recently, by a president who only lacks dark glasses to look like the leader of some banana republic. No wonder Pope Francis has called this type of unfettered markets the "dung of the devil".[27]

1.2).- Germany's Ricardian rentier-trilogy

Another paradigmatic example of this Western process of "reverse catching-up" with Latin America's-style rentier-capitalism is found in Germany. As Figure 3 shows, this country first embarked on a relentless (market) inequalising drive since its neo-liberal reforms, which took it to Latin American levels of inequality (and beyond).[28] And then, Figure 4, (and unsurprisingly) that it now has little to show *productively* for this inequalising drive —as the collapse of its investment rate and productivity-growth shown in this figure indicates.

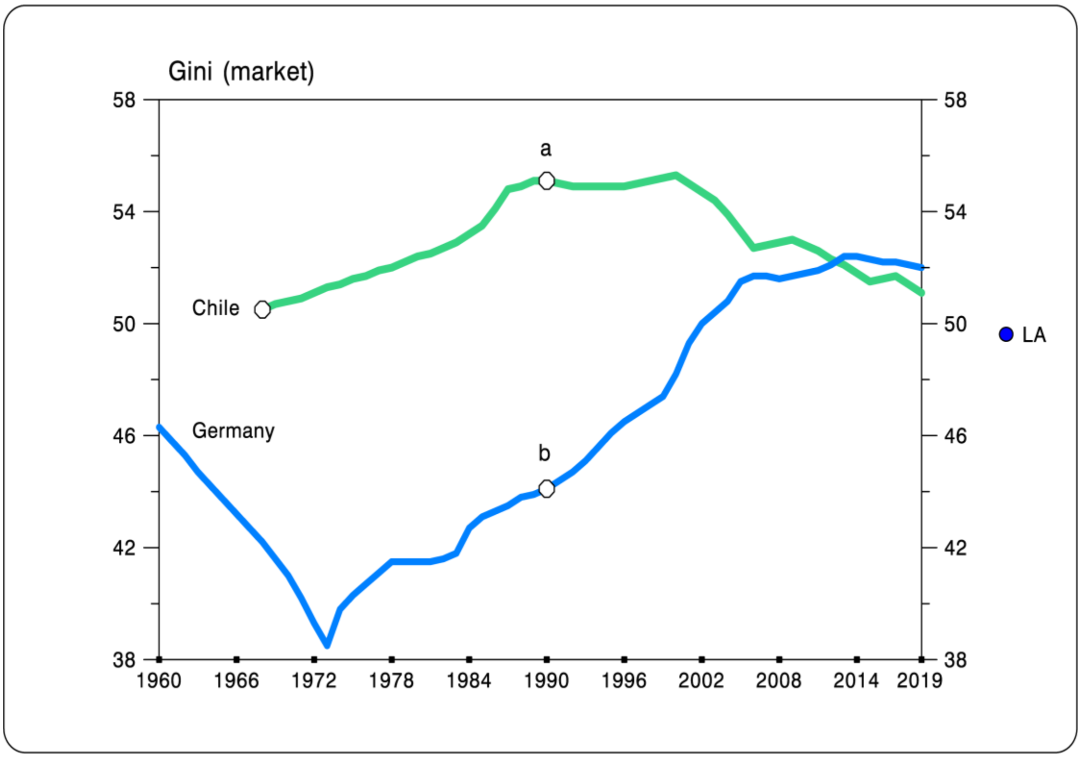
[26] For further analysis, see Palma (2019a), and (2020c).

[27] Quoted in https://www.ft.com/content/645ab1f0-59fb-11e8-b8b2-d6ceb45fa9d0; see also https://press.vatican.va/content/salastampa/en/bollettino/pubblico/2018/05/17/180517a.html

[28] Unfortunately, Solt's database only provides information in terms of Gini, giving no data on income-shares by deciles; it is not possible, therefore, to use the new methodologies developed in Palma (2011) and (2019a) to measure market-inequality —especially the "Palma ratio". In this paper all average of ratios are harmonic means.

FIGURE 3

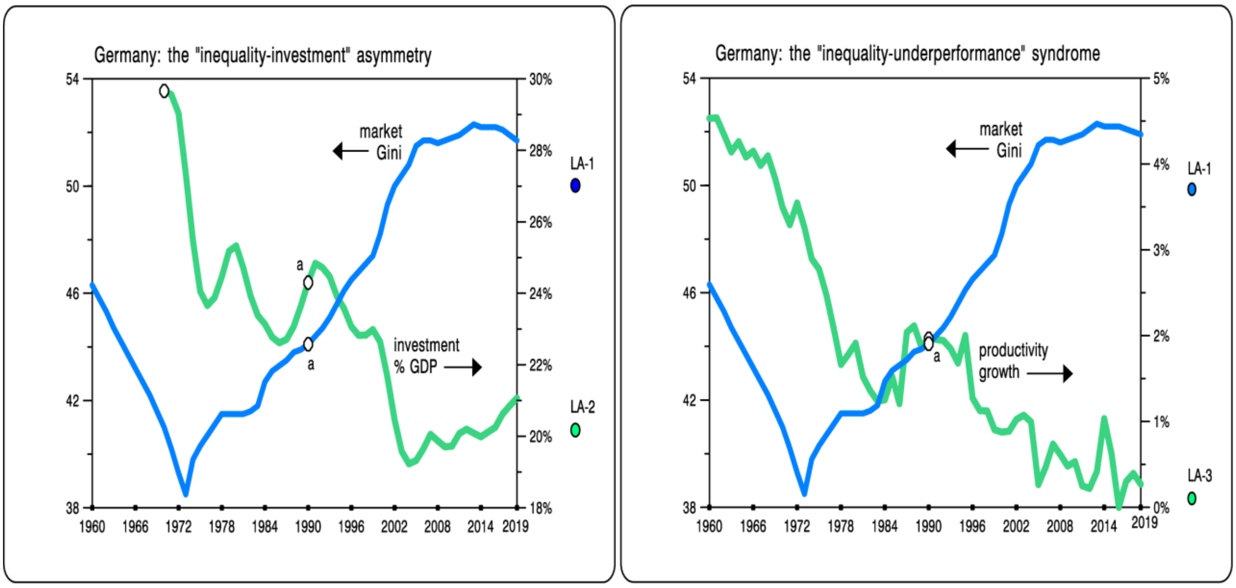
Germany: "reverse catching-up" with Latin America's inequality, 1960-2019



● **LA**= (harmonic) mean of Latin America's market-Gini in 2019 (6 major economies); **a**=Chile's return to democracy; and **b**=German reunification. Source: Solt (2022).

FIGURE 4

Germany: market inequality, share of investment in GDP, and productivity-growth, 1960-2019



● **LA-1**=Latin America's market Gini in 2019 (6 major economies); **LA-2**=investment as a share of GDP (1980-2019); **LA-3**=productivity-growth (1980-2019); and **a**=German reunification. Investment is shown in a 3-year moving average; and productivity-growth in a 5-year one.

● Sources: Solt (2022), WDI (2022), and TED (2022).

What's most remarkable is that Germany's collapse of productivity-growth took place in the middle of a great technological revolution —that of the age of information technology and telecommunications. And instead of taken full advantage of it, Germany's complacency —and that of other Western European countries (see Tables 1 and 2 below)— meant that they are now falling behind in the technological race. As an associate editor of the Financial Times (FT) explains:

> Germany once saw China as an export market for machinery with which China would develop its industrial base. Today, China is becoming the senior partner in the relationship. [Germany's] biggest problem is falling behind in the technological race. …[This] is symptomatic of a fundamental European problem. …[Now there] are signs that complacency is about to turn into panic.[29]

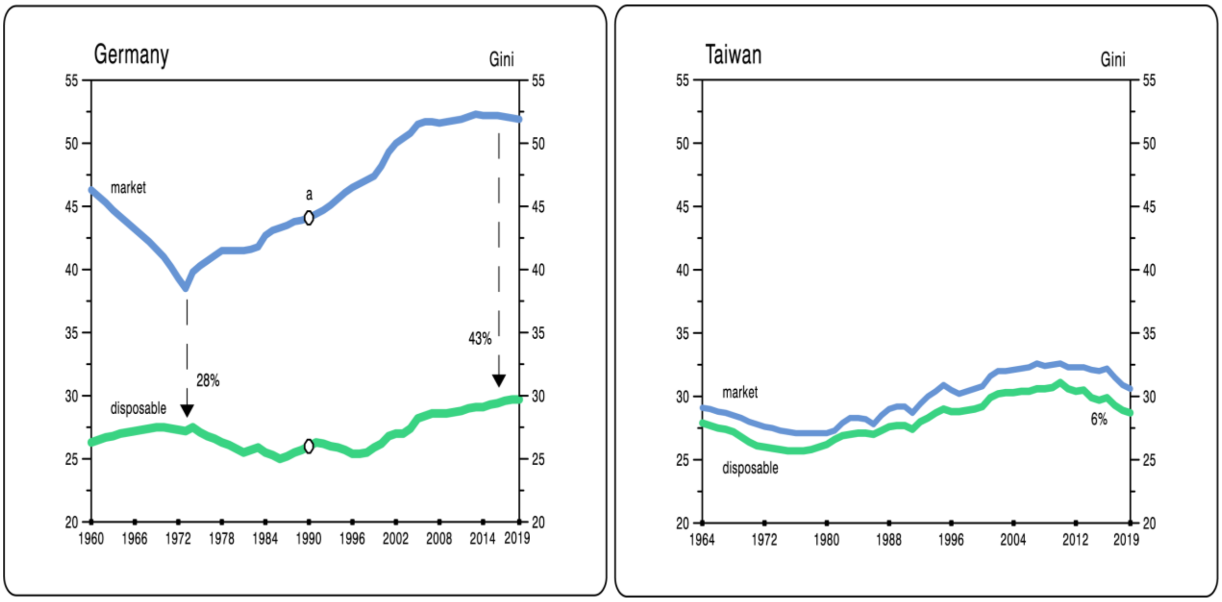
Panic indeed! Many things, of course, have been happening in the Western world since 1980 other than neo-liberal economic reform. But no matter how one looks at it, what followed had that gloomy rentier-fate. And this *self-built* Western rentier-trilogy it's leading to some geo-political tectonic shifts in the balance of world power.

Furthermore, this rentier-trilogy has often been followed by noxious politics, as often Western élites could only aim at something resembling their 'preferred' distributional strategy and laid-back rentier existence if they allied themselves with ancillary causes —culture wars, racism, misogyny, nativism, xenophobia, nationalism, or simply with organised crime.

And, of course, there was *nothing* 'inevitable' about this Western inequalising drive; in a world of *multiple equilibria*, Germany's rising market-inequality *was just its choice*![30] The same can be said for its low share of investment in GDP, and stagnant productivity-growth. No one forced Germany to embark on this route. As Figure 5 indicates, other countries such as Taiwan (and Korea, Slovenia, Croatia, Slovakia, and a few other countries) instead, just made a different distributional choice.

FIGURE 5

Germany and Taiwan: market vs. disposable income inequality, 1960-2019



[29] www.ft.com/content/19fd8544-3c2f-11e9-b856-5404d3811663. See also https://newleftreview.org/sidecar/posts/hollow-states?pc=1515

[30] On how inequality is just a choice, see Stiglitz (2012); and Palma (2011) and (2019a). Among Latin American countries, other than Brazil, now only Haiti has a higher market-inequality than Germany (Solt, 2022).

● **market**=‘market’ inequality; and **disposable**=disposable income inequality (i.e., after taxes and transferences). **a**=German reunification. Percentages indicate the relative reduction of the market Gini due to taxes and transferences.

● Source: Solt (2022).

The key point of Figure 5 is that both Germany and Taiwan in fact *arrive at a similar destination*: a low level of disposable-income inequality of around a Gini of 30.[31] But they get there *via two very different routes* —with Germany (like most of Western Europe) choosing a rather byzantine one. While Taiwan already gets to a Gini of 30 *in the sphere of production*, Germany *chooses to follow a tortuous path*: it lets its market-distribution deteriorate by 13 points in the Gini-scale (and get to a market-Gini of 52), only to then having to reverse this by implementing a redistributive policy of pharaonic dimensions.

And to sustain this double act —to keep rentiers sweet while making this somehow politically acceptable for the rest of the society— Germany (as most Western European countries) needs to spend over *a quarter of GDP in redistributive policies*.[32] While in Taiwan (and a few other countries) the economic and social agendas point in the same direction, in most of Western Europe the two agendas —the idealisation of greed at the level of the market, vs. the idealisation of social solidarity at the one of disposable income— point in the opposite one, obstructing each other, and at a great cost.

In fact, while Germany, for example, does not have anymore advanced chip-making productive capacities —and, as mentioned above, it has been in general falling behind in the technological race—, Taiwan ended up making 65% of the world's semiconductors (while the US makes less than 10%!), and almost 90% of the advanced chips. Indeed, Taiwan’s “TSMC is just so dominant …it no longer really has much competition at all on the high end [of this business]”.[33] No “inequality-underperformance” syndrome here!

Basically, as Oscar Wilde emphasised, the secret of success in any endeavour is always the same: *if you craft the conditions, you get the results*. The post-war Keynesian arrangements (with its ‘uplifting trilogy’), and the post-1980 neo-liberal one (with its ‘downwardly mobile’ one) have been no exception.

The subject of the toxicity of the Western-style neo-liberal reforms was central to my Cambridge colleague Geoff Harcourt’s work, and few have made analytical contributions as significant as he did on this subject.[34] Inspired by him —who had a unique capacity to motivate one’s imagination— I then also tackled this issue.[35]

2).- Have they all lost their collective minds?

As Table 1 shows, the “inequality-investment” asymmetry is not just a feature of the US or Germany, but it is also found in most other Western European countries.

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[31] Taiwan’s disposable income-Gini is roughly equivalent to a “Palma ratio” of 1, while Germany’s to one of 1.1.

[32] https://www.oecd.org/els/soc/OECD2020-Social-Expenditure-SOCX-Update.pdf. See also Palma (2019a, Appendix 5).

[33] https://www.cnbc.com/2021/03/16/2-charts-show-how-much-the-world-depends-on-taiwan-for-semiconductors.html

[34] See, for example, Harcourt (2001a); and (2016).

[35] See, for example, Palma (2009a), (2012), and (2022a).

TABLE 1

Western Europe: the "inequality-investment" asymmetry. Changes in the share of income of the top 1%, and in the share of investment in GDP, 1950-1980 vs. 1980-2019 (*percentage points* of income/GDP)

	Denmark	Finland	France	Iceland	Italy	Norway	Portugal	Sweden	UK
Change in the share of income of the top 1% (p.p.)	6.4	9.8	3.3	6.8	7.1	6.5	5.3	6.1	7.9
Change in the share of investment in GDP (p.p.)	-4.2	-6.4	-4.4	-10.7	-4.6	-7.8	-4.6	-7.6	-5.7

● **p.p.**=percentage points of income/GDP; **change in the share of income of top 1%**=highest share of income of top 1% between 1980 and 2019 minus lowest in 1950-1980 (in some countries this took place in the early 1980s as there was a lag in response to the reforms); and **change in the share of investment in GDP**=average share in 1960-1980 minus that of 1980-2019.

