

Is the West Regressing into Neofeudalism?

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Introduction

The question this conference poses concerns more the future than the past. In which direction are the current capitalist system and today's Western economies heading? Nevertheless, we can provide an answer only if we have enough historical perspective to see the dynamics we're caught up in. What's happening today is not what capitalism looked like in the 19th century. Western economies no longer have the policy aims of industrial capitalism. And, to the extent that Marx has described the problems that we're having, he thought those were problems that capitalism was going to get rid of, not problems that it's currently causing. The term "capitalism" is just too broad to grasp the distinctive characteristics of today's post-industrial economy. We must be more specific and recognize there are different kinds of capitalism. In the past, one often spoke of "monopoly capitalism," but the two other major possibilities are "finance capitalism" and "rentier capitalism." "Neofeudalism" has also come into vogue in recent years to describe the parallels between today's economies and those of feudal Europe between the 10th and the 13th centuries.¹

What we're seeing today is what I propose to call "rentier fi-

¹ The writings of Lenin, Hilferding, Baran and Sweezy, Brett Christophers, and Yannis Varoufakis are some prominent instances of the views expressed by these terms.

nance capitalism," which has certain key features analogous to those of feudal economies. The most obvious common denominator is rentier income: land rents, monopoly rents, financial interest, and related charges. To describe the laws of motion in this kind of economy we must consider the historical and geopolitical dynamics, and the effects they have upon domestic economies from which they extract surpluses.

Feudalism and Rents

Imperialism traditionally has meant rent-seeking and asset stripping, translating rents and profits into monetary form as a tribute, as well as a drive for unipolar control. Feudalism was a product of the Roman Republic's oligarchy monopolizing wealth and appropriating the land, reducing most of the citizenry to debt bondage. The Empire became a landscape of great estates, farmed by labor under a hereditary aristocracy living off its land rents. Indeed, feudal economies are fundamentally based on rent-extraction.² By medieval times the largest landowner in most kingdoms was the Church, followed by kings and the aristocrats.

The papacy took the lead in organizing Western Europe's economic and geopolitical relations. To enforce their power over secular rulers, the popes, who did not have an army of their own, recruited Norman warlords, whose troops had been moving into Europe during the 10th and 11th centuries. The papacy made arrangements with the epoch's warlords such as Robert Guiscard and William the Conqueror, sanctifying their conquests as kings with domestic autocratic power ("divine right") in exchange for a pledge of fealty to serve as vassals of Rome: letting it appoint their bishops, paying tribute to it, and supporting wars against its enemies.

In 1061, Pope Nicholas II commissioned Guiscard to conquer

² Cf. C. Wickham, "How did the Feudal Economy Work? the Economic Logic of Medieval Societies", in *Past & Present*, Vol. 251, Issue 1, May, 2021, pp. 3-40.

Sicily and southern Italy, drive out the Eastern Orthodox Christians and Muslims, and make his kingdom a fiefdom of the Roman papacy. This initial crusade provided the model for subsequent papal conquests. Nicholas's successor, Pope Alexander II, backed William, Duke of Normandy, to conquer England in 1066 and make it a fiefdom paying tribute to Rome. William commissioned the Domesday Book, compiled in 1086, to calculate the yield of English land as a tax base, and this survey became a model for subsequent Norman conquests. Kings themselves were part of the feudal hierarchy, pledging fealty as legal vassals to the popes in Rome as their lords. They were the major immediate recipients of rents, taxing as much of the rent of their kingdoms as they could for Rome without spurring the nobility to revolt.

In 1075, Pope Gregory VII drafted the Papal Dictates, a comprehensive strategy demanding that kings give popes the right of investiture to appoint bishops in their realms to manage church revenues on behalf of Rome and asserting Roman supremacy over the Eastern Orthodox Church centered in Constantinople and all other Christian bishoprics. The problem in the 11th century was that the Roman papacy opposed the mainstream Christianity in the religion's other four patriarchates: Constantinople, Antioch, Alexandria, and Jerusalem. Western Europe's imperial papacy wanted to conquer any countries that wouldn't allow it to dominate their economies.

The purpose of conquering a land was to get its rent. When the warlords conquered England, southern Italy, Spain and other territories, the largest landowner in most European countries was the Church. The kings got rent from their own royal domain and what they were able to tax, but the papacy commanded them to go to war against lands resisting its economic and theocratic control – Germany, Islamic Sicily, and the Byzantine realms in the Balkans – to appropriate most of their rents and send most of them to Rome. Eventually it demanded tribute not only from its churches in every kingdom but also from all secular kings by taxing the land's rental yield and even borrowing from Italian bankers to finance the wars

it fought with mercenaries. That drive is what flowered into the Crusades (1096-1291), a full-blown fight against other Christian realms.

