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Rentier capitalism strikes again

Much like in 2008, the coronavirus safety net protects finance capital first and ordinary people second

Read this artice in German.

The coronavirus pandemic has turned our politics upside down. Governments across the world have implemented unprecedented shutdowns of the economy. This has led to equally unprecedented economic interventions to limit the damage and stave off a huge recession. There is a sense that almost anything is now possible.

But one certainty remains. If you pump more money into a highly unequal economic system, you will get highly unequal outcomes. Some have expressed hope that the interventions required by the pandemic are pushing politics to the left. In the UK at least, such optimism appears – at least in the short term – to be misplaced.

There are echoes of the 2008 financial crisis. Then, some thought that bank bail-outs would finally dispel the myth of the free market and usher in a new era of progressive government intervention. Instead, precisely the opposite occurred. States intervened to underwrite the losses of finance capital; ordinary citizens then paid the price through a decade of austerity.

Protecting rentier income

At first sight, the interventions of 2020 may look very different. Surely, this time we are seeing a bail-out of the real economy: support is being given to workers who cannot work and businesses that cannot open. But, as Laurie Macfarlane, Shreya Nanda and I argue in a recent report for the UK-based think tank IPPR, we need to look deeper. Scratch the surface, and it becomes clear that the coronavirus safety net once again protects finance capital first and ordinary people second.

The UK is extreme in the

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income': that is, income derived from ownership of assets that are scarce or monopolised, rather than from productive work. This includes rent paid to landlords based on their ownership of property, but also bills paid to utility companies based on their control of essential natural resources, as well as interest paid to banks based on their control of the money supply. Meanwhile, many workers on low incomes are still taking a significant financial hit, with some being pushed (deeper) into debt.

The UK is extreme in the skewing of its pre-crisis economy towards rentier activity. Its coronavirus response reflects and exacerbates these imbalances of wealth and power between the working poor and the asset-owning rich. The government's flagship programmes focus on pumping more money into the economy – much of it in the form of private debt – so that workers and businesses can continue to pay their bills to rentiers.

A direct bailout for renters is an indirect bailout for landlords

For example, the 'furlough' scheme has paid 80 per cent of wages up to £2,500 a month for employees who cannot work during lockdown. This may look like a bail-out for working people. But our analysis finds that 45 per cent of this money ends up in the pockets of landlords and banks via payments on rent, mortgages and loans. Meanwhile, listed companies who take advantage of the scheme may continue to pay dividends to shareholders or bonuses to executives. In other words, this scheme is also an indirect bail-out for the asset-owning rich. Without it, many working people would have been simply unable to pay their rent and bills.

Even with this scheme, we find that low-income households will experience falls in income that cannot be offset by reduced expenditure, pushing them further into debt. Many private renters are struggling to keep up with payments, prompting fears of a homelessness crisis when the current ban on evictions is lifted. Both the government and the opposition have resisted calls for a rent freeze, which would force landlords to share some of the pain of the crisis. Instead, the most financially vulnerable are being asked to make additional sacrifices to protect the incomes of the least financially vulnerable.

In summary, then, UK

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freezing rents would breach landlords' right to peaceful enjoyment of private property under Article 2 of the European Convention on Human Rights, requiring the government to compensate them in full. Countries such as Spain have sought to spread the burden more fairly within these constraints: small landlords will receive rent in full, but larger owners must choose between reducing it by 50 per cent and restructuring it over three years.

We must tackle rentier power

But there is an important principle at stake here. Does human rights law really ban any interference with property-owners' ability to extract rent at prevailing market rates, regardless of the human consequences? If it does, then it is very difficult to see how we can build more equal and democratic economies. If it does not, then the question is how much interference is proportionate and justified. In the UK's highly unequal rentier economy, not intervening is simply unsustainable: it will result in mass destitution for private renters alongside complete protection for wealthy landlords.

A similar dynamic is at work in relation to support for small businesses. Like many countries, the UK government has introduced a loan guarantee scheme to help businesses survive the lockdown. This reliance on private debt is a risky approach given that many businesses are already over-indebted. Some other countries have made more use of government grants to replace lost revenue during lockdown. Moreover, loan guarantees protect banks, not businesses, who still bear the full risk of borrowing during a downturn. If a business is unable to pay back their loan, they will still go bust. Meanwhile, the bank will collect 80 per cent of the loan value from the state (and now 100 per cent in the case of the smallest loans).

Just as in 2008, bank losses are being socialised while their gains remain fully privatised. Worse, the UK has done almost nothing to limit these gains, or to prevent banks from extracting rent at the expense of taxpayers and small businesses. A similar scheme in Switzerland, widely praised for its effectiveness, has capped interest rates on state-backed loans at 0 per cent or 0.5 per cent. But in the UK, there has been no interest rate cap at all, except for the new 100 per cent state-backed loans which are fixed at 2.5 per cent. At a time when banks can borrow at close to 0 per cent, and enjoy additional support from the Bank of England to encourage business lending, this still allows banks to profit from crisis loans. In turn, this may result in more businesses failing as they cannot meet repayments.

In summary, then, UK small businesses and low-income households are still shouldering significant economic risks and costs of the pandemic. Without government intervention, the situation would have been even worse. But the *way* the government has chosen to intervene has offered disproportionate protection to banks, landlords and other rentiers. The UK case is particularly stark, but these dynamics are not absent in other countries. After the pandemic, if we want a better world economy rather than a more unequal one, we must tackle rentier power.

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