Rentier Developmentalism, Servicization and DInRT Economies

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Abstract

This article draws a parallel between rentier capitalism and what the author calls rentier developmentalism. This refers to the growing influence of rent seeking or DI,RT sectors: Distribution, ICT\textsubscript{n} (that are non-tradable), Restaurant and Transportation & storage. Similar to rentier capitalism and financialization, the growth of DI,RT economies is part of a servicization process that result in economic fragility and increasing inequality. Therefore, further classification of countries into FIRE and DI,RT economies are needed to ascertain the quality and inclusive nature of growth in the poor and developing world. The article highlights the importance of re-incorporating the concept of Ricardian rents and differentiating these from profits in economic analysis.

Keywords: financialization, inequality, rentier developmentalism, rent seeking

JEL Classification: D30, F63, O11, O54

1 Introduction

This article draws a parallel between rentier capitalism and rentier developmentalism (a concept coined by the author), and investigates the foundations of these economies: FIRE and DI,RT industries. FIRE economies are dominated by Finance, Insurance and Real Estate sectors, while Distribution, ICT\textsubscript{n} (that are non-tradable), Restaurant and Transportation & storage industries are the major areas in DI,RT economies. The increasing influence of FIRE and DI,RT industries characterize the processes of financialization and servicization respectively. The latter gives rise to rentier developmentalism as much as the financialization process manufactures rentier capitalism.

The literature (Haldane 2010a, Kay 2012, Turner 2012 and Stiglitz 2013) emphasizes the adverse implications of rent seeking and its role in the recent financial crisis. But this analysis has been confined to the rich and emerging countries with dynamic financial markets. This article is well positioned to make a parallel argument for
other poor and developing countries where DI\textsubscript{n}RT instead of FIRE industries dominate. Notwithstanding this difference, the article contends that rentier economies engender similar patterns of inequality, consumption, debt and democratic capture.

With the aid of national income identities that incorporate rents, this article highlights the nexus between rentier economies and inequality. The author advances the argument that the rent seeking literature does not adequately differentiate between Ricardian rents and profits, which explains why GDP indicators over estimate value creation (Mazzucato and Shipman 2014) and (Shaikh and Tonak 1996). Therefore, three measures are introduced to account for the scale of the rentier economy.

The article uses Guyana (a small open economy) as a case study to investigate the characteristics of DI\textsubscript{n}RT economies. Consistent with rentier economies, the case study reveals rising inequality and conspicuous consumption in Guyana. The major players in Guyana’s services industry are DI\textsubscript{n}RT sectors and these are projected to be the leading growth areas: indicative of the deepening of servicization.

Accordingly, the article advocates for further classification of countries besides high, middle and low-income groups. Categorizing countries as FIRE or DI\textsubscript{n}RT economies reveals the sustainability and inclusive nature of their growth models. Additionally, the author proposes a new definition of a developing country: a nation that increases its standard of living (along with political and social freedoms) with a low rent-income ratio. This ensures that the growth process is anchored by real investments as opposed to financialization or servicization. The argument that servicization drives rentier developmentalism strengthens the defense of industrial policies and innovation systems, as structural transformation reduces the influence of the DI\textsubscript{n}RT sectors.
The remainder of the paper is organized as follows. Section 2 discusses the concept of value and explains the difference between rents and profits. Section 3 introduces the concepts of rentier developmentalism, servicization and DIaRT and constructs an accounting framework for rents. Section 4 compares and contrast rentier capitalism and developmentalism, while section 5 discusses the nexus between rentier economies and inequality. Section 6 investigates the Guyana case study and section 7 briefly examines the implications of the new concepts and metrics for the development literature. Section 8 concludes.

2 Value, Rents, and Profits

In classical political economy (Smith 1993) and (Ricardo 1951) distinctions were made between productive vs. unproductive labour; value creation vs. value extraction and rents vs. profits. These distinctions enhanced the ability to determine the differences among value creation, distribution and utilization. This leads us to the following classification advanced by (Shaikh and Tonak 1996).

