Relevance of the Euthanasia of the Rentier Concept

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1. Introduction

The euthanasia of the rentier is one of the policy conclusions of Keynes' *The General Theory of Employment, Interest, and Money* (1936). Notwithstanding its fame, not only the position in his theoretical system and the history of evolution in Keynes' idea but also its contemporary relevance as a policy issue has not been studied adequately. Recently, the opportunity of referencing to this policy is increasing, reflecting the change in economic situation. This is because the outline of this argument is that cheap money policies are necessary to stimulate investments in order to increase the effective demand, and the rentier who opposes the low interest rate could be eliminated by this policy.[2] Consequently, its two objectives are that low interest rate policy pursues stable economic growth and the reduction of disparity by restraining the power of the rentier. Although the *General Theory* was published in 1936, it is conceivable that this so-called Keynesian policy was globally implemented after the Second World War. Clearly, in the postwar period, for some two decades, economic growth was stable and any disparities curtailed. Later, the high interest rate policy was popularized due to the aggravation of inflation. The near zero interest rate policy is normalized only after the global economic crisis originating in the sub-prime loan problem. On the other hand, in recent years, the expansion of income and asset disparity, and the increase of the wealthy class are globally reported.[3] These present situation means that eighty years after the publication of the *General Theory*, although the long-term vision of Keynes once realized, eventually it does not hold. In this paper, we examine what contemporary relevance could this policy have from a Post Keynesian perspective.

The remainder of this paper is organized as follows. In Section 2, we examine the contention of the policy of the euthanasia of the rentier, and investigate the relationship with Keynes' work. In Section 3, we study the modern relevance of this argument. Section

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2 For the study of Post Keynesian, see Smithin (1996, 2009), Lavoie and Seccareccia (1988), Rochon (2009), Watkins (2010). For a detailed survey, see Aspromourgos (2004).
3 This issue is examined in Section 3, also see Piketty (2014).

4 presents conclusions.

2. Euthanasia of the Rentier Significance

(1) Policy outline

The euthanasia of the rentier policy is famous, but its specific contents is not as well known. In this section, we investigate it, including the position in the *General Theory*. [4]

The term "rentier" appears first in *A Tract on Monetary Reform* (1923). The context in the *Tract* is subsequently examined, but Keynes depicts the triple class perception of "the investing class, the business class, and the earning class" (Keynes, 1971, p. 4) in the analysis on the effect of price changes on income distribution. There, the investing class is specified as a rentier that belongs to the "bond-holding class" (Keynes, 1971, p. 47).[5]

The idea of the euthanasia of the rentier is stated in chapter 24 of the *General Theory*, namely the final conclusion. In the first section of this chapter, Keynes discusses wealth and income disparity reduction, and proposes the cheap money policy as "a second, much more fundamental inference" (Keynes, 1973a, p. 374) based on this argument.[6] He explains the reason for this policy; "we have shown that the extent of effective saving is necessarily determined by the scale of investment and that the scale of investment is promoted by a *low* rate of interest …Thus it is to our best advantage to reduce the rate of interest to that point relatively to the schedule of the marginal efficiency of capital at which there is full employment" (Keynes, 1973a, p. 375). Subsequently, he describes the situation the policy causes as follows:

> "There can be no doubt that this criterion will lead to a much lower rate of interest than has ruled hitherto; and, so far as one can guess at the schedules of the marginal efficiency of capital corresponding to increasing amounts of capital, the rate of interest is likely to fall steadily, if it should be practicable to maintain conditions of more or less continuous full employment. … Now, though this state of affairs would be quite compatible with some measure of individualism, yet it would mean the euthanasia of the rentier, and, consequently, the euthanasia of the cumulative oppressive power of the capitalist to exploit the scarcity-value of capital" (Keynes, 1973a, p.375)

[4] In this paper, we do not explain the history of creating the euthanasia of the rentier due to space constraints.

[5] The rentier is narrower notion than the general investor.

[6] The relationship between chapter 24 and the euthanasia of the rentier is mentioned subsequently.

This is the condition where the rentier finds it hard to depend on interest income due to the interest rate decline. This argument seems simple at first, but it is closely related to a definite assumption and also a long-term vision. We examine these conditions in the following.

The argument of the euthanasia of the rentier consists of five elements. The first is the low interest rate policy and its background. As such, it is necessary to confirm if its theoretical basis is found in the *General Theory*. Second, the Keynes' long-term vision that the capitalist system without rentier functions unobjectionably. Here, we have to investigate what causes the long-term condition and how it occurs. Third, we examine the improvement of income distribution as the objective of this policy, including the relationship with the triple class perception of Keynes. Fourth, a precondition of this argument is the necessity of inquiry into the closed economy from the monetary policy autonomy. Finally, there is the point of the relationship with the means, except cheap money. This is because, in chapter 24 of *General Theory*, which mentions about this policy, other policies are mentioned, especially the policy of "socialization of investment".

