

Funding the Future

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I explored some of the ideas that I might wish to challenge in a new book, yesterday. As I suggested I might, I then spent some time during the day reflecting on these and realised that the list is incomplete.

It is insufficient to explore the belief that markets are good, that the householding analogy is inappropriate within macroeconomics and that greed is the basis of human motivation when seeking to explain the mess that we are in, although it is most certainly necessary that each of them be taken into account. It will also be necessary to explore the obvious contradiction in the modern economy that reveals its own lack of faith in any of these convictions, which is evidenced by the rise of rentierism.

The concept of a rent is widely misunderstood. This is partly because it is only commonly applied to the payment made for the right to occupy land, but a hint as to its true nature is implicit in that use.

Rent represents a payment made to a person for the use of a resource to which they have a legal entitlement, but which they have either not created or for which the payment is in excess of any reasonable amount that might be owing in exchange for the effort expended in its creation.

Rents come in many forms. In addition to the payments for the use of land commonly described as such the extractive industries also, quite literally, extract rents by exploiting the natural resources to which they claim ownership entitlement. Rent is, therefore, implicit

in large amounts of what we buy because the land itself is not, of course, remunerated for that part of the price that we pay. Someone who is a landlord, is instead.

Banks also extract rents. After all, the main commodity that they supply, which is

money, is created costlessly by them out of thin air, but they extract a charge for our use of that facility, which they are entitled to charge as a consequence of having a banking license. That payment is a rent.

This hints at one of the most common forms of rent in the economy, which are payments made for an artificial factor of production created by law. No one denies that the concept of copyright, with the associated payment of royalties, was created with good intent. It remains the case that such a payment can be a fair compensation for the use of another person's property. The same is true for patents.

However, it is equally fair to say that the exploitation of these rights by many large corporations, which are themselves an artificial form of intellectual property right created by law, has resulted in massive exploitation of consumers with resultant enormous extractions of profit arising. These inflated profits represent rents.

So, for example, the price that we pay for much of the software that we use represents a rent. Now that annual charging is commonplace the pretence that it is otherwise has been abandoned. Nothing about the pricing of these products accords with standard microeconomic theory on pricing: it is simply maximised in the interests of the greed of both the senior management of the enterprises involved, and their owners. Copyrights and payments permit this exploitation, which was never their intended purpose.

Brand names achieve the same outcome. Their promotion is deliberately undertaken with the intention of preventing market entry by competitors, which is the antithesis of what is taught to be necessary for fair and efficient markets.

And let's be clear that a century ago those who pursued monopoly profits were relentlessly legally challenged by the US government in the interests of consumers. Now they are called entrepreneurs. Actually, those undertaking these activities reveal no such ability. That is because they do not face risk in what they do when almost everyone now described as such (or worse, as a 'wealth creator') by governments is on a steady salary with large bonuses attached, settled at regular intervals. Their ability is not in risk taking in pursuit of the marginal profits that might arise when competing on a level playing field, but is instead in tilting that playing field as heavily as possible in their own favour.

This, of course, explains their twofold desire to both heavily influence government to reinforce their claim to artificial legal property rights that they might exploit, whilst simultaneously reducing its ability to extract their inappropriate rewards from them.

It is the extraction of rents that is doing four things in our economy.

First, it is increasing inequality.

Second, it is consigning those on low pay to lives of destitution, as it did in the Victorian

era.

Third, it is destroying innovation of any sort, as the intention of the rentier is to protect what they have, not to create something new.

Fourth, it provides the financial platform from which the assault on government, free markets, the environment, and people can be launched. 55 Tufton Street symbolises that.

The rise of rentierism has to be in the book.