2.1 Spheres of Social Reproduction: A Classical Perspective

- Production: The creation of value - undertaken by production labour.

- Distribution/Exchange: The allocation of value through market/non-market means, or the transfer of titles of ownership from one individual/group to another. Since this is the allocation of value it is undertaken by non-production labour.

- Social Maintenance: Public and private services that maintain social order: e.g. public administration and security services etc. The source of financing for social
maintenance is the production sector (e.g. tax receipts from production activities); thus, social maintenance is the utilization of value and is undertaken by non-production labour.

- Personal consumption: The utilization of value by individuals.

Equations (1) and (2) formalize this classical taxonomy:

\[ D + S_m = S_c \]  \hspace{1cm} (1)

\[ S_c + P_c = T_c \]  \hspace{1cm} (2)

Where \( D \), \( S_m \), \( S_c \), \( P_c \) and \( T_c \) are distribution, social maintenance, social consumption, private consumption and total consumption respectively. Any stimulus to social consumption is equivalent to an increase in effective demand, even though it is an extraction of value. But boosting social consumption to pursue Keynesian demand management is a short-term fix and not a sustainable source of long run growth. Even if we invoke Kaldor-Verdoorn law (Kaldor 1978) there are inevitable limits to consumption led growth.

But what do we mean by value or value creation? This refers to the net increase in real output or the outcome of production activities. Some services (software development) can be considered production activities when they enhance the useful properties of a commodity. In short, value is created in production and not realization (Marx 1992). This view of value creation is at odds with (Mazzucato and Shipman 2014), they argue that value creation is a production or distribution activity generating outputs that can be sold for more than their production costs. As the sphere of social reproduction
explains, distribution activities simply allocate already created value, therefore, (Mazzucato and Shipman 2014) associates the distribution of value with value creation. Notwithstanding this stark contrast, both (Mazzucato and Shipman 2014) and (Shaikh and Tonak 1996) contend that national income statistics grossly overestimate the creation of value.

Modern national income accounting considers social consumption as production activities (a stark contrast to the classical perspective) since they produce social goods that people are willing to pay for. Consequently, national income metrics record incomes that do not arise from value added activities (Mazzucato and Shipman 2014). A good example of this would be incomes earned in the social consumption sectors. But the classical economists do not deny the important role social consumption plays in the cycle of social reproduction, on the contrary, their contention is that an economy cannot sustain itself based on value extraction.

2.2 Ricardian Rent

(Ricardo 1951) defined rent as the income earned by landowners but not on account of their productive powers, however, due to the differences in the fertility of their land. The owner of the land that is relatively more fertile earns rent. Ricardo despises this source of income since the landowner has done little to generate this income; the latter is purely because of his deeds of ownership. Thus, Ricardian rents are not associated with production activities or entrepreneurial talent; ergo, Ricardian rents are not related to value creation. The rent seeking literature advanced by (Tullock 1967) and (Krueger 1974) emerged from this conception of rent.
As (Krueger 1974) insists, rent seeking is the tendency to spend money on political lobbying purely for the purposes of increasing one’s wealth without creating new wealth. Essentially, rents and the rent seeking process are a form of value extraction. This describes much of the financial industries in the OECD countries (Haldane 2010a, Kay 2012, Turner 2012 and Stiglitz 2013) and is an important driver of inequality (Stiglitz 2013). It is important to note that (Mazzucato and Shipman 2014) defines value extraction as income generated from previous productive or speculative capital gain. Though this definition captures an essential component of value extraction (rent seeking), it includes income generated through value creation, which hinders an understanding of Ricardian rents.

The rent seeking literature (Tullock 1967) and (Krueger 1974) is also guilty of this, since it does not go far enough in explaining the crucial difference between profits and rents. The fact that we include distribution services and government current outlays as value added in GDP emphasizes this point. Somehow, the rent seeking literature is only popularly associated with political corruption, monopolies, and poor transparency. But Ricardian rents are also present in transparent and legal speculative transactions or even in respectable occupations in the public service as section 2.1 highlights. The narrow conception of rent seeking means that a wide array of activities could be considered as productive investments; this is why financial innovation (credit default swaps, derivatives etc.) and even speculation were considered as value creating activities. This article defines rent as income earned without a corresponding increase in real output.