The taxes were ultimately not enough to pay for the royal wars being fought by the kings on behalf of the papacy. The ensuing two centuries of the Crusades and their related wars were beyond the ability of kings to afford out of the taxes they were able to levy on movable wealth and rent, so a series of popes arranged for them to borrow from the Lombards and other banking families that the papacy sponsored for the wars it organized. To finance these wars and gain unilateral control of Western Europe, the Papacy found itself obliged to reverse Christianity's anti-usury laws. This reversal was less morally objectionable than it would have been in former times because the major debtors were kings and bishoprics at the top of the economic pyramid, not the poor as in ancient times. The Schoolmen solved that problem by a legalistic sleight of hand, redefining much usury as legitimate "interest." The entire tax revenue of most European countries could then be used to pay war loans. Interests, fees, and related charges became the second major category of rentier income introduced by feudal Europe. And this was the turning point in catalyzing the financial takeoff of Europe – along with the Crusade's looting of Constantinople's vast stores of silver and gold treasure in 1204, paying a quarter of the loot to Venice for its economic investment in the Fourth Crusade.

War financing in this period thus transformed the medieval economy. It modernized the economy's ability to create a monetary surplus that would be paid with interest to the financial sector. And this innovation was the key to the political evolution that led to industrial capitalism. The papacy's pressure on England's kings to take on debt to finance its wars led to a parliamentary reaction to limit royal authority to tax, leading Edward I and his successors in turn to tax foreign trade, which did not need parliamentary approval. The creation of trade monopolies provided customs revenue to pay royal creditors, while financialization of mercantile monopoly rents led to the emergence of a banking and investing class. Financiers helped kings to raise money to pay their debts by organiz-

ing monopolies. And financial interests came into being which ended up pushing all the kings of Europe into debt by the 16th century. By the early 17th century, the most powerful kings repeatedly went bankrupt, leaving creditors insolvent when their loans went bad. All they had to protect themselves with was the collateral of kings or whatever money they could tax. So, creditors eventually turned against the Christian concept of autocratic rule in favor of the emerging parliamentary democracies of Holland, Britain, and other Protestant countries, which could provide better creditworthiness.

Industrial Capitalism and Profits

The transition from medieval to modern times saw the rule of kings replaced by that of parliamentary, fiscal states, designed to pledge the entire income of their economies to pay their war debts. The main sponsors of this change were international bankers, who saw that while kings could go bankrupt and only pledge their own royal property as collateral for war borrowing, parliaments were authorized to pledge the entire public revenue of a state. The sponsors were the rentier class, which used to be called the “idle rich,” a term referring to the fact that their income was “passive” or “unearned,” playing no real role in production whatsoever. As John Stuart Mill put it, landlords “grow rich in their sleep without working, risking or economizing.”³ They collect rent and see their wealth increased by the rising price of land. This was also the case with monopolists who simply increase the price of products when they’re able to block competition and with bankers and bondholders who collect interest. They were the “coupon clippers,” the coupons being attached to government bonds (*rentes* in French), and each coupon representing a claim for an interest payment. Meanwhile, European colonialism after the discovery of the New World and the circumnavigation of

³ J.S. Mill, *Principles of Political Economy*, 1848-1871, Vol. 2, Book V, Chapter 1, § 5.

Africa sought spices and other tropical crops, as well as subsoil minerals and arable land.

What made industrial capitalism different from the pre-existing economy was that revenue was obtained by employing labor in industry to produce commodities, not by having the agricultural labor of serfs create crops to pay as land rent, which was taxed by kings and paid to the emerging banking class in exchange for war loans. Labor began to replace land as the “exploited” factor of production. Throughout the entire period of classical political economy – from the Physiocrats to Adam Smith, John Stuart Mill, Karl Marx, and Thorstein Veblen – the aim of industrial capitalism shifted away from the feudal economy based on rent and usury to one based on profits which were to be reinvested in new, further employments. And this distinction between profits (from production) and rents (mere redistribution) is the fundamental axis on which everything hinges.⁴ Rentier income is not profit. The revenue of rentiers – such as rent and interest – is an overhead cost on production which industrial capitalists must pay out of profits from production.