(2) The position in the *General Theory*

The reason for the low interest rate policy in the theoretical system of the *General Theory* is the following. The case of unemployment is the normal condition of the economy. In this situation, the level of economic activity is determined by total demand. Effective demand consists of consumption, investment, and net exports, and if we assume closed economy, the magnitude of consumption and investment set the demand.[7] Consumption is determined by the propensity to consume, but because of its stability, the determinant of the effective demand change is the volume of investment. Investment is determined by the marginal efficiency of capital, (i. e., the expected rate of return on the investment project of a firm), and the interest rate. The marginal efficiency of capital is determined by expectation on one hand, and the interest rate is determined by money demand and supply, based on the liquidity preference theory. Not only the transaction demand for money depends on the level of economic activity, but so does the speculative demand, which fluctuates with the level of interest rate. Since the monetary authority controls the money supply, the interest rate is set by the monetary authority if the demand for money is constant. The interest rate level, and the volume of investments and savings

[7] In modern text of macroeconomy, government expenditure exists, but here we follow Keynes' explanation.

do not become irrelevant in the case of the loanable funds theory, and the interest rate level determines the investment. Therefore, in this system, effective demand is influenced by controlling the interest rate, and it is possible to achieve full employment.

In the effective demand theory, the effective demand determinants are not unique. There is not only the interest rate policy, but also the policy of stimulating investment through an increase in public investment in the short run, and the policy of stimulating consumption by the increasing the propensity to consume in the long run.[8] However, the interest rate policy is not only short run policy; the low interest rate policy in the long run is also asserted. As such, it is notable that the interest rate policy is used in both the short and the long run.

Keynes argued that a capitalist economy without the rentier is possible. This relates to his long-term vision, and can be derived from the system in the *General Theory*. The theoretical core of the *General Theory* is the liquidity preference theory, in which the interest rate is determined by the money demand and supply on the money market, and not by the equilibration of savings and investment in the credit market as in the loanable funds theory. Therefore, because the determination of the interest rate and saving-investment equilibrium are separated, the saving is always equal to investment, and the ex-ante saving is not important in determining investment. In relation to the triple class perception of Keynes, namely, working class, entrepreneur, and rentier, the subjects of saving are the wage earner and the rentier. However, the saving of the worker is typically small, and the rentier is the subject of saving and financial investments. Before the *General Theory*, especially in the *Treatise on Money* (1930), the subject of saving is necessary because ex-ante saving is essential for investment. In the *General Theory*, since saving is automatically produced, the subjects of saving become unimportant, and, theoretically, the rentier is not particularly required.

As for the liquidity preference theory, the main feature is the introduction of the speculative motive. The speculative demand for money is determined by the choice between money as an asset or bond, based on its value storing function. The subject in this case is the subject holding bonds, namely, the rentier. The central bank controls the money supply, and if transaction and precautionary motives are constant the interest rate is determined by the volume of speculative demand. Therefore, the behavior of the rentier exerts a significant influence on the interest rate. It is necessary to increase effective demand to stimulate investment, and the decline in the interest rate imperative. However, there is the possibility of the restraint of effective demand by the extent of the

[8] In the *General Theory*, the increase of the propensity to consume is considered desirable (Keynes, 1973a, pp. 372, 373).

interest rate decrease. Namely, “[i]t seems, then, that the rate of interest on money plays a peculiar part in setting a limit to the level of employment, since it sets a standard to which the marginal efficiency of a capital-asset must attain if it is to be newly produced” (Keynes, 1973a, p. 222).

Keynes advances the theory of own rate of interest in chapter 17 of the *General Theory*. The interest rate (r) is generally expressed as:

$$r = q - c + l + a$$

The interest rate is the total that subtracts the carrying cost (c) from the return (q), and adds the liquidity premium (l) and the rate of appreciation (a). The rate of appreciation is an adjusting term measured in monetary term. In the case of money, “[i]t is characteristic … of money that its yield is nil, and its carrying cost negligible, but its liquidity-premium substantial” (Keynes, 1973a, p. 226). Moreover, “[l]et us, … assume that … on money … the yield and carrying cost negligible” (Keynes, 1973a, p. 227). Accordingly, the money rate of interest equals the liquidity premium. Keynes supposes that the marginal efficiency of capital falls if the stock of assets increases, as “it is that asset’s rate of interest which declines most slowly as the stock of assets in general increases, which eventually knocks out the profitable production of each of the others” (Keynes, 1973a, p. 229). This rate is the interest rate of money. He mentions two reasons for the money rate of interest’s decrease difficulty, and one of the reason is that money “has an elasticity of substitution equal, or nearly equal, to zero” (Keynes, 1973a, p. 231). Consequently, “money is a bottomless sink for purchasing power, when the demand for it increases” (Keynes, 1973a, p. 231). The money rate of interest becomes hard to fall if the speculative demand for money increases. Keynes’ conclusion for this situation is:

> “Unemployment develops, that is to say, because people want the moon; -men cannot be employed when the object of desire (i. e. money) is something which cannot be produced and the demand for which cannot be readily choked off. There is no remedy but to persuade the public that green cheese is practically the same thing and to have a green cheese factory (i. e. a central bank) under public control” (Keynes, 1973a, p. 235).