2.3 Profits

Since rents are associated with non-production activities, it follows that profits are
the rewards for value creation. While rent seekers earn rents, entrepreneurs earn profits: those businessmen and women who undertake real investments.

2.4 A Smithian Contribution

(Smith 1993) drew a clear dichotomy between productive and unproductive labour to illustrate that some employment creates value while others consume value. Notwithstanding the essential roles of the sovereign and domestic servants, (Smith 1993) explains that these are unproductive labour. Incorporating Smith’s terms into our analysis reveals that employment in the social consumption sector is composed of unproductive labour and contributes to value extraction. A synthesis of the classical ideas shows that profits and value creation are likened to productive labour, while rents and value extraction are equated to unproductive labour. Yet, (Smith 1993) was clear that the latter is essential to the process of social reproduction; after all, the point of value creation is the utilization of its use values.

2.5 From the Classics to the Great Recession

The dominance of rent seeking in the American political system is cited as one of the contributory factors to the great recession (Stiglitz 2013), since this led to the deregulation of financial markets, stagnant minimum wages and the de-unionization of American workers. These outcomes intensified rent seeking and led to the inventions of financial instruments that served the interests of speculators as opposed to entrepreneurs. Trading these financial assets involves the transfer of ownership of pieces of paper; income derived from these sources cannot be considered profits from the classical perspective. On the contrary, these are rents - Ricardian landlord rents.
Mainstream economists have informed us that no one could have seen the crisis coming (Bernanke 2007) and that it would be more efficient to clean up the aftermath of a crisis than to prevent it. But when one consults the classical economists it becomes obvious that a society is headed for a crisis when its dominant source of income is rents. In short, a rent-ridden society is a crisis prone society. Since our modern day national income metrics do not explicitly measure rents, our ability to predict financial crises is compromised. In fact, what our national income accountants consider productive investments are usually some form of value extraction or consumption. For instance: the financial sector is integral to any growth process, but its purpose is to channel scarce financial resources to the most profitable value creating investments. When financial sectors abstain from this function and their preoccupation becomes trading pieces of paper, rent seeking plagues financial markets. But these are considered as productive investments aimed at financial deepening.

In the previous decades leading up to the great recession, financial innovation (without a corresponding increase in real investment) was seen as a virtue and essential to the growth process. Today we know better, the decades prior to the great recession was a period of value extraction artificially supported by a housing bubble.

3 Rentier Capitalism, Financialization and FIRE

While there is no consensus on the definition of financialization, (Epstein 2001) defines it as follows: the importance of financial markets, financial motives, financial institutions and financial elites in the operation of the economy and its governing institutions, both at the national and international level. Generally, when the dominant
class and source of income are rentiers and rents respectively, the society is governed by rentier capitalism and dominated by FIRE (Finance, Insurance and Real Estate) sectors.

3.1 Rentier Developmentalism, Servicization and DI\textsubscript{RT}

Countries that are trapped in a transition stage to capitalism or advanced capitalism by ‘entrepreneurs’ who undertake fictitious investments can be considered imprisoned by a rentier developmental model. These fictitious investments are rent seeking activities masquerading as entrepreneurship.

Fictitious investments boost DI\textsubscript{RT} (Distribution, ICT\textsubscript{RT}, Restaurants and Transport and storage) sectors and appropriate value through greater social consumption. The growing influence of DI\textsubscript{RT} sectors in poor and developing countries can be called Servicization; a parallel to financialization but within the context of rentier developmentalism. Unlike FIRE economies, DI\textsubscript{RT} economies will not produce bubbles, but they are both characterized by fragile growth and rising inequality.