● Sources: share of top 1%, WID (2022); and investment rates, WDI (2022; data available only from 1960).

And this asymmetry is also found in Japan, where in fact we find a rather extreme version of the whole trilogy: the share of its top 1% increased by 4.2 percentage points of income between these two periods, while its investment rate fell by almost 8 percentage points of GDP. Meanwhile, its average annual productivity-growth collapsed by 5 percentage points —excluding some countries from the oil-Middle East, only in Greece productivity-growth collapsed even further![36] Although Japan's the decline in the investment rate and the productivity-growth deceleration (and later stagnation) is a more complex phenomenon than that of its counterparts in the West (and beyond the scope of this paper), the most obvious factors relates to the self-destructive mantel of the "Plaza Accord", and that it eventually lost its inability to "upgrade and diversify" after its remarkable success during the early stages of the new "IT" technological paradigm. Basically, it failed to take the crucial next step and develop its own world-leading "tech" conglomerates.[37]

It seems that one thing is to catch-up with the technological frontier and move along it, another, rather different, is to go beyond and take a leap in the dark… For one thing, Japan's rather conservative financial conglomerates were not prepared to get involved.

Regarding Latin America, while inequality has always been among the highest in the world,[38] the share on investment in GDP (starting from a low level of 24% in 1970-1980) also fell on average by 3.4 percentage points afterwards (1980-2019).[39] And this took place despite FDI inflows since the 1989 "Brady Bonds" of no less than US$3.6 trillion (tr) —US$2.2tr of which since the beginning of "QE" (all in 2019 dollars).[40] Finally, productivity-growth collapsed by more than 3 percentage points (see Figure 6 below).

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[36] WID (2022); WDI (2022; for Japan data on investment are only available from 1970); and TED (2022).

[37] An issue analysed in detail in Carlota Pérez' forthcoming book on the role of the State in economic development.

[38] WID, 2022; See also Palma (2011); (2019a); and (2020c).

[39] WDI (2022; data available only from 1970).

[40] Up to US$ 7tr of QE funds flooded emerging markets in a short period of time (McCauley et al., 2015); i.e., funds that were allegedly created to stimulate a recovery in the North and to help stabilise international financial markets, ended up in significant amounts moving South in search of higher-yields (see Palma, 2022a).

In turn, Table 2 shows the "inequality-underperformance" rentier-syndrome is not just a feature of the US, Germany, Japan and Latin America, but it is also found in the Western European countries of Table 1.

TABLE 2

Western Europe: the "inequality-augmenting and productivity-growth-retarding" syndrome. Market-Gini and productivity-growth, 1950-1980 vs. 1980-2019 (*percentage points* of income/GDP)

	Denmark	Finland	France	Iceland	Italy	Norway	Portugal	Sweden	UK
Change in market-Gini (p.p.)	7.7	11	5.7	n.a.	8.8	10.5	3	11.1	16
Change in rate of growth of productivity (p.p.)	-1.7	-4.3	-3.5	-2.4	-5.3	-3.3	-3.8	-1.8	-2.2

- **p.p.**=percentage points of income/GDP; **change in market-Gini** as in Table 1 in terms of periods; and **change in rate of productivity-growth**=average annual rate of productivity-growth in 1950-1980 minus that of 2007-2019.
- Sources: market-Gini, Solt (2022); and productivity-growth, TED (2022).

The Keynesianism of the "golden age" did certainly need an 'upgrade' in the advanced West —as well as some major 'rethinking' because the world economy and the technological paradigm had clearly move on from the post-war scenario. Basically, by the mid-1970s the productive strategy that emerged from Bretton Woods had already delivered the goods, and had reached its sell-by date —becoming ineffectual, especially to confront the 1973 oil-shock. The same happened with the "Structuralist" (ISI) model in Latin America. But the one that followed in both regions was an aberration —mostly because Western neo-liberals did not want to overcome Keynesianism or Structuralism *creatively*, but *to erase every last vestige of their existence*.

Polanyi (1944) was one of the first to suggest that capitalism would tend to alternate between periods with little market regulation, and periods in which society intervenes actively to regulate markets, especially in labour and finance; however, the intensity —and the perseverance— of the post-1980 (and post-Berlin Wall) switch went further than this. Kalecki (1943) had also envisaged long-term cycles of this type within capitalism (mostly associated with the degree of full-employment). And neo-Schumpeterian economists also tell us that capitalism will move along technological cycles, and that *within* those cycles there would be different phases (such as the "installation" and the "deployment" periods) where the relationship between market-inequality and productivity-growth would vary.[41] Hirschman (1982) too discussed what he saw as long-term cycles of preferences for public versus private provision of goods and services.

In turn, for Piketty (2014) "accidents" such as two world wars and a massive depression can make capitalism alternate between "natural" periods of increasing inequality and those that disrupt this supposed pattern. And Milanovic (2016) has argued that inequality moves along successive "Kuznets curves", while I have suggested, instead, (Palma, 2019a) that inequality moves mostly along "ideological waves" —especially in terms of shifting attitudes in terms of what Hirschman (1982) called "tolerance for inequality".

[41] See Pérez (2002).

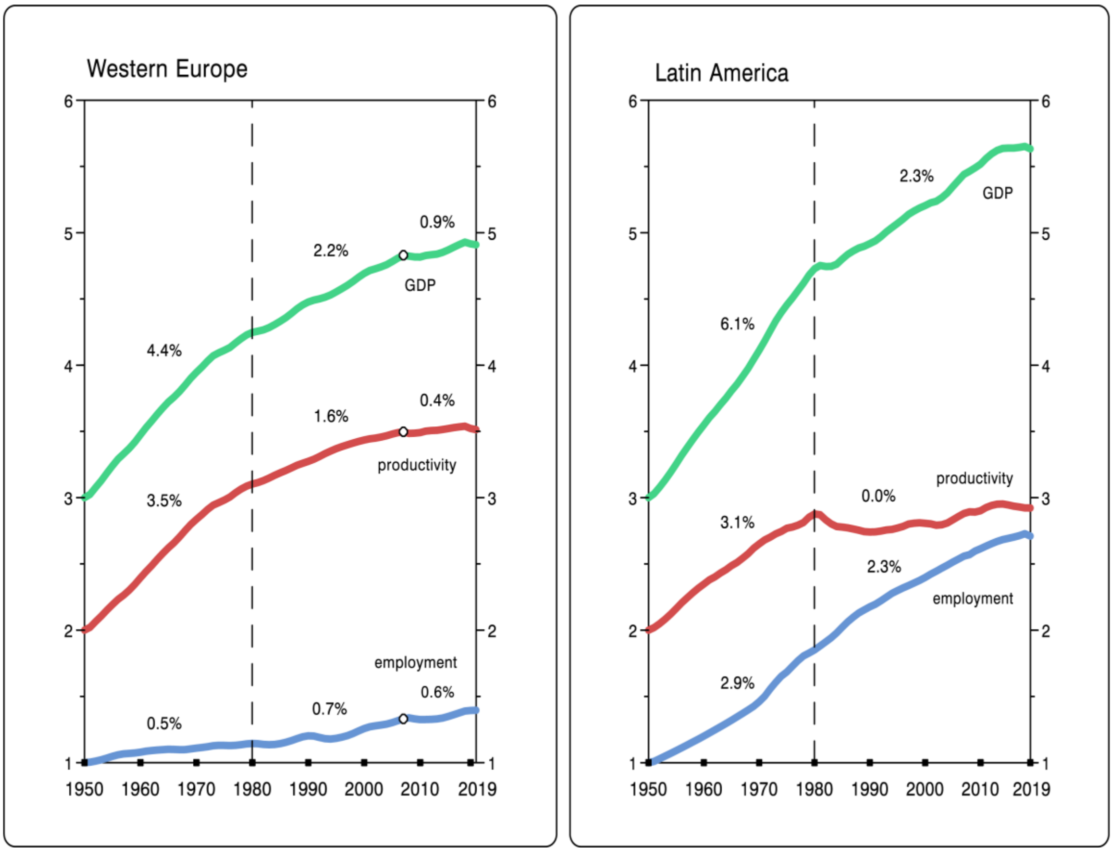
3).- The collapse of productivity-growth in the advanced and emerging West

Figure 6 (as Table 2 above) indicates that calling the post-1980 collapse of productivity-growth in Western Europe or Latin America as mere "underperformance" is a bit of an understatement.

The key point here is that the rapid post-1980 deceleration of GDP-growth in these two Western regions *was entirely the result of a collapsing productivity-growth*. (Figure 6.)

FIGURE 6

Western Europe and Latin America: GDP, employment and productivity, 1950-2019



● Western Europe includes its 15 major countries; Latin America the 14 countries reported in the source. Each series is an index number of a 3-year moving average (in log-scale), with base 1 in 1950 for employment, 2 for productivity, and 3 for GDP. Productivity is output per worker.

● Source: TED (2022).

As the figure indicates, productivity-growth fell in Western Europe from 3.5% p.a., to 1.6%, and then just 0.4% —or from 4.3% to 1.6% and then 0.4% if the periods are 1950-1973, 1973-2007 and 2007-2019. And according to the IMF, at the moment there is no light at the end of the Western rentier-tunnel.[42] The US, despite its specificities, is not that different (see below); in fact, as a recent publication by McKinsey emphasises, "Regaining historical rates of productivity-growth would add $10 trillion to US GDP".[43] And in Latin America there was a complete collapse of productivity-growth: from 3.1% p.a. during its post-war ISI productive strategy, to an average stagnation since 1980.[44]

[42] https://www.ft.com/content/309d5a00-879d-4cd8-a0d7-41563f1cb16b

[43] https://www.mckinsey.com/mgi/our-research/rekindling-us-productivity-for-a-new-era

[44] However, averages obscure important variation across countries and sectors —e.g., Chile's 12-year dynamic period after the 1982 debt-crisis, and the success of several countries in achieving a rapid rate

And, again, there was nothing ‘inevitable’ about this productivity collapse as many emerging Asian countries had multiplied their productivity levels many times over *during the same period* (1980-2019): in China by a factor of 20, in India by more than six, in Korea by five, in Taiwan and Vietnam by nearly 5, in Thailand by four and in Indonesia and Malaysia by three.[45]

Oddly enough (as discussed more in detail in Section 6.2 and Appendix 2 below), many in the mainstream and heterodox quarters have equally struggled to understand the growth-success of emerging Asia, particularly that of the “First-tier NICs” (NICs-1, Korea, Taiwan and Singapore) —no more so than at the World Bank, as its pretty clueless *East Asian Miracle Report* (1993) testifies.[46] Even Krugman (1994) at one point just dismissed this success as a ‘myth’…[47] And on the heterodox side some have not done much better: unable (or, rather, unwilling) to understand the ‘endogenous’ factors of this success —e.g., how they engineered different versions of a “no-rentier-nonsense” hegemonic ideology and political settlement— they have got stuck on the early role of US help and the “overexploitation” of the workforce (i.e., had they treated workers as nicely as we do in Latin America, they would have never had such success!).[48]

PART 2: The Ricardian rentier-trilogy

4).- Ricardo and the “natural state” of rentier-capitalism

As already suggested, the three Krugman-style puzzles of Western economies (North and South) have more than a passing resemblance to the gloomy “steady state” scenario of Ricardo’s model. Given assumptions, and at a given state of knowledge and natural environment, in an economy could easily end up in a scenario where the supremacy of (unproductive) rentiers would deny capitalists their profits, triggering a collapse in investment and productivity-growth, as "… profits [would end up being] so low as not to afford [capitalists] an adequate compensation for their trouble and risk” (Ricardo, 1817).

This proposition —which, I believe, goes well beyond the explicit and implicit assumptions of his model (like diminishing returns in agriculture and Say's Law, as well as that prices, wages, and interest rates being flexible)— sets Ricardo on a different course than other classical economists. The key difference between them and Ricardo is that for the latter, in a capitalist mode of production, rentiers —although obviously evolving in time, including now becoming “tech-rentiers”— *would* never go native and became entrepreneurs of the “creative-destruction”-type; i.e., eager to use their resources productively. For Marx, instead, the unstoppable logic of capital would eventually transform landlords into capitalist entrepreneurs, just like it had already done with manufacturers.[49] Smith, although for a different reason, would agree —indeed, as Mazzucato (2018) emphasises, for Smith ‘free markets’ were markets (finally) “free” of rents and rentiers![50]

Not for Ricardo: rentiers were here to stay! And in capitalism *of the laissez-faire variety* they could easily become the main obstacle to growth and wellbeing. In fact, what Keynes and the Bretton Woods Agreements had tried to avoid after the war was precisely the

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of productivity-growth in their extractive natural resource industry —until this productive strategy inevitably run its course, and no ‘upgrading’ was attempted; see below and Palma, 2019b, and 2022b).

45 TED (2022).

46 See Singh (1994). Stiglitz’s contribution to this Report is the exception.

47 When then Alice Amsden challenged him to a debate, he refused.

48 See, for example, Marini, R.M. et all. (1995). For more illuminating analyses, see Amsden (2002), Wade (2003), Khan (2015); Khan and Jomo (2000); Chang (1993); and Andreoni and Chang (2019). On the “Second-tier NICs” (NICs-2, Malaysia, Thailand and Indonesia), see Palma and Pincus (2022).

49 On Marx and landlords, see, Fine (2019); and Massey and Catalano (1978). On urban land and housing, Harvey (1985).

50 See also https://www.youtube.com/watch?v=ZUQgvhxMQOQ&t=2839s

emergence of this rentier-led trilogy; and they did so by building a scenario that would favour *growth-enhancing conditions under which the competition over rents would take place*. One crucial factor for that was to 'ring-fence' finance in order to tame speculators —what the Washington Consensus would later label an exercise in "financial repression".[51] According to Keynes (1971), instead, this was essential to make sure that

> Credit [would be] the pavement along which production [would] travel and the bankers …would provide the transport facilities *to just the extent it is required* in order that the productive powers of the community can be employed at full employment.[52]

Yes, financial "repression" it may well be, but as Martin Wolf remarks in the *Financial Times* (FT), "Liberalised finance tends to metastasise, like a cancer".[53] And this is not only true for finance, but for "rentierisation" in general. Speculators needed to be tamed because —as especially Kindleberger (2005) and Minsky (1896) have analysed— in unregulated and over-liquid financial markets, operational normality can easily become dysfunctional *for entirely endogenous reasons*, and even turn into manic exuberance, and then to extravagance; and this would inevitably asphyxiate the real economy.

I don't think it would be an over-simplification to say that the key (anti-rentier) message coming out of Bretton Woods was: if you really want to make money, do something socially useful on the production side![54] Keynes' "Euthanasia of the Rentier" ruled the Western World —except that, like the phoenix bird, as long as there is capitalism, rentiers would always cyclically regenerate!

In fact, as I have argued, since inequality seems to move along "ideological waves",[55] I am not surprised that the ideology that rose from the ashes of the Bretton Wood arrangements was characterised by the "revenge of the rentier"![56] Nor should one be surprised that what neo-liberals quickly put in place was a set of institutions and a political settlement —even an ideology— that would consolidate their rule. Such was their success in this endeavour that the in the new scenario they could even twist otherwise revitalising forces into becoming a new type of rent-making machines.

