Neofeudalism: Comments on Radhika Desai's "What's in a Name?"

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Radhika Desai and I have worked together for more than a decade tracing the long detour of Western economies away from how Marx and his contemporary economists expected the industrial capitalism to evolve. Something obviously has gone wrong with today's capitalism. What should we call it? We each have our own views on what terminology best characterizes the economic dynamics at work.

My own work emphasizes how industrial capitalism has turned into a form of finance capitalism that has deindustrialized economies as planning has passed to the major financial centres dominated by the symbiotic Finance, Insurance and Real Estate (FIRE) sector. I prefer to use the term "rentier finance capitalism".

The term "monopoly capitalism" has often been used, but I find it too ambiguous. There are different kinds of monopolies, ranging from the industrial trusts that emerged in the late 19^{th} century to the wave of rent-seeking monopolies created by the neoliberal privatization fad of the 1980s. Since that decade of Thatcherism and Reaganomics the neoliberal Washington Consensus has seen rent-seeking monopolies created by privatizing government infrastructure.

The 19^{th} century expected public investment in infrastructure to provide for basic needs freely, at subsidized rates or at least at no higher price than the direct fiscal cost of producing these services. Much of their infrastructure consisted of natural monopolies, from transportation and communications to water and power. And it has become clear that banking and credit institutions are infrastructure that should be public, not left in private hands to take resource allocation and economic planning out of the hands of government. Privatizing and financializing them has created something different from the kind of industrial monopolies that Marx saw as evolving out of industrial capitalism's drive for cost-cutting efficiency, which was supposed to enable the leading producers to absorb their competitors and organize entire industries on an efficient basis.

Radhika often uses the term "monopoly capitalism," but I avoid it because today's monopolies are very different from what Marx expected. She avoids "neo-feudalism," but I like to use it to highlight the survivors from Europe's feudal epoch that have persisted zombie-like into modern capitalism, above all in the form of land rent, monopoly rent and predatory financial charges by the vested interests. Radhika points out that interest and rent existed long before feudalism, and hence before capitalism as well, so these forms of revenue shouldn't be called "feudal." Land rent no longer implies feudal labour obligations, and capitalism has absorbed interest into its industrial economies in productive ways that didn't exist in what Marx called feudal usury-capital.

She notes: "Marx also anticipated that, with the arrival of monopoly capital, profit would be increasingly reduced to interest." Indeed. But I think that neither he nor anyone else of his era expected profits to be spent on stock buybacks (or indeed paying interest on loans to finance such buybacks), or that corporations would sell off real estate and other assets and lease them back, using the sales proceeds to pay special dividends to private capital and other stockholders. Asset-price "capital" gains in stocks and breakup selloffs now exceed by far the magnitude of corporate profits.

The sticking point is the prefix "neo" in "neo-feudalism." I prefer to emphasize the word "feudalism," not "neo." There has been a zombie-like survival of rent-seeking rentier privileges that industrial capitalism had sought to minimize, and especially to de-privatize. In its drive to minimize the costs of production and doing business, and hence the wages that employers had to pay, the vested financial and real estate interests fought back to protect their privileges from the reform program of industrial capitalism. I view the resurgence of land rent, natural-resource rent, monopoly rent and predatory banking and finance over the past century as reactionary.

Radhika points out that this resurgence of financial and other rentier powers is part of an unfolding forward-moving dynamic. She emphasizes that the burden of "rentierism is capitalist, not feudal. … we are failing to recognize that capitalism has been past its peak now for more than a century and that humanity has been paying the price of keeping it alive well past its senility." Time doesn't go backward. I agree, but I still like to use the rhetorically suggestive term "neo-feudalism," although as I said, I prefer the more definitive term "rentier finance capitalism."

To compare my own narrative that parallels that of Radhika, I would like to start with the point with which she concludes her paper: Capitalism "has run its course and has been kept alive for more than a century, by the inability of political forces to take it beyond itself towards socialism … it can and will get even uglier."