3.2 Accounting for Rents

Equation (3) depicts the well known national income identities where $VA$, $W + P$, $Y$, $GDP$, and $C + I + G + (X - M)$ are value added, wages and profits, income, gross domestic product and consumption, investment, government outlay and net exports respectively. The implicit assumption that rents are zero in this accounting framework makes equation (3) true and explains why $GDP$ is understood as a measure of total value added in an economy over a given period of time.

$$VA = (W + P) = Y = GDP = C + I + G + (X - M) \quad (3)$$
But this implicit (no rent) assumption is a fatal one that corrupts our conventional metrics and inevitably misguides policy. Section 2.1 explains why rent-seeking activities are important to the process of social reproduction, which underscores the point that rents are embedded in society. Equation (4) modifies the standard income accounting identities to capture these rents ($R$):

$$ (W + P) + R = Y = GDP = C + I + G + (X-M) \quad (4) $$

$$ VA = (W + P) / GDP \neq GDP \quad (5) $$

Since equation (4) is the general case value added is no longer equated with $GDP$ as equation (5) illustrates. This inequality is consistent with (Mazzucato and Shipman 2014) and (Shaikh and Tonak 1996) contention that $GDP$ overestimates value creation. When the value added to $GDP$ ratio is less than the rent to $GDP$ ratio, rentierism is pervasive. The same is true when the value creating employment ($VE$) to total employment ($TE$) ratio is less than the rent seeking employment ($RE$) to total employment ratio. Rent seeking employment refers to the occupations within the social maintenance and distribution spheres of social reproduction highlighted in section 2.1. Equations (6) and (7) illustrate the necessary conditions for rentierism:

$$ VA / GDP = (W + P) / GDP < R / GDP = 1 \quad (6) $$

$$ VE / TE < RE / TE = 1 \quad (7) $$

Although equations (6) and (7) are useful for gauging the degree of rentierism in a society, they give no indication of the principal regulating factors of rent seeking.
Equations (8) and (9) capture the financialization and servicization process that drive rentier capitalism and developmentalism respectively, where $V_s$ represents value creating sectors. As FIRE sectors exceed value-creating sectors as a ratio to GDP, the financialization process takes hold and equations (6) and (7) hold true. The same is true for rentier developmentalism (via the servicization process) as equation (9) describes.

\begin{align*}
FIRE / GDP & > V_s / GDP = 1 \quad (8) \\
DI_{nRT} / GDP & > V_s / GDP = 1 \quad (9)
\end{align*}

4 Rentier Capitalism vs Rentier Developmentalism

Table 1 illustrates the various characteristics of financialization and servicization; it is evident that these concepts have more in common than differences. While rentier capitalism is easily identified by the plethora of financial instruments (Philips 2002), rentier developmentalism can be recognized by the superabundance of distribution outlets and other consumption services. It is interesting that rising inequality is distinctive in both FIRE and DI_{nRT} economies, (see Constantine 2014)) for the nexus between services and inequality, also, consult (Stiglitz 2012) and (Piketty 2014) for rising inequality in the USA and the global economy respectively).

Another fascinating feature of rentier economies is their high consumption levels. This should not be surprising, by definition, rentiers are value extractors and consumptionists. But high consumption is not a vice in itself; it only becomes detrimental when nations try to consume their way to growth. More importantly, what is the distribution of consumption among the various classes in these rentier and high
consumption economies? Is the consumption pattern poverty reducing or more of a conspicuous nature?

(Stockhammer 2006), (Froud et al 2002), (Williams 2000) and (Lazonick and O’ Sullivan 2000) argue that the main thrust of financialization is the preoccupation with shareholder value. This obsession encourages shares buyback at the cost of reducing long run real investments, which increases rents at the expense of profits. But in poor and developing countries, family owned enterprises are the primary form of business organization. Notwithstanding this, rentiers in DI\(_n\)RT economies are quasi-shareholders in the DI\(_n\)RT sectors: they do not control the DI\(_n\)RT sectors \textit{per se} but they own the rents earned in these industries. Their preoccupation with maximizing rents in DI\(_n\)RT sectors parallels the obsession with shareholder value in rentier capitalist states and the cumulative effect is the same, increases in rents at the expense of profits and value creation.