5).- On "easy" rents

5.1).- Some definitions

For the analysis of rents and rentiers it is essential to distinguish at least three types of assets —and economic theory not always differentiates them properly: i) financial assets —whose value is based on their contractual claim (e.g., cash, stocks and bonds).[57] ii) "Produced assets" —those that come into existence through human effort, and whose value is derived from its physical characteristics rather than from a contractual claim (e.g., fixed assets). And iii) "non-produced" (non-financial) assets —those that come into existence other than through the process of production; they include both tangible (e.g., natural resources), and intangible (e.g., patents, contracts, purchased goodwill, transferable contracts, leases and license, the radio spectra and mobile communications as well as goodwill and marketing assets).[58]

When Ricardo —and other Classics, such as Smith— referred to rents, they mainly had in mind income accruing from "non-produced" tangible ones (such as land); and their

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[51] See, for example, McKinnon (1973).

[52] Quoted in Rochon and Bougrine (2020, p. 4). Emphasis added.

[53] https://www.ft.com/content/5a8ab27e-d470-11e9-8367-807ebd53ab77

[54] See also Harcourt (2001a and b), and (2006); and Palma (2009a), (2012), and (2022a).

[55] Palma (2019a).

[56] A term used by, for example, Morris as early as 1982. See also Palma (2009).

[57] Non-financial assets can also be transformed into financial ones through securitisation.

[58] https://stats.oecd.org/

message is that one should treat them differently as they are *"unearned" incomes* —in fact, for Smith (1776) "Landlord's right has its origin in robbery". Moreover, for Ricardo rents from "non-produced" assets, as "unearned" incomes, are not a cost of production —*just transfer payments*. In fact, "if …landlords were to relinquish the whole of their rents, [that would not] lower the price of corn to the consumer" (Ibid.). Basically, "[the price of] corn is not high because a rent is paid, but rent is paid because [the price of] corn is high" (Ibid.).

In the same spirit, one can extend that approach of rents as "unearned incomes" to include incomes from other "non-produced" assets (such as intangible ones), as well as from financial ones. In fact, as the trademark of rentier-capitalism is that it generates the wrong type of incentives, what has happened is *a huge proliferation of assets* that generate those specific types of rents —in the UK, for example, the share of "non-produced" assets on total assets has grown from less than 40% in 1995 to nearly 60% in 2017; and in the US it has doubled (to well over 50%) since Reagan was elected.[59]

If in the Classical tradition the "easy to acquire" side of rents from "non-produced" assets comes mostly from Adam Smith, the "easy to spend" side is central to Ricardo's analysis; one refers to their parasitic nature, while the other to future flows not really depending (as opposed to profits) on them being used productively.

For Smith landowners, "*like all other men*", "love to reap where they never sowed" (Smith, 1776). That is, although everyone would love that privilege, only holders of these rights have the right of "claiming a portion of what [others] …produced" (Ibid.). In fact, for him rentiers go as far as believing that they have the right to "…demand a rent even for the natural produce of the earth" (Ibid.). And as Sraffa (1960) emphasised, this power to extract rents comes from scarcity, as "without [it] …there could be no rent".[60]

Neo-classical economists, instead, often even simply merge in their models "produced" and "non-produced" assets in one category, and this has often led them to work with "two factor" models, which can be grossly misleading. One well-know problem (among others) of the Solow-Swan growth model, for example, is that it struggles to account for the role of "non-produced" assets in growth.

Another issue that follows Ricardo's logic is that taxes should be directed to "non-produced" assets, as "produced" ones are created out of effort and foregone consumption, while the supply of "non-produced" ones are unaffected by its price. Moreover, as financial capital and labour are mobile, while tangible "non-produced" assets are usually immobile, taxing them would be far more effective.

The criterion used by neo-classical economists (and others) to define rents is also misleading, as a landlord-type rentier may or may not get an income (rent) that is higher than what they would get otherwise. Or, more formally, higher than the minimum that they would have accepted in their 'next-best' opportunity (for example, as hard-working entrepreneurs).[61] A variant of this approach is the treatment of rents as incomes that are in excess of those needed to induce an agent to provide its services.[62] From a Ricardian perspective, however, it is *the nature of the income* (e.g., "easy to acquire" and "easy to spend") —*and the status associated with the ownership of such assets*, as they surely provide a more "gentlemanly"

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59 See https://cepr.org/voxeu/columns/post-corona-balanced-budget-fiscal-stimulus-case-shifting-taxes-land; see also https://cepr.org/publications/dp16652, and https://www.ft.com/content/fadfbd9e-29ca-4d53-b69a-2497cc3ed95d

60 There are, of course, other forms of policy-induced rents, such as those that may be created to deal with market failures or economic and political necessities —e.g., to reward learning and innovation, to conserve scarce natural resources, to deal with asymmetric information, or to keep the social peace (Khan, 2000a and b). However, as they are of a different nature, they go beyond the scope of this paper.

61 See, for example, Krueger (1974); and Buchanan (1993).

62 https://www.ft.com/content/877d1a2d-67df-46a4-a3af-8e28198b944a

type of existence— rather than the size of the income (e.g., vis-à-vis its 'next-best' opportunity), that really counts.

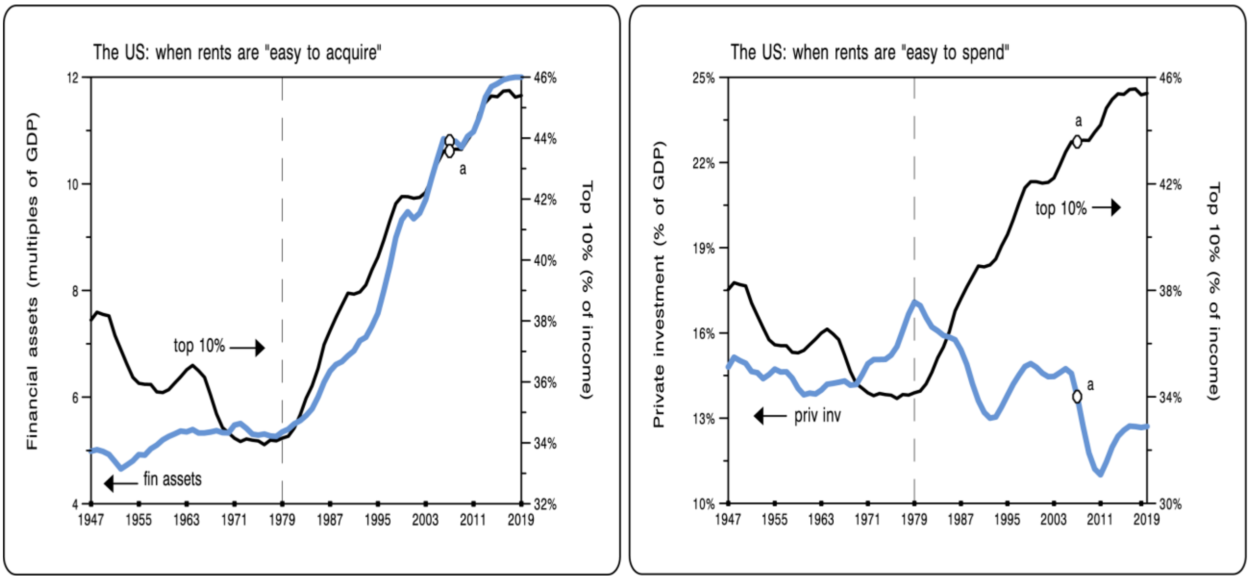
5.2).- when rents are "easy to acquire" and "easy to spend"

The key hypothesis of this paper is that the Western "inequality-underperformance" rentier-syndrome boils down to the fact that we are paying the price (a huge one) for having allowed our economies to be transformed into a "rentier's paradise" —one full of rents that are "easy to acquire" (i.e., easy to generate), and "easy to spend" (no "compulsions on them being used productively). By this I mean a scenario where rentiers can manipulate and distort markets and policy almost at will in order to transform financial and product markets into an "easy" rent-making machines, with the post-2008 "QE" period being just an extreme manifestation of this —e.g., the S&P500 grew 6.6 times faster during the decade that followed the bankruptcy of Lehman Brothers than in the preceding one.

As it is often the case, the US is rather transparent in these issues. Figure 7 shows how this rentier-based accumulation leads both to rents that are "easy to acquire" (left-hand panel), and that are "easy to spend" (right-hand panel).

FIGURE 7

The US: when rents are "easy to acquire" and "easy to spend". Share of income of the top 10%, value of the stock of financial assets, and private investment as a share of GDP, 1947-2019



● **fin assets**=stock of financial assets as multiple of GDP; and **priv inv**=fixed private investment (includes equipment, structures and residential construction); **a**=the 2008 financial crisis, and beginning of "QE". 3-year moving averages.

● Source: Income shares (from tax-returns), WID (2022); Financial assets, FRED (2022); and Private investment, BEA (2022).

As the left-hand panel of Figure 7 confirms, after 1980 'financial pyrotechnics' and 'rocketing inequality' cointegrate in their upward trajectory; and these "easy to acquire" rents from financialisation (and other forms of "rentierisation") were actually counterproductive to investment levels as they also became "easy to spend" (right-hand panel) —i.e., neither markets nor policy made sure that these rents were spent productively.

Regarding the left-hand panel, there are two basic reasons why many rents are now "easy to acquire"; they are a benefit that accrues to those who own or control something valuable *solely due to their ownership or control of the asset*. That is, the benefit does not necessarily depend on *an actual contribution* to a productive activity —let alone *on the quality* of that contribution. And (as already stated) the other reason is that, given the power of the new hegemonic ideology, there is a surprisingly *little degree of contestation* over *rentiers' rights to their assets* —no matter what!

Now even supposed "trade" treaties (such as the TPP-11) are almost entirely about strengthening rights of large asset holders, foreign and domestic, against any attempt from an emerging economy (such as those in Latin America or South Africa) —or even from some advanced ones, such as Australia and New Zealand— *to try to replicate policies that have proved so successful in emerging Asia* (see Appendix 2). Basically, these treaties try to take away from the State's the capacity to implement the array of instruments used so successfully in emerging Asia to promote upgrading and diversification of their productive strategies —especially the State capacity both to create rents with performance-related conditionalities, *and to withdraw them* if these are not fulfilled, as well as its capacity to use public sector conglomerates as spearheads of industrial policy.

In fact, these treaties go as far as creating new corporate-rights, such as that of "indirect" expropriation, which gives conglomerates rights *over rates of return*; i.e., any change of policy or regulation (no matter how reasonable, urgent, necessary or democratic) that may affect the profitability of multinationals —or large domestic conglomerates that qualify as multinationals— would be subject to compensation.[63] I don't think neo-liberals actually understand what capitalism is all about!

Another characteristic of these 'trade' treaties is that often their (minor) trade concessions are just the "bait" to get these types of agreements approved. And why not go the extra mile and privatise the legal system as well —so as to shift the balance even more in favour of multinationals? Thus, in these 'trade' agreements the resolution of disputes is also often transferred (with no objective reason whatsoever) from domestic courts (with professional judges) to the so-called ICSID *ad-hoc* tribunals, where multinationals can appoint and veto the judges —so as to become themselves *judge and jury* in litigations. These 'Mickey Mouse' tribunals have been rightly called by Sachs (2019) a "flawed and corrupt investment arbitration process".

And regarding the right-hand panel of Figure 7 (the "easy to spend" side of rents), today asset holders even have the legal right to self-destruct —as in "corporate self-cannibalism". According to the former chief economist of the Bank of England, this occurs when an unholy alliance between a new breed of 'active' (bullying) shareholders and self-seeking executives prefers to increase immediate returns by dismantling companies, or condemning them to debt.[64] He has also pointed out that where shareholders in the UK used to demand about 10% of corporate profits, in a financialised economy they now want it all (and more); and where they once kept shares on average for six years, they now keep them for less than six months, implying far less concern for the firm's long-term health. For Keynes (1936), in contrast, the health of the corporate sector depends on building a relationship between shareholders and firms like 'a marriage'. Today, instead, as one FT columnist put it, a new rent-seeking business model has become fashionable:

> Buy a company, load up with debt, cut costs, shut off investment, hope for a fair wind on valuations and sell before the rot sets in.[65]

Can one really be surprised that investment suffers and productivity-growth has collapsed in such a "rentierised" scenario —one which is transforming capitalism into a self-destructing rentier paradise? Even a great deal of so-called foreign direct investment (FDI) is now largely about empty corporate shells in tax havens built up to minimise multinationals' global tax bill. The IMF calculates that about 40% of FDI in the world is just phantom investments

[63] On "indirect" expropriation, see Palma (2021a).

[64] https://www.youtube.com/watch?v=ZmUlTuyRPd8. See also Ballou (2023).

[65] https://www.ft.com/content/d18aa96f-b807-48c1-b98d-92dd562ad160

—and that “Globally, this type of phantom investments amounts to an astonishing US$15 trillion”.[66] But complaining that corruption is intrinsic to “rentierisation” is a bit like going to the circus to watch a magician sawing a person in half and then complaining that it’s only a trick.

Furthermore, as Kindleberger discusses in his brilliant 2005 book, bull markets are destined to end in epic collapses —the 2008 one was no exception.[67] But if one then adds the new naïve belief of captured Central Banks (the “new alchemists”) that it is possible to build an everlasting floor under overblown asset prices by policies such as (the US$ 16tr) “QE” extravaganza —plus the US$ 9tr pandemic financial rescue, which artificially created a new billionaire practically every day during the pandemic, and helped the richest ten individuals in the world make US$1.3 billion *a day* for 20 consecutive months— *then a financial crisis could easily leave a permanent negative effect on* productivity-growth —and also on wages.[68]

As the FT’s Martin Wolf emphasises,

> Rigged capitalism is damaging liberal democracy. …Economies are not delivering for most citizens because of weak competition, feeble productivity growth and tax loopholes …[And all this] because of the rise of rentier capitalism.[69]

6).- No invisible hand translating private self-interests into social benefits in Ricardo’s world —and how a “non-rentier-nonsense” hegemonic ideology helped emerging Asia deal with this in a “post”-Ricardian fashion

6.1).- The difficult coexistence of rentiers and capitalists as an endogenous “coordination failure” within capitalism

As for Ricardo *rentiers were here to stay,* capitalism would not only have to put up with them on a permanently basis, but it was also condemned to have an intrinsic endogenous “coordination failure”: if rentiers follow their own selfish interests, both —capitalists and rentiers— were likely to lose, and (in certain scenarios) even self-destruct. Basically, by aiming at an ever larger share of the surplus, rentiers could kill the goose that laid the golden eggs (investment and productivity-growth). As in La Fontaine's fable of La Poule aux oeufs d'or, “greed loses all by striving all to gain”!

Surely for Ricardo there were other conflicts as well, such as between both rentiers and capitalists with labour, and between them and sectors of the “administrative classes”; but what set Ricardo apart was his proposition that a *laissez-faire* capitalist economy could become self-destructive because of the difficult coexistence between capitalists and rentiers. Even population growth (in a Malthusian sense) would add to this as it would strengthen the hands of landowners —as owners of scarce “non-produced” assets—, redistributing income towards them from both profits and wages. Thus, “High rent and low profits …invariably accompany each other …[This is] the effect of the natural course of things”.[70] Ricardo (1815) pulls no punches: “[rentier’s interests are] always opposed to the interest of every other class in the community”.