The profit-seeking logic of industrial capitalism called for making economies more competitive and efficient to underprice competitors. Industrial capitalists had to minimize the cost of labor and doing business. They recognized that well-paid, well-fed, and well-housed labor would be more productive but also that they needed to minimize wage costs, and therefore also the cost of living – expenses that labor needed to pay out of wages received from employers. The largest element of wages in the early 19th century was food, while today it is rent. In both cases, this charge ends up being paid to landlords, first as agricultural landowners, and then as real estate owners for housing and commercial space. These economic rents increased the cost of living for labor, hence raising the wage-costs for capitalist employers, lowering their profits. That’s why industrial capitalism wanted to get rid of the landlord class and monopoly

⁴ Cf. D. Bezemer, M. Hudson, “Finance Is Not the Economy: Reviving the Conceptual Distinction”, in *Journal of Economic Issues*, 50(3), pp. 745-768, 2016.

rent-seekers. So, industrial capitalists' drive to minimize their cost structure required that they free their markets from the rentier burden inherited from feudalism. The objective was to eliminate land rent, the hereditary landlord class, monopoly rent, interest and financial charges, and the granting of privatized monopolies which were the legacy of feudalism.

The first great classical economic reform movement seemed to be underway in the late 19th century. The generic name for this program at that time was socialism, which simply meant either taxing away economic rent or treating the land, natural resources and natural monopolies – the major rent-extracting sectors, including banking – as belonging in the public sector. This would allow more industrial profits to be reinvested in tangible capital formation, research and development, improving employees' wages and living standards and productivity, lowering prices to gain greater market share from rival producers, and advantages vis-à-vis foreign competitors. Yet, that's not how things turned out. The rent-seekers fought back.

The rentier monopolies that appeared in the 19th century were not the same as the form of monopolies in which industrial capitalism tends to concentrate production. They were not efficient monopolies resulting from industrial competition, but predatory ones that could simply add monopoly rents to prices people had to pay. They obtained special privileges (literally "private law") to charge rents without any costs or innovation. Most pre-industrial monopolies had been given away to financiers in exchange for loans to wage war; creditors granted loans in exchange for a monopoly so that they could collect money "in their sleep." This financial sponsorship of monopolies contradicted the logic of industrial capitalism which, for the first time in history, represented an attempt to mobilize banking to finance the industrial sector by lending for tangible industrial capital formation, instead of engaging in predatory lending geared toward non-productive assets, making loans to governments for war, and imposing rentier charges and overhead costs.

By the 19th century, Britain had become the leading global power.

As the “workshop of the world,” it used its domestic industrial profits, trade financing, and military colonialism to gain control over foreign raw materials in exchange for its manufactures. But then, it used its economic, financial and military power to appropriate ownership of foreign land and natural resources, and essentially of foreign governments (e.g., in India and in its Sterling Area). Thus, Britain could, at that point, more justly be called the rentier of the world. By the time World War I broke out, there was an argument in England about the relationship between finance and industry, geopolitics, and economic development.⁵ The Anglo-Dutch banks and stockholders wanted quick paybacks on their loans and investments, while German banking encouraged its companies to reinvest their profits in new means of production and expansion, instead of paying out dividends or buying back their own stocks. Indeed, finance capital lives in the short-run and is basically parasitic or predatory, while industrial capitalist investment was supposed to think long-term to build markets. Hence the British feared that Germany might overtake them – and conflict ensued.

The 20th Century and Rentier Finance Capitalism

The 20th century saw the United States replace Britain’s role. Its ascent also started by transforming its industrial power into financial power as the leading creditor, lending to Britain and other allies before and during World War I. After 1945, America greatly expanded its rentier mode of economic control by establishing the dollar as a major currency held in foreign central bank reserves, seemingly as “good as gold.” By 1971 its military spending in Southeast Asia had forced the dollar off gold. America nevertheless convinced other countries to hold their international monetary savings in Treasury Bonds and other U.S. financial securities rather than in gold. The result was that the more balance-of-payment surpluses Germany and

⁵ Cf. M. Hudson, *Killing the Host*, ISLET, Dresden, ch. 7, 2015.

Japan, Europe and Asia accumulated in dollars, the more they re-lent those dollars to the U.S. government. That helped finance the U.S. domestic budget deficit in the process of financing the balance-of-payments costs of its military spending, which accounted for the entire balance-of-payments deficit up through the 1960s and 70s.