**Table 1** Characteristics of Financialization and Servicization

<table>
<thead>
<tr>
<th>Financialization</th>
<th>Servicization</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fragile growth</td>
<td>Fragile growth</td>
</tr>
<tr>
<td>Rents at the expense of profits</td>
<td>Rents at the expense of profits</td>
</tr>
<tr>
<td>Increasing inequality</td>
<td>Increasing inequality</td>
</tr>
<tr>
<td>Low savings and high consumption</td>
<td>Low savings and high consumption</td>
</tr>
<tr>
<td>Obsession with shareholder value</td>
<td>Obsession with quasi-shareholder value</td>
</tr>
</tbody>
</table>
The establishment of a rentier class is not listed in Table 1, but it is implied that rentier economies can be analyzed along the following class distinctions: workers, entrepreneurs and rentiers. Studies such as: (Duménil and Lévy 2002), (Epstein and Jayadev 2005) and (Greider 1997) argue that there is a re-emergence of the rentier class.

Notwithstanding these striking similarities, there are important differences between FIRE and DI₃RT economies. Though financialization ultimately leads to debt, bubbles and crises, the process requires financial experts hired to manage global investment portfolios and make financial predictions. These analysts earn premium wage and also carry home huge bonuses that are tied to the size of their portfolios, number of clienteles etc. Essentially, highly skilled labour is integral to the success of firms and the financialization process generally.

In DI₃RT economies however, there is no corresponding premium wage employment portfolio, there are no tradable services, no global portfolio to manage; this makes highly skilled labour a non-essential component of the growth process in DI₃RT economies. The human capital required for transportation & storage and distribution services etc., are not financial engineers trained in asset pricing. On the contrary, high school graduates will suffice.

An important difference is the nexus between industries and universities/research. The growth of financialization could not have been possible without academic research
justifying the growth of financial instruments. The best graduating students are quickly recruited to the front lines of global enterprises and current students have opportunities to intern at multi-national corporations. This strong connection between industry and universities is absent in DIₙRT economies. Instead of top students being hunted by industry leaders, they have to tolerate periods of unemployment before becoming underemployed. Consequently, talent from DIₙRT economies migrates to FIRE economies; although, there are other push and pull factors that contribute to the migration process. See Figure 1 for a model of rentier developmentalism.

**Figure 1 Rentier Developmentalism**

![Rentier Developmentalism Diagram]

Source: Author’s representation

### 4.1 Why Financialization and Servicization?

Table 2 highlights the various explanations for financialization and servicization. (Stiglitz 2010) contends that the repeal of the Glass-Stegall Act blurred the lines between investment and commercial banking, enabling the latter to move from profit making ventures to the seductive rent seeking investments. The efficient market hypothesis advanced by (Fama 1970) argues that no one can beat the market. This thesis was used to
defend the view that financial markets need little regulation since it would rein in its own excesses. The liberalization of capital accounts extended financialization across international boarders, with the consequence of distributing toxic financial assets across the globe. This is the essence of financial contagion.

(Minsky 1975) proposed the idea of the paradox of tranquillity, which argues that stability could be destabilizing. Persistent growth encouraged rentiers to acquire greater and riskier investments that ultimately accelerated the financialization process. The ease at which financial investments can be made over value creating investments is also a major growth determinant of FIRE sectors. Finally, (Palley 2007) advances the thesis that neo-liberalism broadly conceived and corporate globalization particularly, is responsible for the rise of financialization.

Table 2 Sources of Financialization and Servicization

<table>
<thead>
<tr>
<th>Financialization</th>
<th>Servicization</th>
</tr>
</thead>
<tbody>
<tr>
<td>It is relatively easier to make financial investments than real investments</td>
<td>DIₙRT sectors are the least risky investment</td>
</tr>
<tr>
<td>Efficient Market Hypothesis</td>
<td>Remittance Inflow &amp; Money Laundering</td>
</tr>
<tr>
<td>Financial deregulation &amp; Liberalization of capital accounts</td>
<td>Complimentary infrastructure requirements for DIₙRT sectors are relatively less demanding</td>
</tr>
<tr>
<td>Paradox of tranquillity</td>
<td>Growth in Mining and Quarrying</td>
</tr>
<tr>
<td>Repeal of Glass-Stegall Act</td>
<td>Growth in government outlay in health, education and other social sectors</td>
</tr>
</tbody>
</table>
Trade liberalization is an essential component of neo-liberalism and the dominant reason for the abandonment of import substitution industrialization policies (ISI) in poor and developing countries. Cheaper imports and de-industrialization in the post trade liberalization period ignited the growth of the servicization process. This reasoning extends the contention of (Palley 2007) and advances the thesis that neo-liberalism is the principal determinant of both financialization and servicization.