Therefore, Keynes insists on the cheap money policy, which is necessary if demand for money increases and the interest rate remains at a high level. This demand for money is the speculative demand and, according to the explanation in chapter 17, the subjects of the speculative demand is the public and individuals. However, if we apply the triple class perception, the subject of speculative demand for money will largely be the rentier. One of the reason for the increase in speculative demand is the augmentation of uncertainty, and, in this case, the demand for money of any class increases. However, even if there is some demand for money, only the subject who has some assets besides money is able to hold more money.[9] This is valid for the rentier, and if the rentier enhances the demand for money for some reason, the interest rate remains at a high level and investment remains low. In the framework of the *General Theory*, to avoid this situation the central bank has to increase money supply and lower the interest rate. This low interest rate policy is necessary to actualize full employment, but there is the aspect of diminishing the power of the rentier who disturbs full employment, and Keynes called this point the euthanasia of the rentier.

(3) The future of the capitalist economy

In the policy of the euthanasia of the rentier, if the rentier disappears no specific problems appear. This argument also relates to the long-term vision Keynes had on the future of the capitalist economy. Although, Keynes certainly asserted the importance of the short term, he mentions the long-term vision in several passages. In "Economic possibilities for our grandchildren" (1930), firstly, "assuming no important wars and no important increase in population, the economic problem may be solved, or be at least within sight of solution, within a hundred years" (Keynes, 1972, p. 326). Under this optimistic assumption he advances the argument:

> "When the accumulation of wealth is no longer of high social importance, there will be great changes in the code of morals … The love of money as a possession – as distinguished from the love of money as a means to the enjoyments and realities of life – will be recognized for what it is, a somewhat disguising morbidity, one of those semi-criminal, semi-pathological propensities which one hands over with a shudder to the specialists in mental disease" (Keynes, 1972, p. 329).

The subject of love of money as a possession seems to ultimately resemble the rentier, as the evaluation of the subject, such as the rentier, was low.

[9] In the financial crisis, sometimes, selling panic occurs for claiming liquidity, and this is precisely the speculative demand for money. The subject that is able to practice selling panic is the investor that holds financial assets, except money.

Keynes assumes that the interest rate has to be considerably low to attain full employment, namely that the marginal efficiency of capital is low. This is because he anticipates that the marginal efficiency of capital or expected rate of return will decline in accordance with the increase of capital stock. Keynes believed that in the long run, capital will saturate. Concerning this point, in "National Self-sufficiency" (1933), Keynes stated that "the retention of the structure of private enterprise is incompatible with that degree of material well-being to which our technical advancement entitles us, unless the rate of interest falls to a much lower figure than is likely to come about by natural forces operating on the old lines" (Keynes, 1982, p. 240).

The policy of the euthanasia of the rentier is mentioned in chapter 24 of the *General Theory*, but the economy without the rentier is also described in chapter 16. For example, "a properly run community equipped with modern technical resources, of which the population is not increasing rapidly, ought to be able to bring down the marginal efficiency of capital in equilibrium approximately to zero within a single generation; so that we should attain the conditions of a quasi-stationary community where change and progress would result only from changes in technique, taste, population and institutions" (Keynes, 1973a, pp. 220, 221). To actualize this state, the assumption that it is "comparatively easy to make capital-goods so abundant that the marginal efficiency of capital is zero" (Keynes, 1973a, p. 221) is assumed. As already examined, this presupposition is assumed in the theory of own rates of interest in chapter 17.[10] There, the stock of assets is discussed, but, since capital stock is included in the asset, this argument is valid. Therefore, the own rates of interest except money fall promptly. On the other hand, because the money rate of interest is difficult to reduce, investment is determined by the money rate of interest.

(4) The problem of income distribution

As already stated, the policy of the euthanasia of the rentier is advanced in section 2 of chapter 24, namely, the last of the *General Theory*. In section 1, taxation policy is referred and an argument on the disparity in wealth and income is sustained. A such, it is necessary to examine the relationship between sections 1 and 2. First, in the outset of the chapter 24, Keynes states that "[t]he outstanding faults of the economic society in which we live are its failure to provide for full employment and its arbitrary and

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[10] There is a view that the argument of chapter 17 is unintelligible and the theoretical system of the *General Theory* holds without it, but, as examined in this section, it constitutes the theoretical basis of the cheap money policy, and, in this sense, it is an indispensable part of the *General Theory*.

inequitable distribution of wealth and incomes. … But there are also two important respects in which it is relevant to the second [foregoing theory]" (Keynes, 1973a, p. 372). This analyzes how the argument up to chapter 23 is related to the distribution of wealth and income. As for the point that direct tax is useful for the reduction of disparity in the distribution of wealth and income, first point negates "the belief that growth of capital depends upon the strength of the motive towards individual saving and that for a large proportion of this growth we are dependent on the savings of the rich out of their superfluity" (Keynes, 1973a, p. 372). Namely, "the growth of capital depends not at all on a low propensity to consume but is, on the contrary, held back by it; … measures for the redistribution of incomes in a way likely to raise the propensity to consume may prove positively favourable to the growth of capital" (Keynes, 1973a, pp. 372, 373). Keynes' policy assertion is to raise the propensity to consume in the entire economy by the intensification of taxation on the rich and redistribution to low income earners. The purpose of this policy is full employment, but also disparity reduction. Keynes indicated that "there is social and psychological justification for significant inequalities of incomes and wealth, but not for such large disparities as exist to-day" (Keynes, 1973a, p. 374).[11]

In this way, the policy of the euthanasia of the rentier is advanced in the context of wealth and income disparities. However, the analysis on the rentier traces back to *A Tract on Monetary Reform*. This work investigates how violent inflation after the First World War affected the economy and society, and the triple class perception appears in this work, which he classified as "the investing class, the business class, and the earning class" (Keynes, 1971, p.4), and examines the impact of price fluctuations on each class. The term "rentier" is introduced while arguing deflation.