Thus, the Achilles' heel of capitalism was that it would always have unproductive rentiers loitering around in search of “easy” rents; and the chances were that this would also reinforce the role of growth-retarding institutions —such as that of the landed elite-controlled British Parliament, increasing the tariff on grain imports. As already suggested, this would *only* benefit landlords at the expense of (literally) everybody else.

[66] https://www.imf.org/external/pubs/ft/fandd/2019/09/the-rise-of-phantom-FDI-in-tax-havens-damgaard.htm

[67] On the genesis of the 2008 crisis, see Palma (2009a).

[68] For further analysis, see Palma (2022a).

[69] https://www.ft.com/content/5a8ab27e-d470-11e9-8367-807ebd53ab77

[70] See Ricardo (1815). For analysis of Ricardo’s early model, see for example Roncaglia (1978).

And although the cavalry could come to the rescue, they could *only delay* capitalism's menacing fate. Therefore, only *a continuous process of technical progress and deepening of trade* could help capitalism deliver its crucial double act and avoid its ultimate state of gloom: keep rentiers sweet, and profits at a healthy level. Yet, as suggested, these *can only generate market opportunities, which still need to be taken up*.

Furthermore, since in a Ricardian world technical progress emerges from the challenges of an increasing output, it can end up being endogenous in a Hirschmanian-style, where "one thing leads to another". And this could trigger something resembling a process of cumulative causation, characterised by its positive feedback 'loops' into the system. However, greedy and lazy rentiers would always be loitering around —and given half a chance, they would most likely mess up the opportunity of having a self-perpetuating process of productivity-growth.

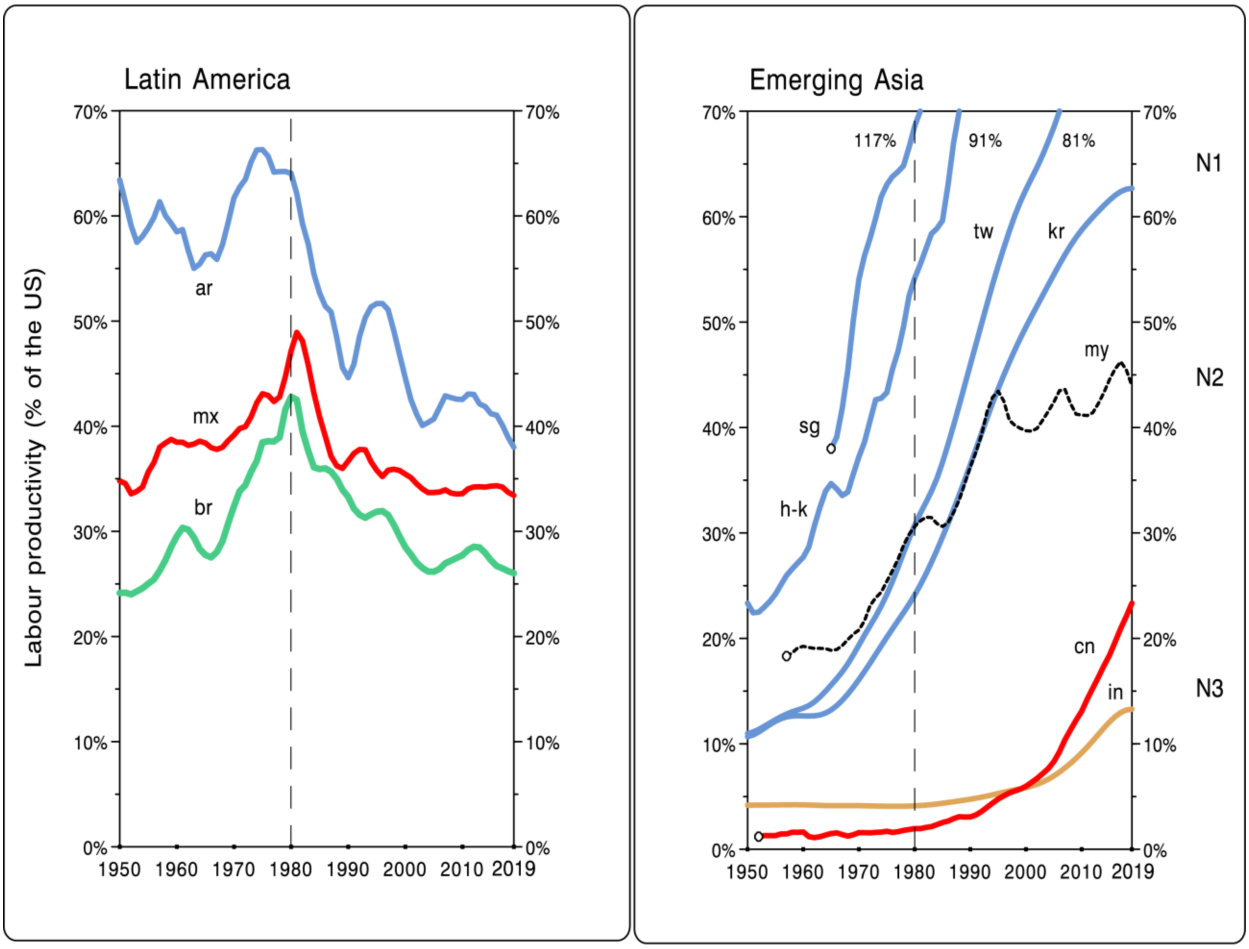
Thus (the extreme case of neo-liberalism apart), in a Ricardian world capitalism could have the potentials —and for long periods of time has been able to realise them— for being the first mode of production capable of counteracting the intrinsically "parasitic" nature of rentiers. However, from time to time, greedy rentiers could change this, and by doing so, stifle innovation, impair competition, bully organised labour, destroy the environment and our democracy!

6.2).- Emerging Asia: how a "non-rentier-nonsense" hegemonic ideology can help avoid a Ricardian rentier-trilogy

There are, of course, other ways of dealing with the Ricardian rentier-trilogy which, as suggested, were unthinkable in Ricardo's time! And as Figure 8 indicates, several of them have been tried with great success in emerging Asia —as their process of catching-up with the productive frontier shows.

FIGURE 8

Emerging Asia and Latin America: labour productivity (percentage of the US). "Catching-up" vs. “falling behind” vis-à-vis the production frontier, 1950-2019



● **ar**=Argentina; **br**=Brazil; **mx**=Mexico; **N1**=First-tier NICs (**h-k**=Hong-Kong, **sg**=Singapore; **kr**=Korea; **tw**=Taiwan); **N2**=Second-tier NICs (**my**= Malaysia); and **N3**=Thrid-tier NICs (**cn**=China; and **in**=India). 3-year moving averages.

● Source: TED (2022). Due to problems with Mexico’s employment data pre-1990s, for this country I use relative income pc with the US.

The contrast in performance between “rentierised” Latin American and emerging Asia could not be more revealing. In fact, Latin American countries (often in a highly cyclical fashion) are now either roughly in the same relative productivity-position vis-à-vis the US that they were in the 1950s (e.g., Brazil, Mexico, Chile, Colombia, Costa Rica and Peru), or they are below that level (e.g., Argentina, Ecuador, Uruguay and Venezuela) —with the latter posting the worst relative performance in the World: it fell from 96% of US productivity in 1950 to just 11% in 2019 (and 7% in 2022). In turn, as the figure indicates, in the first group Brazil and Mexico lost after 1980 *all the significant gains* they had made during their (highly successful, but eventually rigidified) Structuralist-ISI productive strategy —paying a high price for their inability to ‘upgrade’ and ‘diversify’ this strategy when it had reached its sell-by date in the 1970s.

Basically, all that this region really did with its neo-liberal reforms was to transfer “easy” rents from its highly protected and subsidised manufacturing for domestic markets to natural resources, extortionary finance and oligopolistic control of services —while corrupt privatisations making Russian-style wealth-transfers to a privilege few. And the sudden disappearance of “easy” rents in manufacturing led to its record-breaking collapse: output growth in Brazil's manufacturing dropped from an average of 8.3% p.a. (1950-1980) to one of 0.9% (1980-2018), and in Mexico from 7.5% to 2.2%, respectively.[71] In fact, today in Latin American the productivity of the average manufacturing worker is no higher than it was at the time of the 1982 debt crisis —and in Brazil and Argentina they are in fact similar to those recorded in the mid-70s.[72] The case of Mexico is quite remarkable, because the collapse of productivity-growth in manufacturing took place despite the introduction of the North American Free Trade Agreement (NAFTA), and the massive reallocation of American and Asian manufacturing facilities into Mexico.

I labelled this collapse of manufacturing in Latin America a process of "premature" de-industrialisation —in the sense that both the inability to upgrade and diversify its ISI productive strategy, and then the radical economic reforms that followed obstructed its transition towards a more self-sustaining form of industrialization (*à la* Kaldor, 1967).[73]

Neo-liberal reforms also added every rentier-trick in the neo-liberal book to Latin American institutions, such as "exceptionalism" vis-à-vis the law;[74] also Buchanan-style absolute property-rights, weak financial regulation, tailor-made policies, easy tax avoidance, minimum punishment for tax evasion, and so on. And, of course, it also brought to an end every possible form of effective industrial policy.[75]

In emerging Asia, instead, and from the very beginning, there was *diversity* among successful NICs-1 in terms on how they avoided the Ricardian rentier-trilogy, especially on how they secured the productive use of rents, on the direct and indirect role of the State in this endeavour, on their domestic political settlements, and on the distributional outcomes of their respective developmental models. And this diversity increased afterwards with the emergence of the NICs-2, and then later on with China, India and Viet Nam (for a brief analysis, see Appendix 2).

However, there was a clear 'unity' within this diversity. They surely benefited from having Japan as the initial "a lead-goose", showing that manufacturing was the productivity-growth-enhancing 'holy grail'.[76] And as in Nicholas Kaldor's argument that manufacturing has the greatest scope to realise increasing returns to scale remains true, even in today's decentralised, fragmented and niche-oriented manufacturing world, this proved to be a great engine of productivity-growth. And then, a "no-rentier-nonsense" hegemonic ideology brought that manufacturing drive forward.

And it was this progressive ideology that made possible what the Governor of the Bank of Korea stated when challenged by an IMF bureaucrat to define Korea's development

[71] ETD (2022).

[72] See Palma (2010), (2019b) and (2022a). See also Palma and Pincus (2022).

[73] See Palma (2005); see also Palma (2008). The concept of "premature" de-industrialisation was taken up again, ten years later, by Rodrik (2015). See also Palma (2019c).

[74] Why fear prosecution for tax-fraud if instead of going to prison, one could be just sent back to university? A judge in Chile sentenced two corporate executives convicted of a massive tax fraud to attend a one-semester university course in corporate ethics —with the condition that they had to get a passing grade! (See Palma, 2019b).

[75] For example, one 'emerging Asia-style' industrial policy I have tried (with others) to bring to Chile (unsuccessfully) is to implement a "differentiated" royalty on copper exports (and other export commodities); one that would be sufficiently higher on copper concentrates than in smelted, so as to 'incentive' conglomerates to use their rents productively. And it could be even lower if copper was also refined at home, and non-existent if copper was exported as a manufactured product. If the 'invisible' hand can't do its job (half a century into Chile's "extractivist" model and not a single private copper conglomerate, domestic or foreign, has yet invested its massive rents in building smelting productive capacities), someone else should do it! In fact, today copper concentrates continue to be Chile's main export product by value, and its useless slag its main one by volume, while its pointless sea transportation remains Chile's most easily avoidable (massive) contribution to climate change.

[76] On the issue of the "flying geese", see Palma (2009b).

model: in economic matters, he said, "We did what we wanted, but whatever we did, we did it well".[77]

Not a single Western leader since 1980 —North or South of the Equator— could possibly make such a statement with a straight face!

PART 3: Why people have a tendency to deny bad choices, or to stick to good ones until well after they have run their course (and become counterproductive).

8).- Western neo-liberalism as a mechanical "rebound" effect —i.e., as an exercise in "non-creative" destruction

One fundamental aspect of the rise of neo-liberalism in the late 70s can be found in Hirschman (1982): people often stick with policies after they have become counterproductive —as in the West (North and South), which got stuck in its respective post-war development model when they had become ineffectual— even counterproductive. This led to such frustration and disappointment with existing policies and institutions that what followed was a neo-liberal "rebound effect".

That is, people have a tendency to deny bad choices, or stick to good ones until well after their shelf-life. And in my understanding of this phenomenon ─the reluctance to confront the "best before" phenomenon─ the longer one delays the necessary change, *the more likely this "rebound effect" would be just a mechanical reversal in search of the opposite* (as if multiplying everything by minus 1).[78] So, no-one should be surprised if one day this mechanical shift happens all over again with the current rigid neo-liberal scenario!

Thus, the neo-liberal discourse became simply about the reversal of as many aspects of the previous development strategy as possible. In Brazil, for example, when Gustavo Franco won the Euro Money's prize for the best President of a Central Bank in the world, he stated candidly their messianic endeavour: "The main aim of our reforms is to undo 40 years of stupidity [besteira]". Adding "[Today, either you are] neo-liberal or neo-idiotic [neo-burros]".[79]

Regarding emerging countries, this inability to 'upgrade' and 'diversify' current development strategies in a creative way when existing ones have run their course and become counterproductive is in fact my way to understand the "middle-income trap".[80] Latin America is a paradigmatic example of this —both in its pre-1980 ISI, and in the extractive productive strategy that followed![81] In the same spirit, the reluctance of advanced countries to reengineer their productive strategy when necessary (e.g., in the 1970s, and then now) could perhaps be called their "geriatric trap".

This approach helps to explain the peculiar set of priorities and the rigidity with which the neo-liberal reforms were implemented throughout the West, as well as their poor outcome. The contrast with emerging Asia could not be more obvious; there, economic reforms were not implemented 'to undo' previous productive strategies, but as pragmatic changes to *upgrade and diversify their existing ambitious industrialisation strategies*. From this perspective, what most differentiated the West from emerging Asia was not just the strength with which the new neo-liberal ideology was adopted, but also the form in which the previous one *was given up.*

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77 Quoted in Wade (2003).

78 See Palma (2010), and (2014). For other narratives of the rise of neo-liberalism, see Acemoglu and Robinson (2006), and Harvey (2005). For Foucault's views, see Foucault (1979) and (2004), and for an analysis, Palma (2009a), and (2014).

79 Veja, 15/11/1996.

80 Palma (2019b).

81 See Palma (2022b); see also Palma and Pincus (2022).

As Gramsci (1930) said, for an ideology to remain hegemonic it has to be able to absorb (in a creative sense) elements from alternative ideologies. But in the case of the Western "new-left", new ideas, instead of interacting creatively with existing ones, ended up shattering the previous system of belief; so, a new set of ideas and beliefs ended up simply replacing the preceding ones. This did not happen in Asia, at least nowhere to the same extent.

9).- Neo-liberalism and our "Gramscian moment"

The West is also a region whose critical social imagination has stalled.[82] What happened in Chile with its two recent Constitutional plebiscites is paradigmatic: first, 80% of the population voted in 2020 in favour of changing Pinochet's Constitution; but then, over 60% rejected a perfectly reasonable draft, which would have been the first ever democratically-written Constitution in Chilean history.