Many Latin American & Caribbean countries are recipients of substantial remittance inflow. This informal institution is usually a compensatory mechanism for poor incomes and is most likely expended on consumption services (or DI,RT sectors). Accordingly, remittance inflow drives the servicization process.

(Constantine 2014) contends that growth in the mining and quarrying sector regulates growth in the services industry. But government spending on critical social services also regulates the servicization process in DI,RT economies. The infrastructure requirements for DI,RT sectors are relatively less demanding, which explains the growing influence of the services industry and rentierism. For instance, it is easier to establish a restaurant than to undertake an Agro-Processing venture. Therefore, investment in the services sector is the least risky and most popular investment activity in DI,RT economies. Also, many opinion shapers in Guyana advance the thesis that money laundering is a crucial factor for the growing services industry.
5 Inequality: FIRE and DIₙRT

The dominance of FIRE sectors in rich countries has been the principal driver of inequality (Stockhammer 2013), contrary to the popular thesis of technological change. (Stockhammer 2013) estimates the key driver of global inequality with a data set covering 71 countries, including 28 advanced countries and 43 emerging and developing nations. After controlling for globalization, technological changes and the retrenchment of the welfare state, (Stockhammer 2013) concludes that financialization is the chief determinant of inequality. Similarly, (Constantine 2014) finds that sustained growth in DIₙRT sectors increases inequality because of their low-wage-low-employment nature. These findings illustrate the nexus between rising inequality and rent seeking, but this should not be surprising as rent-income ratios exceed value added when equations (8) and (9) are true.

As financial and real investments become close substitutes (Krippner 2005), the bargaining power of labour deteriorates, which serves as a contributory factor to declining wage shares. This ease of substitution functions as a disciplinary institution for labour since financial investments are less likely to reduce unemployment. However, servicization is not a mechanism to discipline labour, as wage rates are relatively lower in low-income countries. It is simply a scramble to earn rents from the least risky spaces.

Inheritance and property taxes are usually low or non-existent in rentier economies, which make accumulated wealth from past generations easily transferrable. (Piketty 2014) explains how this wealth transfer can worsen inequality and promote patrimonial capitalism. Inevitably, inequality of income leads to the inequality of accumulated wealth and defies the principle of equal opportunity. Wealth that is passed on to future
generations enhances access to credit and social capital for the recipients, creating unfair competition in the market place. Thus, in rentier economies, the incomes of future generations are more dependent on the wealth of their parents than on their own creative energies. The fact that the inequality of income leads to the inequality of opportunity pokes a hole in the argument that reductions in poverty are more important than reductions of inequality. Since less than equal opportunities in the market place can erode the gains made in poverty reduction.

In plural societies, one ethnic, religious or linguistic group can occupy the entire rentier class and exacerbate distributional conflicts. This concentration of wealth adversely affects the performance of democracies in these countries. Democratic capture is an additional channel through which financialization and servicization increase inequality. Fundamentally, neither financialization nor servicization is good for democracy. This is an important insight since democratic institutions supposedly improve the distribution of income in favour of the least well off (Acemoglu 2000).