> "On the other hand deflation, ... in these days of huge national debts expressed in legal-tender money, to overturn the balance so far the other way in the interests of the *rentier*, that the burden of taxation becomes intolerable on the productive classes of the community" (Keynes, 1971, p.30).

This effect contrasts with inflation, and the conclusion of this argument is that "inflation is unjust and deflation is inexpedient. Of the two perhaps deflation is, ... the worse; because it is worse, in an impoverished world, to provoke unemployment than to disappoint the *rentier"* (Keynes, 1971, p. 36). The perspective that if the rentier suffers a loss it does not become a social issue, is already shown.

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[11] Keynes recognized that disparity in the interwar period is excessively large. For the actual state, see Piketty (2014).

Concerning the rentier, there are other passages that mention it in the *General Theory,* specifically the part regarding the propensity to consume. The process approaching full employment is investigated, focusing on the difference between the entrepreneur and the rentier.

> "Since the part of [entrepreneur's] profit which the entrepreneur has to hand on to the rentier is fixed in terms of money, rising prices, even though unaccompanied by any change in output, will re-distribute incomes to the advantage of the entrepreneur and the to the disadvantage of the rentier, which may have a reaction on the propensity to consume. ... If the rentier is less prone to spend than the entrepreneur, the gradual withdrawal of real income from the former will mean that full employment will be reached with a smaller increase in the quantity of money and a smaller reduction in the rate of interest than will be the case if the opposite hypothesis holds" (Keynes, 1973a, pp. 289-291).

In the case of a low propensity to consume of the rentier, if the price level is stable, it normally pushes down effective demand, but here the case of inflation is considered, which is apt to full employment. Therefore, while the existence of the rentier is evaluated as convenient for the economy, in the case of deflation it is conversely the determinant of a sluggish consumption.[12] The implication that the damage the inflation-affected rentier does not cause any problem is also specified and shared with the policy of the euthanasia of the rentier.

(5) The significance of the closed economy

The condition that the interest policy can be implemented without restraint in one

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[12] In early 1930s, Keynes developed the argument that the height of the rentier's propensity to save (lowness of the propensity to consume) intensifies the depression in the case of deflation. For instance, "[l]et us take first of all the case where the employer passes on the whole of the wage reduction in the price. In that case there will be a transfer of purchasing power from the wage earners to the people whose money incomes are not cut, because since wages do not take up the whole of the cost, a ten percent reduction in wages will not cause, even if the whole of it is passed on, a ten per cent reduction in price. ... you will be simply transferring purchasing power from the wage earner to the rentier class. Are we to assume that the wage earner or the rentier is the most likely to save? Probably the rentier. If you enable him to sustain his existing standard of life by a smaller expenditure of money, there is a certain presumption that you will increase the quantity of his savings. If that happens, then pro tanto, you will be diminishing prime profit, and you will be throwing more people out of work by your reduction of wages" (Keynes, 1973b, p. 369).

country is necessary as an assumption of this argument. According to Keynes, the condition is “the policy of an autonomous rate of interest, unimpeded by international preoccupations, and of a national investment programme directed to an optimum level of domestic employment” (Keynes, 1973a, p. 349). Since, in the *General Theory*, a closed economy or a freely implemented monetary policy is assumed, this condition is satisfied. In the more practical context, if there is capital control and the interest rate can diverge from the foreign level. This capital control is mentioned since before the *General Theory*. In the 1920s, Keynes advocated not only cheap money but also public investment programs and an embargo on foreign securities investment. The public investment plan subsequently leads to the policy of “socialization of investment,” and capital control appears theoretically as a closed economy.

Keynes gives attention to the point that not the domestic but foreign investment is made actively [13]. For instance, in “Does employment need a drastic remedy?” (1924) he states that “[c]urrent savings are already available on a sufficient scale – savings which from lack of an outlet at home, are now drifting abroad to destinations from which we as a society shall gain the least possible advantage” (Keynes, 1981, p. 221). The reason that not domestic but foreign investment is made briskly is that there are few occasions for domestic investment and, moreover, foreign investment was favorably treated by the Trustee Acts. In the mid-1920s, a tight policy is implemented for the restoration of the gold standard, and, therefore, due to the high interest rate, domestic investment declines and foreign investment becomes active. However, “they find an outlet in foreign and colonial government loans, most of which do little directly to stimulate British industry and can only operate by depreciating our exchanges” (Keynes, 1981, p. 224). Therefore, although the policy authority tries to maintain the parity of before the First World War, there is the effect of sterling devaluation. Accordingly, regulations for foreign loan were introduced before the return to the gold standard, which Keynes approved of. Another way of energizing domestic investment is the domestic investment program, and this leads to the policy of the “socialization of investment.”