Wonderful! That's indeed the point. In my view we are dealing more with a disease than senility. Industrial capitalism was not meant to grow old and senile in the way that it has in the West. It wasn't supposed to be this way, and indeed it didn't have to be. It was expected to evolve naturally into socialism, precisely by its dynamics of reducing the costs of production by stripping away unnecessary faux frais such as the various forms of economic rent.

The West's detour away from industrializing banking to financializing industry

Using or rejecting "feudalism" as a label depends on how one defines feudalism. From the vantage point of labour, feudal serfdom, in which serfs owed labour services and related personal support to their lords, gave way to the payment of rents, turning the landed nobility simply into rent recipients. But if we look at the top of the economic and social pyramid – the relationship between the Roman papacy and kings – we see feudalism as creating usury-banking in the form of war loans to kings. During the 12th and 13th centuries the papacy sponsored royal wars against Germany, Sicily, Spain, the Balkans, and most of all against Constantinople as the home of the Christian Orthodox Church (and the "real" Roman Emperor). These wars were the real crusades.

The problem facing Rome was that wars cost money and required credit. So, Rome sponsored a banking class of north Italians (Lombards) and Transalpine Cahorsines to grant war loans to the Norman armies that it had recruited and enthroned. The next problem was how to pay the interest on these loans. The royal ability to tax was limited by parliament, so bankers helped kings organize foreign-trade monopolies (customs levies remained under royal control) to carry debts. By the 14th century, banks had become what the 19th century called "the mother of monopolies."

These were trading monopolies such as the England's woollens trade, and later its East India Company and others down to the South Sea Company, capped in the financial sphere of circulation by the Bank of England.

Radhika describes Marx as explaining "how capitalism transformed these inherited structures of money and finance, of medieval usury, into ones that facilitated capitalism's productive expansion." We both have described how, in Marx's day, banking in the German form developed within a close relationship linking government, heavy industry and the large banks to finance capital investment in new means of production. That brought banking into what Marx called the sphere of production, not merely that of circulation, where it had been under what he called medieval usury.

But today's banking has indeed become mainly usurious – and most bank credit is created to purchase the creation of rent-yielding assets, from real estate's land rent to monopoly rents from the public utilities that are being privatized and turned into financial tollbooths for access to basic needs. That is why banks have become the major lobbyists against the classical policy of rent taxation that aimed at socializing land and natural-resource rent instead of privatizing and financializing it. Monopolies and their financial backers have become part of the privatization of rent extraction, not part of the socialization process. Whereas Marx expected interest under capitalism to become a payment out of tangible capital formation, this is paid out of rent extraction.

Recognizing this, Radhika writes: "The increasing prominence of rentier incomes – interest and rent – are among the key justifications for re-naming contemporary capitalism 'neo-feudalism', the implication being that interest and rent are somehow 'feudal', while profits are not. However, this is not the case." Pointing out that "competition was … a dynamic whose inevitable outcome was monopoly (Marx, 1894-1981)," she adds: "Capitalism advanced the forces of production primarily by socialising labour, involving an ever-widening circle of producers in ever more complex interaction."

I agree, but I also emphasize its unanticipated role in socializing economic rent, especially monopoly rent. The financial and geopolitical legacy of World War I saw international banking take the more predatory Anglo-American form, not the industrial capitalism that Germany and Central Europe were following, as Radhika notes. (I review the contrast between German and Anglo-American banking in *Killing the Host*, ch. 7). The result has been that industry has been financialized instead of banking being industrialized in the neoliberal West. Marx expected monopolies to be a stage in the process of socializing industry. But today's corporate raiding, mergers and acquisitions, and junk-bond takeovers financed by the issue of high-interest bonds have tended not only to de-socialize corporate industry but to de-industrialize it. The effect has not been to promote rising productivity and social efficiency, or even net profits, but just the opposite.

In sum, the point is what *kind* of monopoly was (and is) to be capitalism's "historical destiny." Radhika summarizes its role in capitalism.