6 A Guyana Case Study

Guyana is a small open economy with a services industry that accounts for 50% of its GDP. What is interesting is that the growth sectors within the services industry are DIₙRT sectors. Mining and quarrying, particularly gold mining regulates much of Guyana’s economic performance. In recent years, Guyana’s economic growth has been stellar, mirroring the increases in gold prices (Constantine 2014). The dominance of DIₙRT sectors makes Guyana a prime candidate for the study of rentier developmentalism.
Figure 2 illustrates the various sectors in Guyana as a percentage of GDP for the period 1990-2008. The first observation is that the greatest share in income is attributed to the services sector, but this in itself is not a problem. However, when these services are led by FIRE and DI\textsubscript{n}RT sub-sectors we are faced with the danger of financialization and servicization respectively. Unlike the services industry in India, none of the sub-sectors in the services industry in Guyana are tradable or foreign exchange earners, with the exception of the underdeveloped tourism industry.

**Figure 2 Sectors as a % of GDP**

There is a notable change in the trend of the services sector since 2004, as the gap between the services industry and the Agriculture, Forestry and Fishery sectors begins to widen. Interestingly, real estate mortgages more than doubled in 2004 and a housing boom has since followed. In spite of this, the mining, construction and manufacturing sectors have only changed marginally as a ratio of GDP for the entire time period. Thus, the greater gains in national income are appropriated by the DI\textsubscript{n}RT sectors; this makes
Guyana a rentier society and calls into question the sustainability and inclusive nature of its recent growth boom. (Constantine 2014) explains that inequality has increased in tandem with Guyana’s recently improved economic performance, ergo, the recent gains in income have not been widely shared.

Figure 2 includes a polynomial trend line for the services industry that indicates a ten-year forecast. If Guyana’s recent growth performance continues on its trend, the services industry is projected to appropriate approximately 88% of GDP in the next ten years (ceteris paribus). Although this projection is tentative and subject to changes in gold prices, remittance inflow, money laundering, government policy etc., it is instructive as it illustrates the magnitude of rentierism that DI\textsubscript{n}RT sectors can produce. Even if future growth breaks away from its current trend, the present scale of rentierism will remain, only its rate of growth will be suspended.

Figure 3 illustrates the six largest industries as a percentage of GDP along with a ten-year growth projection of the fastest growing sectors, the data covers a time period of 1990-2008. Two of the three largest industries that have an upward growth trend are from DI\textsubscript{n}RT sectors, while the remaining sectors experience declining shares in GDP. These declining sectors (sugar cane, other manufacturing and government) have the potential to create value and employment, but their trend underscores the intensification of rent seeking in Guyana. Transport and communication and distribution services have the largest projected growth, (ceteris paribus); this is the epitome of servicization. Due to the volatile nature of Guyana’s economic performance and its high dependence on commodity prices, these predictions are tentative to say the least. But they indicate the nature and quality of growth when ever Guyana benefits from favourable commodity
prices.

Consider Figure 4 below. It depicts the growth trend of final consumption expenditure (FCE) as a percentage of GDP for the period 1974-2012. Note carefully that (FCE) since 2004 is above the trend line and exceeds 100% of GDP: a mirrored image of America’s consumerism. This begs the following question: is the surge in consumption indicative of higher rentier consumption or poverty reducing consumption? Since 2007, profit rates have been rising relative to wage rates at the same time (FCE) increases (Constantine 2014): this is indicative of conspicuous consumption. However, these profits can be considered as rents since the growing industries are DI\textsubscript{a}RT sectors.

(Veblen 2009) coined the concept conspicuous consumption, which argues that the rich consume luxury goods/services to publicly display economic power and accumulated wealth to gain social status. A casual observation would indicate various forms and levels of conspicuous consumption in Guyana. But this is not the full story; increased household indebtedness through real estate mortgages also contributes to rising consumption. This is a cause for concern as inequality and household indebtedness increase simultaneously, a striking parallel to the decades leading up to the financial crisis in the USA.