Keynes is known for opposing the gold standard, but, at first, he agreed with the gold exchange standard. Since, after the First World War, Britain could not be the center of the gold standard, its monetary policy became non-autonomous as far as Britain would join the gold standard like other countries. Particularly in the case of Britain, because of the return to the gold standard with comparatively high parity, a high interest rate policy was coerced and investment remained low. However, if Britain would have moved to a

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[13] Because it is published before the *General Theory*, Keynes follows the “classical” theory that savings determine investment.

managed currency system, the monetary policy would be freely implemented, and Keynes insisted on the managed currency in *A Tract on Monetary Reform*. In the *General Theory*, the fact that the central bank controls the money supply is related to the theory of liquidity preference, but also inclines not towards the gold standard, but the managed currency system. Provided that it is insufficient, and even if the interest rate is domestically low and the foreign rate is high, capital flows out for foreign investment. Therefore, the closed economy as theoretical expression or capital control, in a more practical context, is necessary. The subject of investment is necessarily the rentier, and this is the subject that favors the foreign investment. The reason that in the *General Theory* the evaluation on the rentier was remarkably dropped is the situation of the 1920s.

(6) The relationship with the socialization of investment policy

The policy of the euthanasia of the rentier is expressed in section 2 of chapter 24 in the *General Theory*, and, in section 3, the so-called the socialization of investment policy is proposed. This policy is complementary in the sense that it appears third, but it plays an important role. However, the reason of the necessity is that "[t]he State will have to exercise a guiding influence on the propensity to consume partly through its scheme of taxation, partly by fixing the rate of interest, and partly, perhaps, in other ways. Furthermore, it seems unlikely that the influence of banking policy on the rate of interest will be sufficient by itself to determine an optimum rate of investment" (Keynes, 1973a, p. 378). Namely, there is no guarantee that full employment is achieved by raising the propensity to consume and stimulating investment through a low interest rate policy, but the public investment program is required. In the argument of the 1920s, it is notable that the public investment plan is treated equally with the cheap money policy and the other propositions, and that its theoretical background was imprecise before the *General Theory*. The theory of effective demand offers its theoretical basis, and as previously stated, the position among polices is arranged. This policy is theoretically complementary, but, in the practical context and in the Keynes' long-term vision, it is important.

3. Modern relevance

As mentioned above, we examine the policy of the euthanasia of the rentier based on Keynes' writings, but we need to investigate to what extent the present situation diverges from the Keynes' long-term vision, the reasons for that, and, moreover, to what extent it offers significant policy proposals.

Approximately about 80 years have passed since the publication of the *General Theory*, and it seems the time corresponding to the long-term Keynes expected. Whether Keynes' prediction has come true or not is affected by when it is investigated. The period from the 1980s to 2008 is known as the "revenge of the rentiers" (Smithin, 1996, p. 5). In this period, not the low interest rate policy, but the high interest rate one is pursued for the check on inflation. Consequently, in major developed countries economic growth is restrained and the unemployment rate is higher. Therefore, it is clear that the policy favorable for the rentier or financial asset holder is adopted, unlike from the postwar period to the 1960s. Additionally, the disparity in income and assets tend to expand. However, after the financial crisis caused by the subprime loan problem, the ultra-low-interest rate policy of near-zero rates has become a normal condition, but disparities exist nonetheless. There are four points in the historical development and the evaluation of the results, which we subsequently discuss.

(1) Neoliberalism and financialization

The conversion from the cheap money to the high interest rate policy is related to the so-called neoliberalism in a wider context. What does neoliberalism refer to is a major problem, but what promoted it is more important, because the breakaway from the low interest rate policy, expansion of disparities, and financialization are consequences of neoliberalism. According to a leading theorist of neoliberalism, Harvey, "neoliberalization was from the very beginning a project to achieve the restoration of class power" (Harvey, 2005, p. 16). Additionally, "[w]e can, therefore, interpret neoliberalization … as a political project to re-establish the conditions for capital accumulation and to restore the power of economic elites" (Harvey, 2005, p. 19). Therefore, he explains that, in the class conflict of laborer and capitalist, the power of the capitalist recovered, but examining this process after the 1960s is not simple [14].

[14] However, the role of finance is emphasized: "The second trend has been to dramatically reduce the historical gap between money capital earning dividends and interest, on the one hand, and production, manufacturing, or merchant capital looking to gain profits on the other" (Harvey, 2005, p. 32). Furthermore, "[t]he advent of neoliberalization, by contrast, has celebrated the role of the rentier, cut taxes on the rich, privileged dividends and speculative gains over wages and salaries, and unleashed untold though geographically contained financial crises, with devastating effects on employment and life chances in country after country" (Harvey, 2005, p. 187). As indicated above, it is slightly ambiguous, but the roles of the rentier and finance are recognized.

We rely on the definition of Dumenil and Levy (2004) who explain the connections between the role of finance and financialization. For instance, “neoliberalism is the expression of the desire of a class of capitalist owners and the institutions in which their power is concentrated, which we collectively call ‘finance’, to restore – in the context of a general decline in popular struggles – the class’s revenues and power, which had diminished since the Great Depression and World War 2” (Dumenil and Levy, 2004, p. 1). In this way, we choose to see neoliberalism as the process linked with financialization.