> "In chapter 27 of Capital Vol. III, Marx had outlined how the ever-greater concentration of capital in large monopoly firms, facilitated by the emergence of joint-stock companies, the expansion of credit and by state intervention, constituted the culmination of the socialisation of production under capitalism. As production is amalgamated and massified, its profoundly social character is on full display. In large monopoly firms, individual capital 'now receives the form of social capital (capital of directly associated individuals)'. Big monopoly firms appear more manifestly as 'social enterprises.' 'This is the *abolition of capital and private property within the confines of the capitalist mode of production itself*'" (Marx, 1894-1981, p. 567, emphasis added).

But Marx did not expect the wave of joint-stock companies coming under financial management to aim single-mindedly at increasing stock prices by stock buybacks and rapid payouts of dividends financed not only by profits but often by borrowing. The financial sector lives in the short run, not the long run that industrial planning entails to organize supply chains and marketing operations, research and development. Around 92 percent of the cash flow of S&P 500 companies has been reported to take the form of stock buybacks and dividend payouts, leaving only 8 percent for new capital investment.

This is privatization by predatory finance. Today's stock markets have become financialized in a way that does not promote industrialization, much less socialism.

The decadent form of monopoly finance-capitalism since the 1980s

I think that we need a new term to replace "monopoly capitalism" in view of the difference between industrial monopolization and financialized monopolization. Nothing like this occurred in feudalism, so it has indeed been an outgrowth of industrial capitalism – a kind of "combined development," a symbiosis of two distinct systems – which Marx himself characterized as the sphere of circulation interacting with that of production.

Marx expected monopolies to emerge and expand by cutting costs and being the most efficient producers. Joseph Schumpeter characterized this as "creative destruction." Marx foresaw joint-stock companies as broadening ownership, leading to an increasingly social ownership of the means of production (while economic rents that still existed would be socialized by taking them into the public fiscal domain).

But monopolies have become largely rent-extracting since the 1980s as hitherto public companies and utilities have been privatized and financialized. Thames water is the ultimate example. Perhaps, we could indeed call it neo-feudal. One effect is that industrial capital is by no means the main exploiter of labour, as Marx believed. Creditors, landlords and rent-seeking monopolies have extracted a steady rise in their rake-off of personal income since the 1980s (and indeed, since 1971). And whereas Marx described the industrial capitalist as playing a productive role in recycling profits into new tangible capital formation, the FIRE sector's banks and landlord interests, along with monopolies, turn their rentier income into more creation of loans – that is, debt – and the proliferation of kindred rentier claims.

Radhika quotes Marx's view of how profit was paid out as interest as "the appropriation of other people's surplus labour, arising from the transformation of means of production into capital (Marx, 1894-1981, p. 568)." But today's wage income is spent increasingly on FIRE sector rents: interest (especially mortgage interest for home ownership, education loans, and just to get by), rents, insurance (especially medical insurance) and financialized pension set-asides.

This certainly can be viewed as a retrogression. It is payment for real estate, as was the 19th century's payment of rent to landlords. But today, rent is for paying interest. This can be described as Radhika does, as an outgrowth of capitalism, but it could also be defined as a revived tumour.

Marx saw the dynamic of industrial competition as minimizing economic rent overhead. There is a natural rent-of-location that makes some real estate more desirable than others. This was of course absorbed by capitalism because it is a universal phenomenon. The first demand of the *Communist Manifesto* was to tax away land rent. Where rent was a fact of nature, it would be taxed away. And monopolies were to become public utilities, including money and credit itself. That is what made China's socialist economy so free of the corrosive financial dynamics that have characterized the West.

Conclusion

If today's finance capitalism is monopoly capitalism, it has become anti-industrial. That is why the neoliberal West is deindustrializing. The dynamic of industrial capitalism has been picked up by China's "socialism with Chinese characteristics." It could be called "classical industrial capitalism with Chinese characteristics, as they were originally meant to be."

What is "neo" is the capture of industrial capitalism by the rentier interests that industrial capitalism was supposed to have supplanted and made extinct. I would not call this the highest stage of capitalism, but a retreat from the dynamic that it seemed to be following. Even if today's deindustrialization is the nadir of Western capitalism, it is still a forward movement – but crippled in my view, by a reawakening of the tumours from which the high tide of industrial capitalism of the late 19th century had hoped to free society yet failed to fulfil that seeming destiny.