

It's not profits that are rising right now - it's rents...

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I am going to quote a chunk of an FT article this morning and hope they'll forgive me for saying firstly [go and read the whole thing](#) and secondly because the issue is important. The article notes that:

According to GMO, the asset manager, profits and overall net investment in the US tracked each other closely until the late 1980s, with both about 9 per cent of gross domestic product. Then the relationship began to break down. After the recession, from 2009, it went haywire. Pre-tax corporate profits are now at record highs — more than 12 per cent of GDP — while net investment is barely 4 per cent of output. The pattern is similar, although less stark, when looking at corporate investment specifically.

This change is profoundly odd. Economic theory says investment is driven by profitable opportunities on one side and the cost of capital on the other. High profits suggest there are decent opportunities to make money; historic lows in interest rates and highs in the stock market mean that capital is dirt cheap. Yet investment does not follow.

“We have this strange thing that the return on capital really does seem to be high, the cost of equity capital is low, and yet we’re getting a lot of share buybacks and not much investment,” says Ben Inker, co-head of asset allocation at GMO. “It just feels a bit weird.”

It's a trend that is repeated in the UK, where corporate dividend payouts have just reached an all time high in the last quarter and the UK has an investment to GDP ratio that ranks it 159th in the world. So it's not weird, it's a fact. And economic theory is (yet again) wrong.

So why is it wrong? For three reasons, at least. First because neoliberalism is about rent seeking, not profit making. Rent seeking is about making money off the back of others. So it emphasises cost cutting, tax saving, speculation, investment in secure income streams (such as rent...) and avoiding toil. It's about making money without effort. Profit making is about innovation, risk taking and new thinking. It's about hard work. They're polar opposites. And we now live in a rent seeking world.

Second, because this has now gone on for so long the habit of innovation has been lost. Innovation feeds itself. Major companies have not created significant new products for years (and even tablets and mobile phones are, candidly, incremental developments of existing products).

Third, the payback on innovation is going to be low. People have not got the money to spend on things they don't need - and most innovation creates what, by definition, are things people have lived without. So, the return on investment is actually low. The return on exploiting people who are hard up and have to, whatever happens, buy essentials, is high. So rents are, quite literally, good for yield but bad for society at large as a few exploit the many - which is what is happening.

And all of this I predicted in the Courageous State where I suggested that a fall in investment would be matched by a rise in demand for access to the biggest rental income stream available - which is a share of tax revenue. So we get a demand for education and health privatisation because these provide the greatest opportunity to exploit ordinary people by the rentier that is currently available.

None if this is a surprise then - except to economists without the eyes to see what is happening in society and who cannot differentiate profit and rent. And it's not profits that are rising. It's rents. And that will [fuel yet more inequality in society and social stress](#).

You have been warned.