Thus, neo-liberal Chile became a country that can't bear its neo-liberal status quo, but doesn't dare to leave —especially because the brinkmanship of the (rentier) elite, irrational though it may be, should be taken extremely seriously by workers and the State. After all, as Benjamin (1966) reminds us, before all philosophy comes the struggle for basic material existence. For neo-liberalism, the bottom line is clear: how to construct an economic and institutional scenario in which everybody knows that the rentier-elite *can pull the plug whenever it wants to*.

Following Gramsci (1930), I have labelled this trap that characterises most of the region —and beyond!— a "Gramscian Moment": *one in which the old fades, but the new fails to be born*.[83] It is as if the witches of Macbeth had prophesied: you will live bogged down between a neo-liberal model that lost all legitimacy and progressive discourses that would fail to generate enough credibility! In this interregnum, as Gramsci (1930) warned us, it is almost inevitable that "a wide variety of harmful symptoms will appear" —current radical populist projects around the world are good examples of that.

In the meantime, while the hegemonic ideology in the West gets ankylosided, politics fragments and the real economy languishes, emerging Asia cannot believe its luck as this has opened up huge productive opportunities for them —and they surely know how to take full advantage of them.

10).- Does every country deserves the inequality it has?

As already indicated (Tables 1 and 2), the United Kingdom was yet another Western country providing a rather extreme example of the Ricardian rentier-trilogy. And, again, Figure 9 indicates that *there was nothing inevitable* in this: Margaret Thatcher was fundamentally mistaken when she declared that "There is no alternative" to her brand of neo-liberal reforms. Instead, its surging market-inequality *was just a choice*.

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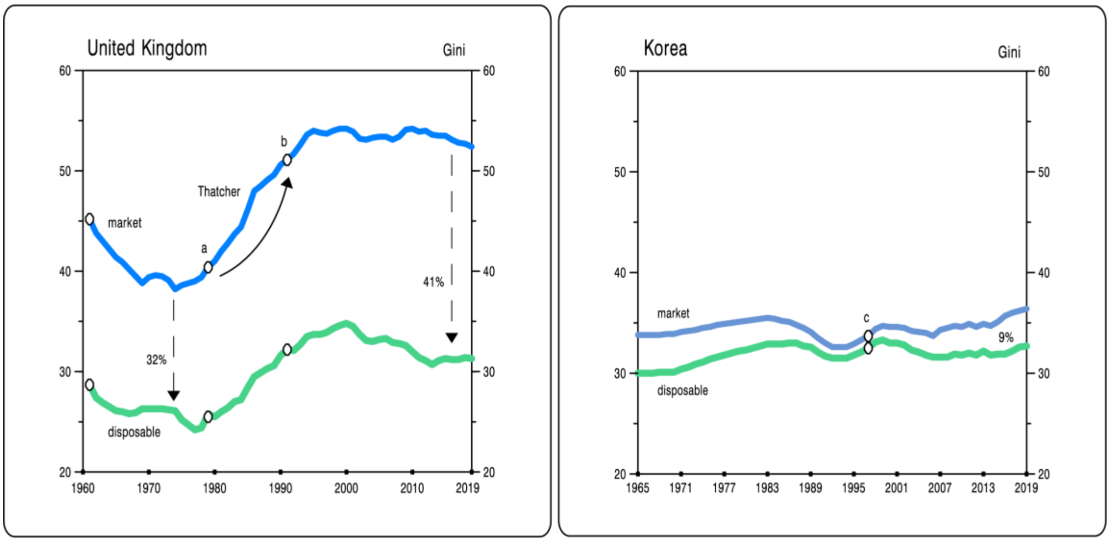
[82] Palma (2014).

[83] For an analysis, see Palma (2020a).

FIGURE 9

The United Kingdom and Korea: market vs. disposable-income inequality, 1960-2019



● **market**=market-inequality; and **disposable**=disposable income-inequality (i.e., after taxes and transferences). **a**=Margaret Thatcher becomes prime Minister; **b**=end of her Premiership; and **c**=1997 East Asian financial crisis. Percentages indicate the relative reduction of the Gini market due to taxes and transferences.

● Source: Solt (2022).

That is, in a world of *multiple equilibria*, the 12 percentage (Gini) points deterioration to British market inequality during her premiership was just *an* option among others. Korea (as Taiwan) chose a different one —and one that led to a rather different performance in terms of investment and productivity-growth. In doing so, (according to Solt, 2022, database) Korea not only achieved one of *the lowest* 'market inequalities' in the world, but it also managed a dynamic rate of investment (an average above 33% of GDP between 1980 and 2019), and productivity grew on average at 4.1% p.a. during this period —multiplying its level by a factor of 5.

The UK, meanwhile, was even unable to double its level of productivity in these four decades —it increased it by just 80%, while France did it so by just 60%, Germany by 50%, Netherlands by 40%, and Italy by 30%. But, of course, all those Western European countries got to a market-Gini above 50 (with the Netherlands at 49), while between 1980 and 2019 countries of the European Union had on average an investment rate that was 5 percentage points of GDP below the level they had in the difficult 1970s —with the US struggling (but not always succeeding) in getting even above 20% of GDP during these four decades!

Furthermore, when in the UK "New" Labour gained power in 1997, it did not even try to revert the its artificially-created obscene 'market' inequality —as a good European social-democratic party, it just implemented some additional redistributive policies to make this artificially-created 'market' inequality a bit more palatable to its electorate. In fact, when Labour lost the 2010 elections, the UK's market-Gini was actually slightly *higher* than when it gained power from the Conservatives in 1997 —but, of course, its disposable income-Gini was slightly lower.

This is what I call the European "social-democratic distributive failure": how to idealise greed at the level of the market, while idealising social solidarity at the disposable income one. As a result, the distributive and social agendas point in opposite directions —obstructing each other, and at a great cost: Western European countries spend on average no less than *25% of GDP* in redistributive policies, and just to revert artificially-created huge 'market' inequalities![84] As Einstein once said, "Two things are infinite: the universe and human stupidity" (adding latter that he was not really sure about the universe).

Basically, after the neo-liberal reforms, the European Social Democracy has used the welfare state as a *de facto* mechanism to subsidise market-inequality —as without spending about one-quarter of GDP trying to sweeten its impact, 'market'-Ginis above 50 would have been politically intolerable! I devoted most of my "Amartya Sen Lecture" to the analysis of this European "social-democratic distributive failure".[85]

And this distributional 'market failure' is not only about letting an artificially-engineered increase in market-inequality continue unabated; it is also about the inevitable plethora of market distortions, transaction costs and public debt associated with letting market-inequality go one way only to try then to reverse it afterwards. It was like the nursery rhyme The Grand Old Duke of York: 'He had ten thousand men; He marched them up to the top of the hill; And he marched them down again'. Getting to a disposable-income inequality of around a Gini of 30 'at source', as Taiwan and Korea do, it is surely a first best route!

Furthermore, as for the rich and large corporations paying taxes has become something of 'an optional extra', instead of the winners compensating the losers, in the new process of Western "rentierisation" it is those not invited to the party (middle and upper middle) who are left with most of the redistributional tax-bill.

As Sartre (1975) reminded us, nothing defines us better (as individuals or as a society) *than the choices we make* —and none more so than the income distribution we collectively *choose to have*, and often justify. Following his lead, and as the title of one of my papers emphasises, I do believe that in the final analysis "every country deserves the inequality it has".[86]

The lesson from the above to highly unequal middle-income countries, such as those of Latin America, is clear: there is a choice! If (and it's a big if) they really want to do something about inequality, they can either follow the European convoluted social-democratic path —and play the double act: keeping rentiers happy while developing a Welfare State of titanic proportions; or they can re-engineer their productive strategies and institutions —and ideology (towards a "no-rentier-nonsense" one—, so that low levels of inequality can be generated 'at source', *in the market*. Figure 10 highlights this choice.

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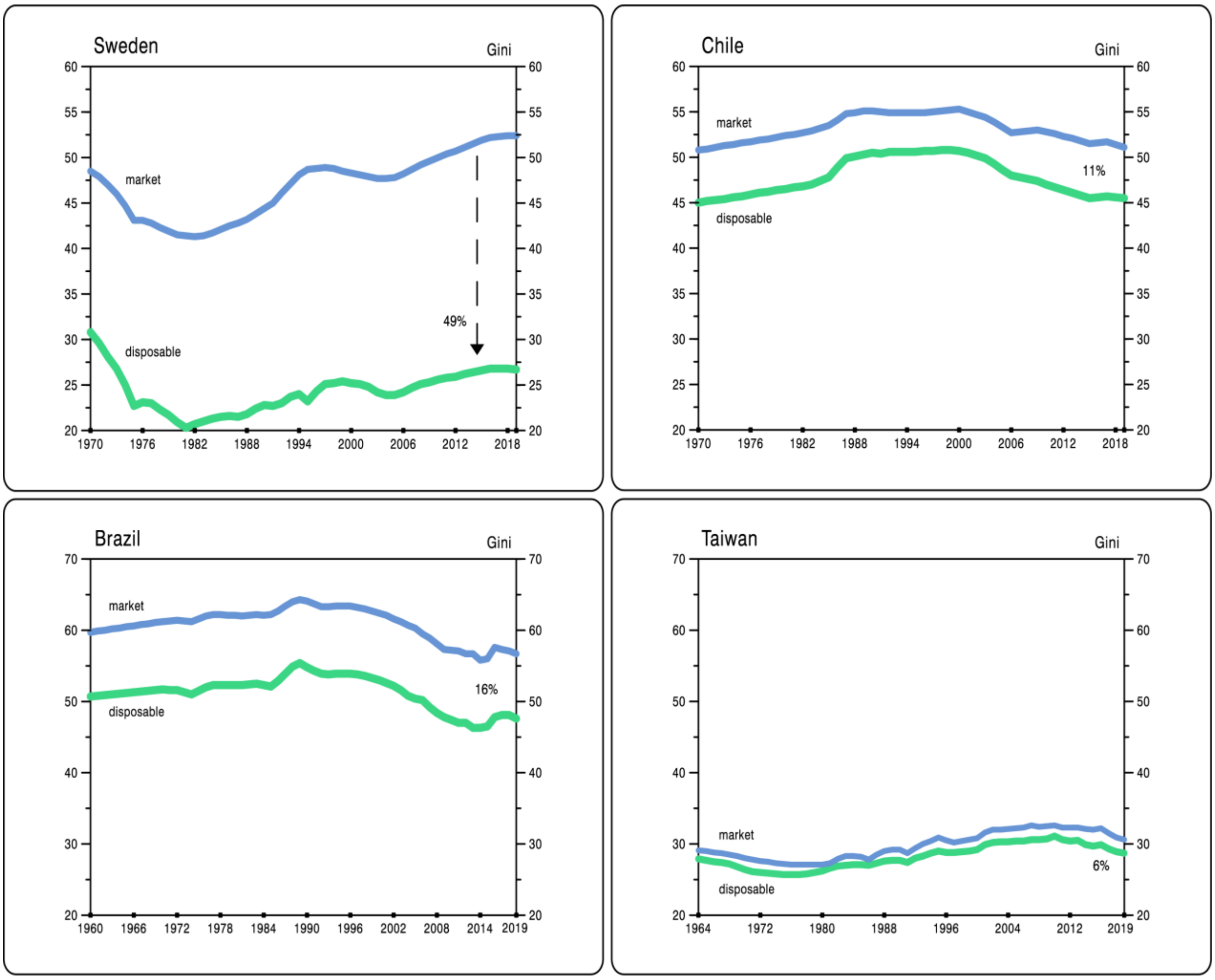
[84] https://www.oecd.org/social/expenditure.htm

[85] See https://www.youtube.com/watch?v=wY9XFQA-McA

[86] Palma (2016).

FIGURE 10

Brazil, Chile, Sweden, and Taiwan: market vs. disposable income-inequality, 1960-2019



- As figure 9.

Basically, while Taiwan's top 1% appropriates rents from knowledge by, for example, manufacturing semi-conductors and high-end chips, and Korea's by building cutting-edge cars, Chile's counterpart gets there by appropriating oligopolistic rents from building shopping malls to sell gadgets with those semi-conductors, and by filling the tank of those Korean cars with petrol.[87] But in Chile to get to that exclusive 1% means earning a share of national income that is about *twice as large as in Korea*.

Average productivity growth may have been stagnant in Latin America for over four decades (and in Chile for the last 15 years), but during this period it was often the region with the largest relative increase in the number of (Forbes-type) millionaires, centi-millionaires and billionaires in the world.[88] And the more 'social-democratic' the government, the larger the increase![89]

[87] Palma (2019a).

[88] https://www.forbes.com/billionaires/.

[89] Palma (2020c) and (2022b).

In fact, according to Bloomberg, of all the conglomerates in the "materials sector" of the FTSE100, it was a Chilean conglomerate that *distributed the highest dividends in the world* in the period they study.[90]

Furthermore, in Taiwan and Korea there was also an emphasis on securing an "open access order" (Douglas North's-style), in terms of avoiding elites blocking the access of others —Latin American-style; and now also "big-tech" conglomerate-style.[91] Thus, in Korea 7 of the top-10 conglomerates in the 1970s were 'new entrants' to that top position; and, again, 4 conglomerates of the top-10 in the 1980s were not there before, as were 4 in the 2000s. And two in that position today were not part of that privileged few then. In all, only 2 of the current 10 largest conglomerates had such a position in the early stages of the Korean productive transformation (Samsung and LG).

This constant renovation of the business elite seems to have been vital *for sustaining a process of systematic 'upgrading' of the productive strategy* —something essential for closing the productivity gap with the frontier in a sustained way (see Figure 8 above). Otherwise, one gets into North's "limited access order" Latin American-style —and now 'large-tech'-style—, where rentier elites are able *to divide up the control of rents and block the access of others*. And this is the recipe for getting stuck in productive strategies when existing ones have run their course and become counterproductive.

As discussed above, this inability of middle-income countries to 'upgrade' and 'diversify' productive strategies when existing ones have become obsolete is in fact my way to understand the "middle-income trap". This rotation in the Korean elite, for example, seems to have been crucial for keeping market-inequality within reason as well.

And regarding Western advanced countries, as Martin Wolf remarked, rigged capitalism —North's "limited access order"-style— is damaging liberal democracy; and all this because of the rise of rentier capitalism; i.e., "economies in which distorted market and political power allow privileged individuals and businesses to extract a great deal of rents from everybody else".[92]

Mariana Mazzucato (2013) and (2018), in turn, emphasises that as value is created collectively, and as markets are *co-shaped*, value should be shared in a rather different way than it is done now —where a few can appropriate a great deal of value created collectively. Therefore, the issue of *who appropriates what* is a far more complex issue than is acknowledged in mainstream economics.

Surely Western European and Latin American obscene market-inequality, weak investment, and lethargic productivity-growth can be re-engineered. Saint Augustine argued that our free will has been weakened but not destroyed by the original sin.

PART 4: Is this still capitalism?

11).- As the rentier forces of predation take over, is this still capitalism?