After the end of Bretton Woods, U.S. debts became assets of foreign governments on the international balance sheet, and dollarized debt creation became the “exploited factor of production.” The U.S. was now the leading debtor but used its debtor position to its advantage – to finance its military activities abroad. This dollarization of international finance and dollar recycling is how America got a global free ride.⁶ Unlike England’s rise to dominance as the workshop of the world based on its industrial capitalism (in Marxian terms: M-C-M’), the Dollar Standard and American financial gains are made purely in the sphere of circulation (M-M’). The ability of the U.S. to obtain foreign products, means of production, and property ownership claims with its financial levers of control remains the dominant means of extraction of value in today’s unipolar, dollarized world.

America is now a financial rentier economy in an unprecedented form. The post-1971 situation left the United States with only financial, rentier means of retaining global control, as in all imperialist systems, primarily by the dollar-based global monetary and financial system backed by U.S. military power. Unipolar U.S. exploitation of the world’s economic surpluses is the guiding organizational principle locking in rent-extraction privileges for the United States. U.S. policy seeks monopoly rents by enforcing “intellectual property rights” to block other countries from competing with U.S. producers in information technology, computer chip technology, pharmaceuticals and weaponry.

Starting with the Reagan Administration (1981-88) and even more with the Clinton administration (1993-2000), U.S. neoliberal

⁶ Cf. M. Hudson, *Super Imperialism: The Economic Strategy of American Empire, 1972-2022*, ISLET, Dresden.

policy led to an accelerating deindustrialization as part of the class war against domestic U.S. labor, with employers turning to lower-wage labor in China and other countries. The world was becoming a unipolar finance-capitalist economy as the United States attempted to dominate other economies and impose this system, which is the same international economic dynamic that the Roman Church had effected and England had aspired to. The dollarized international monetary system, under the control of Wall Street and its financialized oligarchy, assures that global rents and profits will end up being monetized and paid to the U.S. financial sector, just as the land rents of medieval warlords were paid as tribute to the 13th century papacy.

The type of economic system which has resulted from these developments is best characterized as a combination of financial and rentier aspects, aka rentier finance capitalism, as I'll clarify in greater detail in the following.⁷

The difference between the 19th century and today is that land rent still exists in private hands, but there is no longer a landlord class or hereditary nobility which owns the land. Nevertheless, the "democratization" of real estate has not followed the policy suggested by classical 19th-century economists and free-market reformers. Nowadays land rent is simply paid in the form of interest to the banks which play the role landlords did in the 19th century. The banks end up with the land rent that 19th-century economists hoped would become either the public tax base or be paid to governments that socialized the land directly.⁸ Segregating the Finance, Insurance and Real Estate (FIRE) sector from the rest of the economy demon-

⁷ To be clear, I add "rentier" to "finance capitalism" to distinguish matters from what Rudolf Hilferding described in Germany at the turn of the 20th century as "*Finanzkapital*". Hilferding used this term to name the situation in which several banks eventually bought into, took over, merged with, and began to plan large-scale industry on a long-term, rational basis (cf. *Finance Capital*, Routledge Kegan and Paul, London, 1981, p. 225). That is very different, indeed the opposite of the contemporary model of capitalism which I describe and now dominates in the Anglo-American form.

⁸ There were two proposals across the 19th century's political spectrum: either to nationalize the land or leave it in private hands, but in either case to tax the land's rent-of-location that exists one way or another.

strates that interest and fees are a form of economic rent. The financial sector's income consists mainly of land and other natural-resource rent, monopoly rent and its own interest charges and related rake-offs. Finance is the major recipient of oil, mineral and other natural-resource rent, organizing monopolies as "the mother of trusts." However, today's national income and product accounts and GDP concepts fail to draw the classical distinction between profit from production versus economic rent. So, they report the financial sector's gains as "product" added instead of mere transfer payments (overhead) to a rent-seeking class from which early industrial capitalism aimed to free economies and their markets.⁹

All economic rent is a result of a legal privilege obtained by political means. Banks have a privilege of creating credit-money on their keyboards electronically. Many people still believe the myths that banks loan deposited money and create jobs by lending to finance industry. But when you go into a bank, the banker doesn't say, "Let me see how much money we have to lend you." They simply type in the amount of the loan and create a deposit for the borrower, who signs an IOU, which gives the banker an asset to balance the loan. Creating money in the form of bank credit means creating debt, which is used to raise the prices of real estate, stocks, and bonds, independently of the industrial production process.