Although there are many differences between Guyana and the USA, their rentier economies generate similar patterns in consumption, inequality, and rent-income ratios. Finally, these analyses show that Guyana is a DI\textsubscript{a}RT economy underpinned by servicization, which produces a rentier developmental model along with its adverse implications.
Figure 3 The Six Largest Industries as a % of GDP

Data source: Bank of Guyana

Figure 4 Final Consumption Expenditure as a % of GDP

Data source: World Bank
7 New Concepts and Metrics

Rentier developmentalism extends the argument that neo-liberalism leads to rentier capitalism to the poor and developing world. Concerns of inequality and democratic capture by rentiers are not confined to the financialization process in advanced countries; poor and developing states face similar challenges because of servicization. Introducing the term DIₙRT into the development literature strengthens the argument for industrial policies and innovation systems. Growth enhancing structural transformation (Rodrik 2009) and (Chang 1993) will reduce the dominance of the DIₙRT economy and the adverse implications of servicization.

The concept of rentier developmentalism illustrates the limitation of the standard categorization of countries into high, middle and low-income groups. This classification determines whether a country is advanced, developing or poor, but does not reveal how sustainable or inclusive is a country’s growth regime. Standardizing the classification of FIRE and DIₙRT economies is essential to any reform agenda that seeks to prevent financial crises and reduce rent seeking and inequality. Increases in per capita income are not sufficient to determine whether a country is developing or not, even if standards of living and socio-politico freedoms increase. An appropriate definition of a developing country must go beyond this and include a low rent-income ratio; otherwise, a high rent-income ratio would indicate that rising per capita income is regulated by either financialization or servicization. Where further probing and analysis would reveal rising inequality, household indebtedness and fragile growth.

This means that FIRE and DIₙRT as ratios to GDP are not perfect measures of rentier economies; a metric of rent-income ratio would be an invaluable supplemental
measure. FIRE and DI\textsubscript{n}RT sectors are specific forms of rent seeking and new forms may emerge in the future that is not well captured by this categorization. A metric of rent-income ratio grounded in our definition of rent (income earned without value creation or production activities) would be helpful in classifying countries as the forms of rent seeking evolve. Additionally, a rent seeking employment-total employment ratio can improve the accuracy of how we classify countries. A rising rent seeking employment-total employment ratio indicates the deepening of value extraction along with all the adverse implications of rentier economies. In poor countries where data availability is a major concern, the DI\textsubscript{n}RT to GDP ratio will be the best measure, but other well off countries can employ all three measures to gauge the scale of rent seeking. Combining these new metrics with standard analytical data (growth rate, unemployment rate etc.) the analyst is better positioned to assess the dynamics of growth and distribution in a country and the world economy.

8 Conclusion

Rentier capitalism has threatened global stability and made much of global growth since the late 1980s unsustainable. It accompanies increasing levels of rent seeking, household indebtedness and inequality. Similarly, many poor and developing countries have become trapped into rentier developmentalism. Although these rentier economies do not threaten global growth or stability, servicization prevents the maximum use of opportunities created by global growth and recovery.

This article studies Guyana and argues that its developmental trajectory is built on a rentier model. Consistent with rentier economies, Guyana consumes in excess of 100%
of its GDP at the same time that the inequality between wages and rents are on the increase. The case study reveals that the largest sectors are rent seeking industries and those that are projected to be major players are also value-extracting activities. What is worse is the fact that the value creating sectors are on a downward trajectory, indicating the deepening of servicization in Guyana.

This essay calls for a further classification of countries into DIₙ,RT and FIRE economies to determine the sustainability and inclusive nature of their growth models. When rentier economies are major players in the global economic space, global stability and prosperity are in jeopardy. In terms of poverty and inequality reduction, knowing the difference between a rentier economy and a developing country becomes critical to the achievement of these goals.

In the wake of the financial crisis, global leaders and academics alike are debating on how best to adequately re-regulate the financial sector to prevent the adverse effects of financialization. But not nearly enough attention is being paid to servicization and DIₙ,RT economies that experience increasing inequality and endure jobless and erratic growth. Although DIₙ,RT economies may reduce poverty, they simultaneously increase inequality, which weakens social cohesion. This is contrary to the spirit of the Millennium Development Goals of advancing the wellbeing of the poor through political, social and material development. Consequently, reducing rentierism and the adverse implications of FIRE and DIₙ,RT sectors, must be on the reform agenda for countries that intend to build an inclusive society.

References