As Durand (2000) asks, "if in this ["rentierised"] configuration, investment is no longer oriented towards the development of the productive forces, but to the forces of predation, …is [this] still capitalism?"[93] Varoufakis (2021), for example, argues that it is not; rather, "techno-feudalism" has taken over our mode of production. So, he downgrades those tech-

[90] https://www.bloomberg.com/. The same conmglomerate, Chile's largest, has just reported record profits in its 65-year history, despite its economy being in 'thecnical recession'. (https://www.emol.com/noticias/Economia/2023/03/30/1090880/quinenco-ganancias-historicas-2022.html).

[91] See North et all. (2007).

[92] https://www.ft.com/content/5a8ab27e-d470-11e9-8367-807ebd53ab77.

[93] Quoted in Morozov (2022).

giants to the status of "feudal landlords". Other talk of a new configuration resembling a "vectoralist" mode of production.[94]

From my Ricardian perspective, however, the forces of predation that have surely taken capitalism over now belong to the same 'species' than traditional rentiers; but as the world economy as well as technology have moved on, now some of these rentiers have reincarnated as globalised "tech"-giants and others as masters of the world of finance. And they certainly rule the Western world, but they can only do so thanks to a new institutional scenario built after 1980, and the politically-paralysing effects brought about by the "absolute certainties" of a new hegemonic ideology —like that of the already mentioned principle of no "contestation" over predator rights. Also, lack of real opposition also comes from the "new left" as it has never been able to unshackle itself from its ghosts from the past.

What is really remarkable is how these rentiers have twisted the new IT technological paradigm and world order into becoming a new rent-making machine of a new class of rents. Now whoever controls the platform through which trade takes place is in an unassailable position, as once one gets the advantage, it is almost impossible for anyone else to catch-up —unless, of course, the State does something about it, as in China.

From this perspective, it's also quite remarkable how Western Europe (especially the European Union) have done nothing to help develop their own "tech"-giants to compete with those from the US and China —i.e., how, like Japan, they are now happy to accept a subordinate place in this new "tech" world order. Not surprisingly then, in 2022 two-thirds of the top-100 corporations in the world by market capitalisation were from the US —with a total capitalisation of US$23 tr.[95]

That the forces of predation have taken over almost every aspect of Western economic life that is certain. But does that mean that we are witnessing a form of "re-feudalisation", as the authors quoted above (and many others) argue? Or just a new form of rentier-capitalism, with its own brand of "non-creative" destruction? In Appendix 3, I argue that "rentierism" and "creative destruction" are two opposite varieties of capitalism —with many in between. And the current Western-style neo-liberal model, with its endless new sources of rents and squeezed profits of those trying to do something socially useful on the production side, is just a particularly dismal form of rentier-capitalism; but surely capitalism it is! In this world of multiple equilibria, this is just one variety of capitalism. And if we are now stuck in the West with this dismal one, we have no one else but ourselves to blame for it, as it is something entirely self-constructed since 1980.

Basically, the fragility of the argument of those who say that "techno-feudalism" has taken over our mode of production consists in its confusing a socialist critique of rentier-capitalism with the analysis of its workings. It is surely a feeble form of capitalism, unable to deliver productivity-growth in the West; it's also remarkably exploitative, and for sure intolerable, but that's another matter. As Appendix 3 analyses, whatever these "tech"-conglomerates are, "techno-feudalist" they are not!

Living on the value created by others (including, of course, the State), plus dispossession and expropriation, have been constitutive of capitalist accumulation throughout history. But as our technological paradigm and world and financial order have changed beyond recognition, and as unproductive rentiers have taken completely over, they have re-emerged in a different form and intensity.

The fall of investment rates and the collapse of productivity-growth throughout the Western World, as well as stagnant or even declining wages indicate as much —in the UK, for example, the average worker makes today £11,000 less per year due to the 2008 financial crisis and the stagnation of productivity-growth that followed.[96] The "stationary-state" of

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[94] Wark (2019).

[95] https://www.statista.com/statistics/263264/top-companies-in-the-world-by-market-capitalization/

[96] https://economy2030.resolutionfoundation.org/wp-content/uploads/2023/02/Minding-the-productivity-and-income-gaps.pdf. For productivity-growth, see TED (2022).

Ricardo's model already gave us some hints of such a dismal scenario — in 2019 (i.e., before the pandemic), the 'market-Gini in the UK stood at 53, the investment rate did not even reach 18% of GDP, and productivity-growth since 2007 had averaged 0.04% p.a. What a Ricardian rentier-trilogy! But now all this takes place in the middle of a most remarkable technological revolution, and with UK exports being equivalent to about one-third of its GDP —i.e., not even the Ricardian cavalry is now able to come to the rescue anymore. So, "rentierised" Western economies keep sinking in the quicksand of inertia. And emerging Asia, especially (but not only) China, cannot believe its luck!

Conclusions

As I understand it, the key lesson from all this is that now, as a new breed of all-powerful rentiers have taken over politics, institutions and economics —as well as even the ability "to craft" a helping ideology—, the "natural state" of Western capitalism seems no longer to be a dynamic mode of production capable of developing the productive forces of society in a dynamic and systematic way, as envisaged by Smith, Marx and Schumpeter, among many others. Instead, the new "natural state" has become something resembling the gloomy "stationary state" in Ricardo's model.

What's really new is that now neither technological change nor international trade seem to be able to change this. For someone coming from Latin America, there is a clear sense of familiarity —as this region's long-standing "rentierism", with its obscene market-inequality, traditionally low levels of investment and feeble productivity-growth (and often stagnant real wages), have now become the norm. And to expect that a return of industrial policies would somehow magically change all this is a bit optimistic.

Oddly enough, as Figure 6 indicated, it was only when Latin America diverted its rent-making machine to manufacturing during its ISI period, despite all the problems involved, at least countries with large domestic markets managed to post dynamic rates of productivity-growth for the whole economy — 4.1%p.a. in Brazil and 3.1% in Mexico (1950-1980). Kaldor would probably not be surprised, as manufacturing can realise at least some of its increasing returns to scale even in a large "rentierised" ISI environment. But as soon as the rent-making machine was diverted to the mere extraction of natural resources, oligopolistic control of services and extortionary finance, average productivity-growth even in these two countries collapsed to 0.1% p.a. and -0.1%, respectively (1980-2019).

For many analysts (including Krugman) Latin America was always an 'aberration' within the world capitalist system; it had every ingredient needed for growth, but their weak States, especially after 1980, could never discipline their oligarchies to use their rents productively —there was not even a progressive elite with which to bargain! However, now is becoming clear that this region was just a warning of things to come in terms of what would become the 'norm' in a "rentierised" capitalist world (as some of us have been arguing for some time).[97] Ricardo should feel vindicated.

And as within neo-liberalism what is ultimately on offer for workers and the State is a permanent life on the edge in a high-risk and unstable 'order', in which only mobile rentier-capital can thrive, Keynes and the 'Classical Cambridge tradition' should also feel vindicated —as a great deal of their ideas were about fighting this type of inefficient and old-fashioned "anti-coordination" games, searching for more efficient and stable growth-enhancing cooperative outcomes. Even some neo-classical economists, such as Lipsey and Lancaster, should feel the same as they did warn —and in no uncertain terms— that in policy making fundamentalist belief and petty rentier-interests would become a toxic combination if there ever was one.[98]

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97 See, for example, Palma (2010), (2019a, b and c) and (2022b).

98 Lipsey (2007) revisited this issue in the 50th anniversary of their theory of "the second best".

There is no greater challenge for capitalism than to engineer a scenario that would favour growth-enhancing conditions under which *the competition over rents would take* place. Some emerging Asian countries succeeded in creating this scenario by negotiating "compulsions" for rents to be used productively (see Appendix 2). As Oscar Wilde suggested, *if you craft the conditions, you may well get the results*.

The irony is that the neo-liberal discourse was about "unshackling" capitalism from all those Keynesian 'rigidities' and 'distortions' brought about by well-intentioned but (supposedly) economically misguided post-war policies. However, what they delivered, instead, was a scenario with a tsunami of "easy" rents. And this rentier's paradise (unsurprisingly) has strengthened the hand of greedy and lazy elites.

Moreover, as the conditions necessary for creating value-enhancing rents and the magnitude of rent-seeking costs do change in time **—**especially with technological change and shifting political settlements**—**, rent-seeking must be understood *as a process*. As Khan (2000a) emphasises, no-one, whether developing or developed, has solved the rent-seeking problem by abolishing rents; it's a question of how to manage them!

From this perspective, neo-classical economics of the 'markets always know best'-style is bound to struggle with the complex issue of rents and rentiers; so, they tend to take the easier ideological route of focusing on rent-seeking as a dirty word. At the same time, some heterodox narratives that like to understand emerging countries as somehow helpless victims trapped in a hierarchical world economy that coerced them to do what is against their own interest (e.g., the "International Financial Subordination Hypothesis") should also think again.[99] In the whole world, few domestic elites were more at home with "rentierisation", and happier to build upon it (especially facilitating the process of financialisation), and have benefited most from it. If that was what the 'usual suspects' in the North and international organisations wanted **—**as they surely did**—** they could not have found a more powerful domestic ally.

This remarkable capacity of capitalism to "adapt" goes a long way to explain the large diversity of capitalism across the world. In fact, I would argue that perhaps the main *weakness* of capitalism **—**and why it has lost much of its drive**—** lies precisely in that *it adapts too easily to the whims of rentier*s, and is happy *to introject* their growth-retarding charms. With capitalism "all that was solid" was supposed to "melt into air"; well, not quite with rentiers, especially those living from rent-bearing financial and "non-produced" assets.

Paraphrasing Oscar Wilde once more, the key message of this paper is that the main impact of the neo-liberal reforms in the West was to engineer *the political and institutional* scenario where anyone who wanted to make money by doing something socially useful on the production side *must be suffering from a serious lack of imagination*.

There are, of course, many underlying questions that need further analysis: why is it that the diversity of rent-seeking "outcomes" reflects so little the variety of fundamentals, and so much the multiplicity of political settlements, power structures and choice? Why the rising market-inequality in the Western North has little to do with somehow 'exogenous' factors (e.g., Piketty's r>g), and a lot with the complex interactions between new political settlements and market failures? How do we get through the veils obscuring these interactions and distorting our vision of the often self-constructed nature of inequality? Has neoliberal globalisation broadened the scope for 'distributional failures' and 'underperformance' in the Western North by, for example, triggering a process of 'reverse catching-up' **—**so that highly unequal middle-income countries now embody the shape of things to come? Is this still capitalism? If so, what kind? And, most importantly, how can it be changed **—**after all, as someone famously said, the point is not to understand reality, but to change it!

This article tries to answer these questions following Geoff Harcourt's lead: returning to the classics! From this perspective, few have made such devastating critiques of

[99] See Alami et all. (2021). For a critique, see Palma (2022a).

mainstream economics as he did throughout his academic life.[100] And few have had such capacity to motivate the imagination of others on this front.

And by returning to the Ricardian tradition of understanding the relationship between income distribution, investment and productivity-growth as the outcome of an "antagonistic" conflict between rentiers and capitalists —a conflict in which there are also a multiplicity of other actors and struggles, and where ideology, history, politics and institutions matter as much as economic "fundamentals" — I hope to have shed some light into Krugman's analytical challenges.

Furthermore, as these conflicts also relate to the political sphere, there are no purely logical solutions, but rather options in a scenario of multiple equilibria.[101] Moreover, as dysfunctional institutions have had a great "ability to persist", they have transformed this process of rentierisation" into a "stationary" one: i.e., the unbalancing impact of shocks (like the 2008 financial crisis) seems to have only limited life spans.

And in terms of the "what" should be done, the last thing we need is yet another mechanical "rebound effect" —as that analysed by Hirschman for the neo-liberalism of the 1980s. And on the "how", as we are stuck in a "Gramscian moment", where the old fades but the new fails to be born, the crucial challenge ahead is how to construct an alternative narrative that can generate *sufficient credibility*. However, our failure to do so is part of the roots of the ideological obscurantism of our times: as neo-liberalism has conquered the Western world as completely as the Holy Inquisition conquered Spain —including many in its left-wing intelligentsia— it has actually had the effect of 'closing the imagination' to conceptualising alternatives.

Foucault (2004) argued that the development of social sciences was interrelated with the deployment of more 'modern' forms of power. But in the neo-liberal world, since States now often govern via relatively crudely mediated forms, they have not required more advanced forms of social knowledge, or more sophistication in its forms of control; so, social sciences have been relegated to a relatively marginalised academic enterprise.

The Keynesianism of the 'golden age' did certainly need an 'upgrade', but the "reverse-gear" one that followed was an aberration —to the point that even Paul Volker argued that the US is now a 'plutocracy'.[102] And as Theodore Roosevelt remarked, "Of all forms of tyranny the least attractive and the most vulgar is the tyranny of mere wealth, the tyranny of plutocracy" (Roosevelt, 1913).

No wonder that as a Latin-American living so long in the Western North, I had a feeling of *déjà vu*… Indeed, I live surrounded by people whose life is no longer as easy as the income per capita of their countries might suggest —as now they have not only a family but also a plutocracy to support. Welcome to the Third World!

[100] For a reassessment of this issue late in his life, see Harcourt (2016).

[101] Laclau and Mouffe (2014).

[102] https://www.nytimes.com/2018/10/23/business/dealbook/paul-volcker-federal-reserve.html?smid=fb-nytimes&smtyp=cur--; see also https://thehill.com/policy/finance/412756-volcker-warns-of-us-descent-into-plutocracy/

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Appendix 1: How mainstream economics reacted to "rentierisation"

Briefly, when rising market-inequality in the advanced West, coupled with a declining investment rate and a collapsing productivity-growth 'did not fit in their models', most of "state-of-the-art" mainstream economics (although there were exceptions), instead of attempting to rethink their worldview, opted instead for 'more of the same', trying constantly to generate a positive spin on these events.[103] Had they followed the lead of two of their own pioneers in policy matters (Lipsey and Lancaster, and their theorem of the "second best"), they might not have been at such a loss analytically.

These two economists had shown the mainstream the way forward: for neo-classical economics to be relevant, the algebra needs to be weaved in so as to get as close to the real world as this methodology would allow —*no matter how many fundamentalist ("first best") beliefs needed to be discarded on the way*.[104] Pragmatism was the crux of policy-making success. For most of the current mainstream, instead, it is as if they fear that by allowing new ideas or forms into their system of belief *these might destroy belief itself*.[105] Particularly for neo-liberals, "purity of beliefs" has always taken precedence over the complexities of the real world. Therefore, ideas such as the need for full financial and trade liberalisation, across-the-board market deregulation and the retreat of the State to a mere "subsidiary" role have become 'ends' in themselves, rather than just 'means' that (at least according to their narrative) could help —under certain *very specific conditions*— achieve an efficient allocation of resources.

Furthermore, in most of the mainstream theoretical narrative these key necessary conditions for market efficiency —such as the necessity that all agents should be "price" and "rules takers" (rather than "makers"), that governments should be able and willing to pass on to relative prices all 'externalities' via taxes and transferences, and that contracts should be as "complete" as possible— have became optional extras as they all obviously clash with the necessities of a "rentierised" environment.[106]

Meanwhile, they keep delivering a set of ever more unconvincing storylines to embellish whatever they cannot explain —specially the "inequality-underperformance" rentier-syndrome—, generating relentlessly a positive spin on these events, dressing them up with explanations that are consistently simple, mechanical and invariably 'optimistic'.