Nowadays, anybody can buy a home, but to do so, it is necessary to take out a mortgage loan. And whether one is buying a home or a commercial rental property, the buyer bids against other buyers, the winner being the debtor who's willing to pay the most rental value of the land to the bank. That's land rent which does not reflect the cost of the building, but just the cost of the location, the site value, etc. So, this privilege of creating money enables the banks to collect interest, but not by becoming part of the productive industrial process. Finance capitalists aim at gaining immediate personal wealth by purely financial means that are extraneous to the "real"

⁹ Cf. J. Assa, *The Financialization of GDP: Implications for Economic Theory and Policy*, Routledge, London, 2016.

economy of production and consumption, like stock buybacks or even taking on corporate debt to pay out as dividends to raise stock prices. Today, most financial wealth is made by financial engineering or gains through increasing asset prices, not by financing real production. It's based on credit creation and debt leveraging.

The mode of ownership and gain-seeking in rentier finance capitalism goes beyond merely extracting income. It aims at making fortunes in a way that the 19th century hardly envisioned: through capital gains, which are much larger than the entire GDP in the United States.¹⁰ And if you only look at an economy's flow of income and expenses, you miss the all-important fact that almost all the great fortunes of the wealthiest 1% or 10% of the population have not been made by making profits or saving income. They've been made by buying assets at one price and selling them at a higher one. Banks inflate the prices of real estate, stocks and bonds on credit, by debt-leveraging. Mortgage bankers receive most land rent as interest on homes and other real estate typically bought on credit. And financial managers also turn monopoly rent into interest and dividend payments to bankers and investors. "Corporate raiders" or "private capital companies" borrow credit to buy companies and then use their income for stock buybacks or to pay out as dividends, management fees and interest to themselves. Some 92 percent of corporate income in the United States is paid to create financialized "capital gains" by such means, not to plow into new means of production as Marx and other 19th-century economists had expected. Meanwhile, the middle class in most countries have obtained their net worth (i.e., wealth) primarily by the rising asset price of their housing bought or inherited in years past, not by saving what they earn.

Finance is the central-planner of the rent-extracting sector. It's cosmopolitan, having no allegiance to companies or countries, seeking rather to dominate one after the next, hit-and-run style, and to

¹⁰ Cf. M. Hudson, "Rent-seeking and asset-price inflation: A total-returns profile of economic polarization in America", in *Review of Keynesian Economics*, 9, pp. 35-460, 2021.

get privileges like tax favoritism or subsidies for the financial or real estate monopolies that are its main customers. And on an economy-wide scale it is ultimately destructive, even self-destructive. When the rentier form of wealth is “freed” from public control, the economy is polarized between finance-backed rent-seeking at the top of the economic pyramid and the 90 percent of wage earners at the bottom. The former extract debt service, land rent, monopoly rent and interest from the latter, which are reduced to the status of debtors and rent-payers. The financial creation of rentier fortunes has created a bifurcated rentier economy in which the largest and quickest fortunes are made by the One Percent by getting the 99 Percent into debt. Housing costs are now the single major expense for wage earners. Paying rent or mortgage charges for housing absorbs up to 43 percent of personal income in the United States. Industrialists can’t make a profit in a competitive world market if they have to pay wages high enough to afford this enormous overhead cost. And so, financialization begets further deindustrialization.

What I’ve been describing has been called “neofeudalism” because it revives the dynamics of the feudal rentier income from which the 19th century sought to free economies, albeit in a *new*, financialized form.¹¹ The forms of economic rent extraction which characterized medieval Europe are resurrected in the contemporary system, which resembles feudal economies in this specific respect. Today’s financial sector plays the dominant role that landlords played prior to the 20th century. It has been able to block taxation of economic rent so that it can be paid to itself, highlighting the resilience of rentier income. Both the feudal economic system of rent-seeking and that of rentier finance capitalism are hostile towards any other system or government strong enough to prevent a financial oligarchy from developing, whether domestically or internationally. In both cases, the powerful creditor interests use financial means

¹¹ Cf. M. Hudson, “The Road to Debt Deflation, Debt Peonage, and Neofeudalism”, in *The Bubble and Beyond*, 2012, ISLET, Dresden; *The Destiny of Civilization*, 2022, ISLET, Dresden, chapters 1 and 2.

backed by military force to siphon off the economic surpluses of nations in monetary form. Today, the drive for such international control – the veritable revenge of the rentier – finds its modern expression in the U.S. backing of client oligarchies which impose rentier-capitalist policies to administer their economies as U.S. satellites.