Smithin explains the trend after the 1970s as the “revenge of the rentiers” (Smithin, 1996, p.5). As such, we examine historical developments, following Tily (2007) and Smithin (1996), who explain theoretically and politically the transition from the Keynesian cheap money policy to the high interest rate policy [15]. After the Second World War, the so-called Keynesian policy, which is considerably different from Keynes’ assertion, diffused globally, and on the other hand, the regime of Fordism and the welfare state were established. In this regime, inflation increased to a certain extent and the low interest rate policy was implemented. Therefore, the real interest rate is at a considerably low level. In the second half of the 1960s, profit squeeze was induced because of decreasing productivity growth and increasing wages. In the 1970s, the economy was affected by the oil and Nixon shocks, and the real interest rate occasionally became negative due to inflation aggravation. Moreover, stagflation occurred through economic activity deterioration. Therefore, the rentier started claiming the rise of the interest rate, and firms also started demanding limiting inflation in order to curb the wage rise. Their claim is linked with monetarism, and, in the United States, monetarism was introduced to the policy at the end of the 1970s. Consequently, a high interest rate was established, and the target of monetary policy became the low rate of inflation. Since the 1990s, the inflation targeting policy has been used in both practical and theory.

Financialization develops from the 1980s, the main cause being the demand for the financial commodities of high return. Particularly in the manufacturing industry, there is demand for financial commodities and services for securing profits if the real interest rate decreasing.[16] As a result of this process, corporate governance changes, and not only the behavior of firm changes, but also high compensation for management popularizes,

[15] Tily (2007) mainly discusses the cheap money policy in Keynes, but he does not mention the rentier. Additionally, regarding the low interest policy of Keynes, see Moggridge and Howson (1974).

[16] For financialization, see Epstein (2005), Palley (2013), and Van der Zwan (2014). The definition of financialization by Epstein is: “financialization means the increasing role of financial motives, financial markets, financial actors and financial institutions in the operation of the domestic and international economies” (Epstein, 2005, p. 3).

causing further expansion of disparities in income and assets. This is the state of the revenge of the rentiers."

In this process, the financial-led regime was established, but the economic recession occurred globally due to the 2008 financial crisis. The aim of monetary policy changes from the repression of inflation to stimulating the economy, and ultra-low-interest rate policies of near zero become normal and quantitative ease is generalized for avoiding the financial crisis. Therefore, the rentier or financial interests suffer some damage and disparity is not curtailed, whereas the situation of a considerably low interest rate is actualized.

(2) Income and asset disparity

Keynes' long-term vision did not materialize, and one of the reasons is that, although the rentier suffers damage due to the low interest rate, the wealthy class revives and wealth disparity tends to expand in recent years. Concerning this expansion, Piketty (2014) considers as the fundamental reason that the rate of return on capital (r) exceeds the economic growth rate (g). Namely, "[w]hen the rate of return on capital significantly exceeds the growth rate of the economy, … then it logically follows that inherited wealth grows faster than the economy as a whole" (Piketty, 2014, p. 26). The fact that the rate of return on capital surpasses the growth rate originates in the wideness of the notion of capital: "Capital includes all forms of real property (including residential real estate) as well as financial and professional capital (plants, infrastructure, machinery, patents, and so on) used by firms and government agencies" (Piketty, 2014, p. 46). This rate of return on capital is essentially the rate of return on assets that widen the notion of capital. Assets include not only financial assets but also real estate. There is no clear explanation for why the rate of return on capital exceeds the economic growth rate, but regarding the mechanism of expansion of disparity he indicates that "the average effective rate of return on capital may higher when the individual's initial endowment is higher (as appears to be increasingly common)" (Piketty, 2014, p. 26).

Keynes considered capital as a real professional asset in the evaluation of Piketty (2014). The differences in the notion of capital cause the rate of return on capital to be higher than the marginal efficiency of capital. The reason that Keynes' argument did not prove true in the long run is that, even if the interest rate falls due to the cheap money policy, the rate of return on financial assets except bonds does not become zero and the rate of return on real estate and others is not affected. In the *General Theory*, solely the rentier is discussed, and the holder of other financial asset is hardly mentioned.[17] However, Keynes' framework is the triple class perception, and he depicts the conflict between the rentier as bond holder and the entrepreneur. Conversely, Piketty treats a considerable part of entrepreneurs, particularly the management of big firms, and the asset holder, including bond holders as the wealthy class.

Keynes believed the marginal efficiency of capital to fall considerably in the long run; moreover, even the long term is shorter than one hundred years. Piketty examines this topic: "[i]t is very difficult to say what quantity of capital would have to be accumulated for the rate of return to fall to 1 or 1.5 percent" (Piketty, 2014, p. 563). Although his notion of capital is wider than that of Keynes, Piketty anticipates that the rate of capital falls considerably in the long run. This is one possibility why the long-term vision of Keynes does not materialize. Piketty also contemplates a state that resembles Keynes' vision:

> "The maximal level of capital is attained when so much has been accumulated that the return on capital, r, supposed to be equal to its marginal productivity, falls to be equal to the growth rate g. In 1961 Edmund Phelps baptized the equality r = g the 'the golden rule of capital accumulation'. … Clearly, then, the golden rule is related to a 'capital saturation' strategy. So much capital is accumulated that rentiers have nothing left to consume, since they must reinvest all of their return if they want their capital to grow at the same rate as the economy, thereby preserving their social status relative to the average for the society. … The equality r > g is the basis of a society of rentiers … Accumulating enough capital to reduce the return to the growth rate can therefore end the reign of the rentier" (Piketty, 2014, pp. 563, 564).