In turn, on the heterodox side of the analytical spectrum, some —but certainly not all— analysts have fallen into the same "neo-phobic" trap (the fear of the new; in this case, of new ideas). Furthermore, this fear not only keeps them stuck in theoretical narratives that also need an urgent revamp, but sometimes this also led them to story-telling —although in this case the stories are invariably 'pessimistic'.

As Robert Lucas told students graduating from the University of Chicago, "Economists …are basically storytellers, creators of make-believe economic systems".[107] In that fashion, years later (2003) he added statements such as that recessions were a problem of the past, as the issue of their "…prevention has been solved".[108] In fact, in the two decades that followed his statement productivity-growth stood practically stagnant in Western Europe, with an average annual rate of just 0.4% (in Japan 0.1%).

What Lucas forgot to say is that what is truly unique about mainstream economists (and beyond) is not that they are storytellers, but how easily the 'story-telling' convinces the story-tellers themselves! Surely Jean-Paul Sartre would have felt that his *mauvaise foi*

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[103] For an analysis of this phenomenon, see Palma (2023).

[104] Lipsey and Lancaster (1957).

[105] On fundamentalism, see Britton (1998); see also Palma (2014), and (2023).

[106] Contracts should be "complete" in that they should specify all relevant contingencies at no cost.

[107] https://home.uchicago.edu/~vlima/courses/econ203/fall01/Lucas_wedo.pdf

[108] https://www.ft.com/content/f58582b1-b5d6-4268-aa2e-ee370c05e761

hypothesis (i.e., how often narratives are an exercise destined as much to deceive oneself as to convince others) has been truly revindicated.[109]

Appendix 2: The 'secret' of emerging Asia's success

As mentioned above (Section 6.2), there was diversity among emerging Asian countries in terms of how they dealt with the Ricardian rentier-trilogy. Korea, for example, dealt with the growth-retarding impact of "easy" rents by having a strong State *capable and willing* to create the necessary policy "compulsions" to force rentiers to use them productively. In this model, "easy" rents even h*ad a productive purpose*: it was the way to provide conglomerates with the necessary finance to "catch-up" with the productive frontier.

Thus, conglomerates were often able, even encouraged, to rent-seek on captive domestic markets in a pretty ordinary way (e.g., Hyundai); they also had access to subsidised finance, limited competition (with *temporary*-restrictions to others accessing state-created rents), and many other privileges. Thus far, nothing that different from Latin America's ISI model, and the "easy to acquire" side of its rents.

However, there was a catch: in Korea rents were not "easy to spend"! In order to have access to those rents, one had to fulfil tough performance-related conditionalities, especially in terms of export targets and product diversification. And the only way to be able to achieve them was to behave as a Schumpeterian entrepreneur of the "creative destruction"-type when it came to using those "easy" rents. But for this model to work, it is essential *that threats of withdrawing support* if performance-related conditionalities were not fulfilled *should be credible*!

In fact, in Korea the State did let some conglomerates go under (as in the passenger car industry), and nationalised others (e.g., KHIC) when they failed to fulfil those conditionalities.[110] Its (not very democratic) State was capable *and* willing to "discipline" the business elite!

In the Latin American "rentierised" business model things are the other way round: *it's the threats of the rentier-elite that are credible*. It is they who are capable and willing to "discipline" the State, so as to keep the flow of unconditional "easy" rents going. That was the whole point of building their specific set of neo-liberal institutions and rules, as in a (chicken-game-style) distributional struggle the 'game' could easily become one of 'brinkmanship'.[111] These were crucial to promote *the credibility of one party over the other*, since credible threats —no matter how irrational— can be very effective in such a scenario.

For Foucault (1979), neo-liberalism was never meant to be just a set of (supposedly) "first-best" economic policies, *à la* Washington Consensus, *but a new and more effective technology of power*. Basically, neo-liberalism was about "[a] state under the surveillance of the market, rather than a market under the surveillance of the state".[112] Not in Korea!

Taiwan, instead, achieved its growth-enhancing trilogy by "governing the markets"; as Wade (2003) explains, it redirected its industrial structure towards a different path than it would have otherwise taken, and in doing so, it tried to emphasise the synergies between the public and the private sectors. No "inequality-underperformance" here, as it simultaneously achieved one of the lowest 'market inequalities' in the world (Figures 5 and 10), and one of the most remarkable processes of catching-up with the production frontier ever (Figure 8).

Singapore, in turn, although making a less ambitious distributional choice than Korea and Taiwan, is a great example of how to use productively the rents from "non-produced" tangible assets —like those coming from its two main natural resources, its port and

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109 Sartre (1975).

110 See Chang (1993), Khan (2000 a and b), Amsden (1989); Shapiro and Taylor (1990), and Andreoni and Chang (2019),

111 See Palma (2020c).

112 Foucault (2004). For a brief analysis of these ideas, see Palma (2009a); see also Frangie (2008).

residential land. It transformed these rents into a key driver of productivity-growth, particularly during the early stages of its industrial drive. For example, instead of privatising its port (let alone doing so for a song, à la Anglo-Iberian-style), it kept it in public hands and transformed it into a rent-making machine, whose rents —together with those from state-owned residential land and many public conglomerates— helped finance investment in human capital, and the development of a strong and sophisticated R&D sector, as well as a world-class health and education systems. And this worked as a magnet for high-tech FDI.

For example, when Rolls-Royce's aircraft engine facility made its first investment outside the UK to build some of the engines that would power the biggest passenger plane in the world, the Airbus A380, Singapore was its obvious choice in Asia.[113]

Even today, in Singapore about 80% of residential land is state-owned, and more than 20% of GDP is generated by public conglomerates; and their rents keep feeding its constantly-upgrading productive strategy.

Thus, from the start there was diversity among successful NICs-1, but the unity within this diversity was a “no-rentier-nonsense” hegemonic ideology, and a Kaldorian pro-manufacturing productive strategy with the necessary flexibilities so as to keep evolving in time.

Latin America, instead, with its extreme and corrupt neo-liberal reforms not only threw-in the manufacturing towel (its productivity-growth has been stagnant since 1980)[114], but also then got stuck in its mere ‘extractive’ productive strategy: as mentioned above, in the case of Chile, for example, half a century since its reforms, and copper concentrates continue to be its main export product by value, its useless slag its main one by volume, and its unnecessary sea-transportation one of Chile’s main (and most easily avoidable) contribution to climate change.

In terms of manufacturing, this region’s share in emerging markets’ manufacturing output fell from *over half of the total in 1980* to only one-tenth in recent years. In fact, the relative rise in this statistic of emerging Asia, especially China, is the mirror image of that decline.[115] This raises the obvious question (beyond the scope of this paper) of why Latin America chose to waste the unique opportunity it had to benefit from globalisation given its supremacy in the developing world in terms of manufacturing before 1980. Instead, it was crushed by it!

China, instead, thrived in the new scenario; just one remarkable feature of its manufacturing export success is the range of products involved: by 2019 it had more than doubled its global market share in over 60% of the manufactured products it exported in 2000.

China’s basic solution for the challenges of the productive use of rents (global warming apart) was to let public sector enterprises generate most of those rents, and then let policy decide how to use them productively. And on top of that, there was a strong public sector investment drive throughout —reaching nearly 15% of GDP, while in Brazil, for example, it hardly got to over 2% of GDP (with the IMF reporting that in 2021 it only reached 1.1% of GDP).[116] At the same time, China developed strong synergies between its public and private sector —no “crowding-out” in China’s model![117]

The real puzzle is that this policy of a strong public sector presence in the economy had already been used extensively by developing countries, and often without much success. What’s new in China is how effective those public conglomerates have been both in generating rents, and in investing them productively —particularly in strategic ‘upstream’

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[113] https://www.bbc.co.uk/news/business-16789111

[114] Palma and Pincus (2022), and Palma (2022b).

[115] WDI (2022).

[116] WEO (2022).

[117] See, for example, https://doi.org/10.1080/13569775.2021.2022323

sectors of the economy (what use to be called its "commanding heights"). At the same time, public investment has been particularly effective in generating what the New Growth Theory calls 'complementary capital'; if anything, there has been some 'over'-investment in some areas of infrastructure (as well as in residential construction).

Perhaps one factor in this success (which helps illuminate this puzzle) relates to the fact that up to very recently almost all political and economic top jobs in China were taken by engineers and scientists —economists and lawyers need not apply! In this tradition, China's current president is a chemical engineer; his predecessor a hydraulic engineer, and the one before him an electrical one; and until very recently, most top Communist Party leaders were engineers or natural scientists —including almost all the members of the Standing Committee and most CEOs of public sector conglomerates— with their 'let's get it done' mindset.[118]

There are, of course, many dark sides to China's success, including many extreme ones in its political settlement; also, its pollution at home and contribution to overall climate change has been appalling: between 2000 and 2019 (i.e., during the same period of the example of export success), it has also *more than doubled* its share in global fossil CO2 emissions.[119] In fact, today China emits more greenhouse gas *than the entire developed world combined*.[120] At least it now spends over half a trillion dollars a year in clean energy (including solar and wind energy, electric vehicles and batteries), an amount that is nearly four times that of the US, and three times the EU's —not least because it knows that green-technology is one of the most demand-dynamic products of the future.[121]

Another dark side of China's success is that it let its market inequality increase by no less than 16 percentage points in the Gini-scale between the start of its industrialisation drive (around 1980) and the average of the period discussed above (2000-2019).[122] However, no Ricardian rentier-trilogy here, as this came hand in hand with an increase of about 15 percentage points of GDP in its gross fixed capital formation (1980 vs. its average post- 2008 financial crisis). In turn, its productivity growth increased by almost 5 percentage points (1980-2019 vs. 1952-1980).[123] In terms of investment per worker, for example, while Latin America's average has remained stagnant in real terms since 1980, China's has increased this ratio by a factor of more than 20 —perhaps one can have too much of a good thing!

The diversity among emerging Asian countries also increased with the rise of the NICs-2 (such as Malaysia, Thailand and Indonesia). However, in time, some middle-income Southeast Asian countries have also shown some signs of falling into a Latin American-style "middle-income trap", as they have struggled to 'upgrade' and 'diversify' their growth strategies after the 1997 financial crisis.[124]

Finally, on India's own way of dealing with the Ricardian rentier-trilogy, first, its market inequality did stay stable since 1980, but at the high level it already had when Mrs. Ghandi was re-elected that year and its growth-rate began to accelerate. In fact, according to Solt (2022), its high market Gini in 2020 (44.3) was exactly the same level as in 1980 —but, due to the usual problems of the Gini, this tells us little about what was happening with workers and the very poor.

But this 'high-Gini-constancy' came with an increased of its investment rate from an

118 This trend, however, has changed during the current administration, as well as the fact that now an ever increasing proportion of China's top politicians have studied in the West (https://www.economist.com/china/2023/03/09/many-of-chinas-top-politicians-were-educated-in-the-west).

119 https://www.icos-cp.eu/science-and-impact/global-carbon-budget/2021

120 https://www.bbc.co.uk/news/world-asia-57018837

121 https://www.scientificamerican.com/article/china-invests-546-billion-in-clean-energy-far-surpassing-the-u-s/

122 Solt (2022); Palma (2019a).

123 TED (2022); data available only from 1952.

124 For a detailed analysis of this issue, see Palma and Pincus (2022).

(harmonic) mean of 19% of GDP during the 1970s to 28% between 1980 and 2019.[125] In turn, productivity-growth followed suit, increasing from its 1.7% p.a. growth-rate (1950-1980), to no less than 4.9% between then and 2019 (second only to China during these four-decades) —multiplying the level of productivity of the average worker by 6.2 times during this period.[126]

However, and unfortunately, even a basic analysis of the complex way by which India managed to put together the pieces of this puzzle (high but stable inequality coupled with accelerating investment rates and productivity) is well beyond the scope of this paper.

Finally, we are still left with a tricky *question*: is it possible to have the "strong-State" that seems essential for "disciplining" the capitalist elite into using their resources productively, as well as a democracy? One *willing and capable* of withdrawing support if performance-related conditionalities for acquiring "easy" rents are not fulfilled? Particularly in the current scenario where new rules and institutions have reduced significantly the policy space for progressive agendas?

In today's world, a democratic progressive agenda needs a particularly large and strong domestic constituency behind it —simple majorities won't do anymore—, so as to be able simultaneously to take on all the 'usual suspects' in the form of international and domestic forces that would fiercely oppose it. And for that it is essential to be able to construct an alternative narrative that can generate *sufficient credibility* —that's the *first* crucial challenge ahead. Otherwise, we would continue to be stuck in our "Gramscian moment".

Appendix 3: Is this still capitalism?

As already mentioned, analysts such as Varoufakis (2021) argue that "techno-feudalism" has taken over our mode of production —particularly after the 2008 global financial crisis and its US$16tr "QE" rentier-carnival (and, then again, in response to Covid-19, another US$9tr; getting to 10 at the time of writing). So, he downgrades those tech-giants to the status of "feudal landlords":

> Today, the global economy is powered by the constant generation of central bank money, not by private profit. Meanwhile, value extraction has increasingly shifted away from markets and onto …private fiefdoms …Digital platforms have replaced markets as the locus of private wealth extraction. …And class-based politics …is finished.

In other words, if the forces of predation have taken over, and central bank support has become endemic, this must mean that "we are not in Kansas anymore" (to use Carlos Díaz-Alejandro's metaphor).

That the forces of predation have taken over almost every aspect of economic life that is certain. For example, even the break-up of the value-chain has become a great mechanism to rent-seek on cheap labour and often diabolical working conditions in low-income countries.[127] In fact, according to the ILO, most global conglomerates have modern slavery in their supply chains.[128]

In turn, this break-up of the value-chain led the US to lose about half of its manufacturing employment, and Western Europe more than one-third —and this has surely not been part of a process of "positive" de-industrialisation.[129] Instead, and more to the point: since the late eighteenth century "industrialists have been the shock troops of capitalism", and

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[125] WDI (2022).

[126] TED (2022).

[127] https://www.ilo.org/global/topics/geip/WCMS_614394/lang--en/index.htm

[128] https://www.ilo.org/global/topics/forced-labour/publications/WCMS_854733/lang--en/index.htm; see also https://journals.sagepub.com/doi/epub/10.1177/00221856211054586

[129] Singh (1977); see also Palma (2005, and 2019c). On how to reverse this, see Sachs (2017).

this "…has generated a great deal of hostility among rentiers".[130] Today, instead, these annoying troops have been reallocated to emerging Asia, while the rent-making ends of the value chain —design and marketing— have been kept at home (the former consisting of R&D and key parts, patents and technology; while the latter, marketing, centres on brand and services).

This business model has proved productivity-growth retarding for the advanced West as it ignores that Nicholas Kaldor's argument that manufacturing has the greatest scope to realise increasing returns to scale remains true, even in today's world. Furthermore, it also ignores all the synergies between the production line and innovation and with the rest of the economy in terms of the creation of chains of suppliers, specialised services, skills and so on.