Piketty shares with Keynes a view that even if "the rentier" does not exist, the economy is maintained unobjectionably. However, he expects that this long-term state realizes as considerably low. The first reason is, as already stated, that he estimates the volume the capital saturates to be fairly large, and this is because his notion of capital is wider than

[17] "Though the rentier would disappear, there would still be room, nevertheless, for enterprise and skill in the estimation of prospective yields about which opinions could differ. For the above relates primarily to the pure rate of interest apart from any allowance for risk and the like, and not to the gross yield of assets including the return in respect of risk, thus unless the pure rate of interest were to be held at a negative figure, there would still be a positive yield to skilled investment in individual assets having a doubtful prospective yield" (Keynes, 1973a, p. 221). Keynes mentions not the rate of return on assets but the investment of firms, and he does not refer to other assets except bonds.

Keynes.' Second, it is necessary for the rate of return on capital to decline in order to equalize it to the economic growth rate, and, on the other hand, it is difficult if the growth rate falls: "If there is no productivity growth, … if demographic growth is also zero, one would have to accumulate an infinite quantity of capital" (Piketty, 2014, p. 564). For example, in the case of Japan, because productivity growth is low and the rate of population growth is negative, according to Piketty's argument, the conclusion is that it is difficult to reduce the disparity. Additionally, "[f]or countries at the world technological frontier – and thus ultimately fore planet as a whole – there is ample reason to believe that growth rate will not exceed 1 - 1.5 percent in the long run, no matter what economic policies are adopted" (Piketty, 2014, p. 572). Consequently, the long-term situation Piketty anticipates is more pessimistic than Keynes,' and he sees the "golden rule" as a theoretical possibility. Therefore, his conclusion on the low interest rate policy is insufficient, and he insists on capital levy.

Regarding capital levy, Keynes was more restrictive than Piketty, and asserted it in the context of enormous amounts of public debts being consolidated. Actually, Piketty makes a similar argument.[18] Keynes stated that "[t]he purpose of this section is to bring out clearly the *alternative* character of these two methods of moderating the claims of the *rentier*, when the State's contractual liabilities, fixed in terms of money, have reached an excessive proportion of the national income. The active and working elements in no community, ... will consent to hand over to the rentier or bond-holding class more than a certain proportion of the fruits of their work". (Keynes, 1971a, pp. 53 - 55). This means that the rentier is a public bond holder, and he criticized that, in the income distribution, the distribution through public debt is exorbitant. There are three methods as means to dissolve colossal public debts: the "first is repudiation. ... The second method is currency depreciation, which becomes devaluation when it is fixed and confirmed by law." (Keynes, 1971a, pp. 53 - 55). The devaluation of the currency means domestic inflation. The third method is capital levy. However, "[t]he remaining, the scientific, expedient, the capital levy, has never yet been tried on a large scale" (Keynes, 1971a, pp. 53 - 55). Namely, Keynes approved, but considered this was not feasible at the start of the 1920s.

Piketty considers that the accumulation of public debt only brings profit to the wealthy class and it is not favorable, same as Keynes. He advances an argument similar to Keynes' as to the means of dissolving the accumulation of public debts, but the different point is that he asserts capital taxation as a policy instrument. This capital taxation is also asset tax, which is meant to reduce the expansion of disparity. Piketty's policy

[18] Chapter 16 of Piketty (2014) treats this point, and it is interesting that the long-term argument of capital saturation is also mentioned.

conclusion is global capital taxation, but Piketty himself is skeptical of its feasibility. In this sense, this policy resembles Keynes' policy of the euthanasia of the rentier position-wise. It is remarkable that the arguments of Keynes and Piketty converge in the long-term vision of the capitalist economy and the accumulation of public debts.

(3) Was Keynes wrong?

It is hard to say that Keynes's long-term vision materialize, but the reason of its failure deserves an investigation. First, the rentier does not entirely disappear. In this respect, the rentier has been virtually the holder of wider assets. Keynes did not stress this point in order to simplify his argument. Although, as Piketty mentioned, disparity tended to reduce after the First World War, Keynes saw this trend and considered the possibility of the disappearance of the rentier.

Second, the question is whether the marginal efficiency of capital declines or not. Namely, capital is not yet saturated. At least, in developed countries except Japan, before the 2008 global crisis, even with the bubble factor, it cannot be estimated that the marginal efficiency of capital falls considerably. If the notion of capital is extended as Piketty did, the saturation of capital can be considerable in the future. Moreover, after the 2008 crisis, in all countries, including emerging ones, marginal efficiency of capital declines. However, in the future, there is a possibility that the marginal efficiency of capital increases. Thus, the marginal efficiency of capital is difficult to evaluate. As such, it is necessary to examine the reason why Keynes considered the marginal efficiency of capital easy to decrease. It can be said that Keynes had an optimistic view of the economy, and also there is a possibility that Britain's stagnation in the interwar period was reflected in his long-term vision.

(4) Considerations and relevance

We examined the relationship between the policy of the euthanasia of the rentier and its vision, and the actual situation. Certainly, Keynes' prospect does not come true, but the subject is not meaningless. First, the high interest rate policy for the repression of inflation is not desirable in that it raises the unemployment rate and investment remains low. Since a negative real interest rate is unjust as coercive income distribution, the real interest rate must be positive.[19] The quantitative easing policy in the situation

[19] Smithin expresses that "for the central bank to pursue a policy of 'low but still positive' real interest rates would represent the most sensible compromise" (Smithin, 2009, p. 70).

of extreme economic sluggishness has to be examined in another paper, but it can be evaluated as the policy declining the long-term interest rate.

Second, the issue of income distribution has gained attention in recent years. As Piketty pointed out, the period after the Second World War was an exceptional phase, and the problem of income and asset distribution remains important in the economy and society. However, there are limitations in Keynes' approach. His triple class perception has a theoretical advantage in the *General Theory*, and it is valid in the analysis of the relationship with price fluctuation in *A Tract on Monetary Reform* if approaching the issue of income distribution, but is not necessarily effective for the long term. However, a simple division of class (i. e. laborer/capitalist) by Harvey is insufficient as the explanation of neoliberalism. However, Piketty simply distinguishes the volume of income and holding assets, which is reliable in approaching the problem positively.

Third is the current relevance of Keynes' triple class perception. The division of wage earner/entrepreneur/rentier is the classification that marks the function in the economy, rather than class as actual state [20]. The rentier is defined as the bond holder, and in *A Tract on Monetary Reform,* the effects of price fluctuation are analyzed. In the *General Theory* the rentier is depicted as the subject favoring the high interest rate, and this reflects the state of the modern joint-stock company where the capital and management is separated. Currently, the rentier has to be regarded as the investor who owns other assets except bonds. It is important that Keynes' argument is fundamentally a monetary economics, and the relationship with money and finance is theoretically emphasized. In this triple class perception, not only the axis of conflict of labor versus capital between the laborers that hardly possess assets, and the entrepreneur and the rentier that hold considerable assets is stressed, but also the axis of conflict between the entrepreneur that participates in management and the rentier that holds financial assets.[21] This distinction appears as the division of industrial and financial circulation in the *Treatise on Money*. In the *General Theory,* the confrontation between industry and finance is described concerning the stock market and the interest rate. This perspective is

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[20] The rentier corresponds to the landowner in the triple class perception of classical economics that consists of capitalist/laborer/landowner. In classical economics, opinions are divided concerning the dealing of landowner. One view is the argument evaluating its consumption, and this resembles the argument that emphasizes the current trickle-down effect of the wealthy class. On the other hand, in the relation to Keynes, the actual condition of the landowner is the gentry, as the descendent of the landowner is regarded as the rentier in Keynes' time.

[21] Recently, the management of firms has come to obtain huge remunerations, and are considered asset holder. Moreover, due to the development of financialization for pension fund assets which are also invested in financial assets such as stock, it is not easy to analyze this by simple class perception.

indispensable in the trend after the Second World War, particularly the development of neoliberalism and the process of financialization.

Fourth, Keynes' long-term vision did not materialize.[22] As such, it is generally estimated that Keynes' argument emphasizes the short term, but there exists the long-term vision, which is theoretically important.

4. Conclusions

In this paper, we examined the policy of the euthanasia of the rentier from various perspectives. First, we can conclude that the substance of this policy is investigated in detail, and that the important conclusion of policy derived from the theoretical system of the *General Theory* is affirmed. Particularly, the theory of the own rates of interest in chapter 17 plays an important role in introducing this argument. Second, the long-term vision of capitalism, the component of this argument, is examined. There is a pioneering idea of the vision before the *General Theory*, but it is developed on a full scale in the *General Theory*. Third, the issue of income distribution is the context in which the rentier appears in *A Tract on Monetary Reform* for the first time, and plays an important role in the conclusions of the *General Theory*. This argument draws the conclusion that not only increases in employment but also the long-term improvement of income distribution is possible, and the problem of income distribution occupies an important position. Fourth, the relevance of the closed economy as a prerequisite of this argument is inquired. This is actually a regulation of capital movement, already proposed in the 1920s. Simultaneously, the public investment program is asserted, and this leads to the socialization of investment policy in the *General Theory*. This policy plays important role in the *General Theory*, but it can be considered a complementary position.

Subsequently after the investigation into the Keynes' argument, we examine its modern relevance. First, after the 1970s the high interest rate policy to counter inflation has generalized, and the neoliberalism and the theory of financialization are important for explaining this process. This process is complicated, but the essential point is that the real negative interest rate brought about the high interest rate policy as a countermeasure of the rentier or the financial asset holder. Second, we investigate income and asset disparities referring to Piketty. The difference with Piketty mostly

[22] It can be criticized that, if the rentier disappears, the subject of investment is also lost, but, in the system of the *General Theory* where savings are produced automatically, this point does not have to be considered. In the current context, the savings of the public are controlled by the institutional investor. As such, the financial instability that this process of financialization causes is more serious.

results from the divergence of the notion of capital. Therefore, the long-term vision on the future of capitalism is dissimilar, but the critical mind and the contention are shared. Third, Keynes's triple class perception has a limitation, but it is indispensable perspective to contemplate the issue of money and finance.

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