In turn, "rentierised" Latin America has also given up on most of its manufacturing; not only output growth collapsed throughout Latin America, especially in Brazil and Mexico (despite NAFTA), but also in this process of "premature" de-industrialisation average productivity-growth in manufacturing in both countries simply disappeared after 1980 —in Brazil it fell from 4.6% p.a. in 1950-1980 to a negative figure (-0.7%) between 1980 and 2018; and in Mexico from to 2.4% p.a. to just 0.2%, respectively.[131]

In fact, just a few years after the neo-liberal reforms —which switched the "easy" rent-making machine from manufacturing to finance, natural resources and natural monopolies— half of the legendary "Paulista industrial bourgeoisie" had already transferred to finance; and others bought privatizations of natural monopolies at "outlet-prices". Meanwhile, the most enterprising moved to "extractivism", seeking "easy" rent from natural resources —without much concern about destroying the Amazon on the way.[132]

Financial markets have also changed beyond recognition all over the Western world (and beyond!) —e.g., the 10 largest institutional investors now own more than a quarter of the US stock market, and M&A worldwide between the start of "QE" in 2008 and that of "quantitative tightening" (QT) in 2020 reached US$46tr (in 2020 dollars), the biggest anti-competition drive ever!

As a result, now just three *newly created conglomerates* control more than 60% of the seed and agrochemical market, almost all GMOs and the majority of patents on plants in the world). And "private equity" (PE) industry have been raising nearly one trillion a year (while enjoy selling already owned companies to themselves); hedge funds, PE groups and venture capital funds have amassed more than US$18tr in gross assets (an amount larger than China's GDP); "CDOs", the securities that wreaked havoc during the 2008 financial crisis, now called "COFs" (collateralised fund obligation), have made a strong comeback and again have a strong credit-rating —i.e., financial markets are doing exactly the same thing all over again and are expecting different results (for Einstein, this is what insanity is all about).

And while the S&P500 was having the longest bull market on record (2009-2018), which created more than US$18tr of virtual wealth, the median US household wealth was actually falling. And since Reagan legalised stock buybacks, a total of US$16tr has been spent on this by corporations in the S&P 1500 (about US$10tr since 2008; all in 2022 dollars). In turn, the retirement assets of just 100 CEOs added up to as much as the entire retirement savings of more than 116 million people at the bottom of the pay scale.[133] Is this still capitalism?

From my Ricardian perspective, the answer is that it surely is! The "tech"-conglomerates may get most of their revenues from rent-seeking on the ownership and control of new forms of assets, such as information and the platform through which trade takes place, *but* the appropriation of these rents still depends on having to deliver in parallel —in a very traditionally capitalist way— some product or service to allow those rents to be

[130] See Cain and Hopkins (1986).

[131] See Palma (2022b), and Palma and Pincus (2022).

[132] Palma (2022b).

[133] For references and analysis, see Palma (2022a).

realised. Most of Amazon's income, for example, may well come from the appropriation of "cloud rents" (the accumulation of information), and "algorithm rents" (having a mechanism to organise that information), but in order to do so it has to employ over a million people across the globe to provide a service which would allow those rents to be extracted. Furthermore, in certain areas, as in publishing, the business model is a very old-fashioned capitalist one: to create a full monopoly-control of the activity —in fact one not that different from Exxon's in the oil market at the beginning of last century, as it explicitly aims for full control of the activity by driving every publisher and book-seller out of business. In this way, it would end up being *the sole —and almighty— agent between a writer and a reader*.

And Alphabet, in order to keep its dominant position, spent US$90 billion in R&D between 2017 and 2020.[134] However, a note of caution: their balance sheet should have a warning regarding what is now classified as R&D in today's (magical realist) ones.

The same happens with Uber: it may well be a rent-taking platform that has inserted itself between drivers and passengers, but to get its rents it has to cover ten thousand towns and cities worldwide, employing 3.5 million drivers —and it has about 120 million active users.

Basically, living from extracting the value created by others, including (of course) the State is not a sign of "techno-feudalism"; it's all about powerful oligopolistic-rentiers adapting to take full advantage of new conditions in a very capitalistic way —the fact that it is not of the "creative-destruction" type does not transform it into "techno-feudalism".

As Mazzucato (2018) has shown, a great deal of Silicon Valley's innovations embodies a government-financed technological break-through. And giant "techs" thrive on them —what would be of i-phone without all those government-financed innovations, or Uber without the GPS? What's remarkable in the new rentier-business model of large tech conglomerates is the duality in their operations. On the one hand, one finds their tech sophistication and huge market valuation; on the other, on the actual provision of their services, it's all about 'sweating' the "produced" assets (e.g., capital equipment), while adding armies of cheap labour.

And all that huge market capitalisation for the top Western corporations, and so little to show in terms of investment and productivity-growth, especially since 2007. In fact, while 84 of the top-100 conglomerates in the world by market capitalisation in 2022 are Western companies (with a combined capitalisation of US$26 tr),[135] productivity-growth in the US and Western Europe reached a meagre joint average of just 0.6% p.a. between 2007 and 2019. In the meantime, productivity-growth reached 8% in China during this period, 6.4% in India, 4.7% in Viet Nam, 3.2% in the NICs-2, and so on. But little of that gets reflected in their market capitalisation —in the top 10 that year (2022) there is just one Asian corporation, Taiwan's TSMC Semiconductor, and it is there only because of temporary shortages of chips due to the increased demand for electronics during the pandemic and Trump's trade war with China. The top Chinese one is only at number 15 (Tencent Holdings), and then comes a Korean conglomerate at 18th place (Samsung). In between, all but one (Saudi oil) are from the US.

What those exorbitant market valuations really show (other than excess-liquidity) is that the neo-liberal imagination to create new types of rents from "non-produced" and financial assets is proving unlimited. As Zuboff (2019) remarks, "We thought we were searching Google, but [it was] Google [who] was searching us".[136] In the US, which has no federal privacy law, people have their location exposed 747 times a day. In the EU, which has the 'best regulation', it's 376. As a Google executive asks, "Won't it creep people out to know how much we are paying attention?"[137]

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[134] Christophers (2020).

[135] https://www.statista.com/statistics/263264/top-companies-in-the-world-by-market-capitalization/

[136] See https://next-media-api.ft.com/renditions/16752875873890/1280x720.mp4

[137] Ibid.

We have even got to such a 'magical-realist' scenario that some tech companies "are becoming reluctant to patent their discoveries, because they don't want the public to know what they're doing"![138] The bottom line is that "We're two decades into the digital era *but we have never, as democracies, taken stock of the meaning of these technologies*".[139] But jumping prematurely from this to the conclusion that, then, "we are not in Kansas anymore" could be just the equivalent of cutting an 'analytical knot' that could not be unravelled —the knot here being the puzzle regarding the nature of the new tech-rentier Western capitalism.

And in the case of large but not so 'high-tech' conglomerates, such as Walmart (number 14 in that list of top-conglomerates), is not that different: its main income flow comes from its global commodity chain from which it extracts cut-throat prices from agents lower down the chain. In other words, it lives from extracting rents from suppliers who squeeze in a very capitalist way thanks to its huge market power. But, again, to realise those rents it has to operate nearly 11 thousand retail units under 46 banners in 24 countries and eCommerce websites, and employ more than 2 million workers to do so.[140]

The same business model is used, by the way, by "multi-latinas" —Latin America's highly profitable multinationals; as Robinson (2008) argues, it's all about their ability to organise regional supply chains, and then extract highly discounted prices from regional producers lower down the chain. That is, the foundation of their profitability comes from knowing *how to organise production chains* of low added value, composed mainly of small and medium-sized regional suppliers with a yoke around their necks; the same happens with their low-income clients to whom they offer extortionary finance.

In Brazil, for example, interest rates on credit cards have reached up to 490% per annum *in real terms*.[141] In a country with such abundance of finance, is this a sign of "re-feudalisation" of finance, or of a massive market failure in "rentierised" finance —aided by captured regulators? Before that, low-income people could only borrow —*and at similar rates*— from loan sharks; now they can do so from "gentlemanly" finance. In both cases it's highly likely that borrowers would go bust, but at least now they don't also lose their fingers.

As the head of one of Chile's largest holding companies, and former President of the Confederation of Chilean Industry remarked, "Chile is a competitive market economy in name only" —as there is massive market concentration in every possible activity.[142] So, is this still capitalism? Moreno Zacarés' (2021), like Varoufakis, thinks that it's not anymore:

> [I]f …rentierism has indeed become the dominant logic, displacing productivity growth and creative destruction as the central principle of social organization, then the capitalist mode of production has become subservient to something else.

But subservient to what? In the "stationary-state" of Ricardo's model, "rentierism" does become the dominant logic *within capitalism*. The problem with Moreno Zacarés (2021) argument is that he defines capitalism as "…the first mode of production in which the growth of productive capital can outpace [systematically] the stifling effects of rentier capital." Well, in certain scenarios, in certain regions, under certain conditions and in certain stages of the development of the corresponding technological paradigm, yes, this has clearly been the case. Not in others. And the mode of production does not ceased to be capitalist just because of that. If that were the case, regions such as Latin America may never have been really "capitalist" —and we would be back in the 1960s "Dependency" debates.[143]

In other words, are we witnessing a form of "re-feudalisation", or a long period where productive capital has not been able 'to outpace the stifling effects of rentier capital'?

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138 Ibid.

139 Ibid. Emphasis added.

140 Ibid.

141 https://www.ft.com/content/6de7d288-d745-3325-9cee-bbd7bf6d4d20. See also Palma (2022a).

142 http:// www.atinachile.cl/node/4629.

143 Palma (1978).

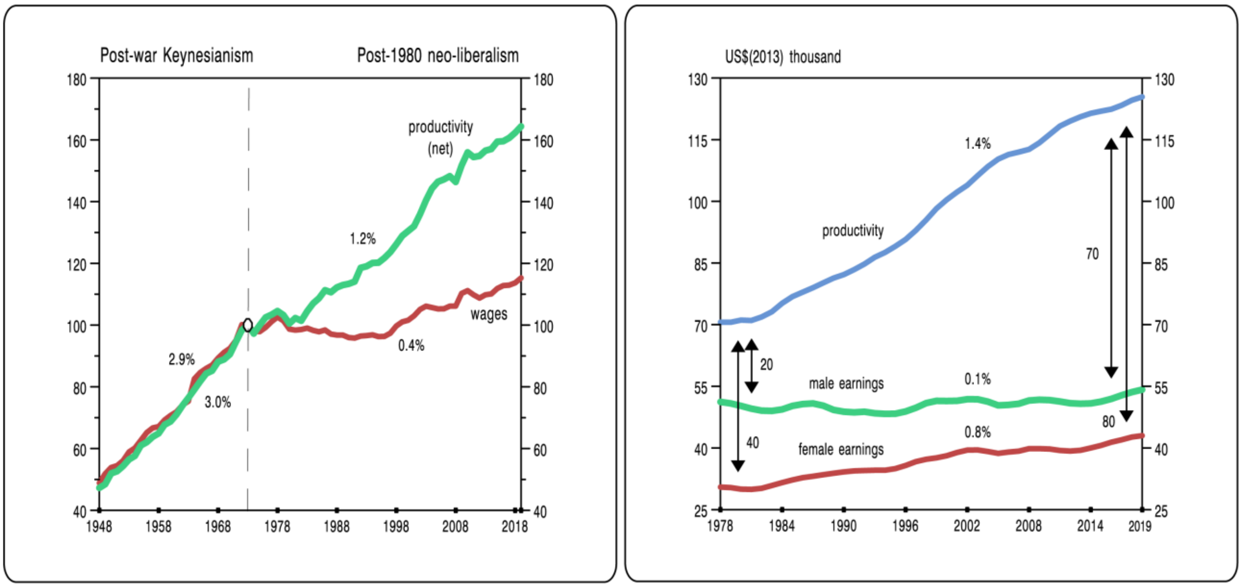
“Rentierism” and “creative destruction” are two opposite varieties of capitalism, with many in between; if we are now stuck with the wrong one, we have no one else but ourselves to blame for it, as it is something entirely self-constructed since 1980.

Living on the value created by others, and on rents from financial and “non-produced” assets, have been constitutive of capitalist accumulation throughout history; they have just re-emerged in a different form and intensity —and “non-creative”-destructiveness. Even intellectual property rights have been perverted: the need to provide incentives to innovate is one thing; artificially restricting access to knowledge is quite another. That is, instead of devising a system that would speed up the pace of innovation, what was set up was a rent-making machine that has done exactly the opposite: as knowledge is a (global) public good, with no marginal costs associated with its use, restricting its access to generate rents would *necessarily* retard the pace of innovation. Furthermore, as knowledge is the main input for the creation of further knowledge, restricting its use inevitably leads to an oligopolistic market for knowledge —and further rents and market distortions.

And workers have also had to adapt to the new rentier-based process of accumulation, as they even lost their right to share in the benefits of productivity-growth. In the US, for example, if between the end of the war and the 1970s wages grew at a similar pace than (net) productivity-growth, from the election of Reagan onwards it was a different story altogether (Figure 11, left-hand panel).

FIGURE 11

US: (net) productivity-growth and wages, 1948-2019



● **productivity (net)**=output of goods and services less depreciation per hour worked; and **wages**=total compensation (wages and benefits) of production/nonsupervisory workers in the private sector.

● Sources: left-hand panel, https://www.epi.org/productivity-pay-gap/; and right-hand panel, EPI (2022; with data from BEA, 2022; and BLS, 2022).

In turn, as the right-hand panel indicates, in the US average earnings have hardly grown in real terms since the late 1970s —having previously grown (in the definition of the source of the right-hand panel) at 2.5% p.a. since the end of the war.[144] As male earnings have been basically stagnant, the difference between the value of what an average worker produces and what a male worker is paid rose in real terms from US$ 20,000 in 1980, to US$ 70,000 in

144 2.3% p.a. according to BLS (2022).

2019. That is, the “gross surplus” per male worker increased 3.5-fold. For female workers, it doubled (from US$ 40,000 to US$ 80,000).

In turn, productivity-growth per worker also slowed to just 1.4 per cent p.a. from its previous rate of 2.5% p.a. since the war (or, as the left-hand panel points out, from 3% p.a. to just 1.2% in ‘net’ terms between 1948-1978 and 1978-2019); and from a Marshallian perspective a rapidly decelerating wage-growth is highly likely to have become a major cause of the falling productivity-growth. Everybody losses —except rentiers!

Latin America has also indicated the shape of things to come in this respect, as in its new post-1980 neo-liberal business model ‘sweating the assets’ (capital equipment) while adding cheap labour has become a convenient substitute for investment. In fact, as Figure 6 above indicated, Latin America has been adding so much of the latter that employment has been growing at more than twice the rate of population growth. In all, between 1980 and 2019 the region increased its level of employment two-and-a-half times —but average productivity-growth has remained stagnant throughout these four decades.

As the right-hand panel of Figure 11 indicates, now even workers from advanced countries have lost their long-standing right to share in the benefits of productivity-growth —even to claim the value of their marginal productivity. But in a “rentierised” environment, distorted markets are no proof of “re-feudalisation”; they are just another indication of a process of “reversed catching-up” with more primitive capitalist economies where workers have never had those rights.

The Western-style neo-liberal model, with its endless new sources of rents and squeezed profits of those trying to do something socially useful on the production side, may be a particularly dismal form of capitalism, but capitalism it is. In this world of multiple equilibria, this is just one variety of this mode of production —and most people are paying a high price for this bizarre choice!