ENTERPRISE AND RENT-SEEKING: A MYTHICAL CONFLATION

feature

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In the years since the crisis, much has been made of the need to encourage enterprise. But its champions are using entrepreneurial endeavour a cover for policies that favour the extraction of risk-free rents.

There was a 19-year period, between the fall of the Berlin Wall and the fall of Lehman Brothers, when 'neoliberalism' became virtually invisible to everybody, save for its critics in what was called the 'anti-globalisation movement'. There was no longer a distinct political movement or philosophy that could be referred to as 'neoliberal', and nor were there any obvious ideologues selling the virtues of free markets or enterprise. Rather, the backdrop of unregulated, finance-led, global capitalism was just the reality against which politics and policy seemingly had to happen.

The global financial crisis has changed that. The intellectual and policy roots of our present economic malaises are now thrown into question, and the practices of elites (especially in the finance sector) are being raked over publicly. The term 'capitalism' is common currency in mainstream political debate, in a way that was not true a decade ago. How can we throw off the strictures of neoliberalism? Why are we still so stuck with it? And is there a different capitalism, or even an alternative to it? One small consolation of a protracted economic crisis is that such questions are put on the table, with often enlightening public results.

Inevitably, this hubbub has drawn some of the original 'neoliberals' out from their caves. British think tanks such as the Institute of Economic Affairs (IEA) and The Adam Smith Institute are returning to some of their favourite 1970s tunes, blaming government for everything, arguing that only entrepreneurs can save us. In one of the more outlandish examples of this, a former Conservative Defence Secretary in the British Government, Liam Fox, argued in March of this year that a 'great socialist coup' was responsible for the depression of the UK economy, and that only smaller government could rescue us.

The early neoliberal thinkers of the 1930s and 40s were notoriously paranoid about the threat and reach of socialism. But the tenacity of those such as Fox, in *still* seeing reds under the beds in this age of spiralling inequality and the near disappearance of private sector unionism, is quite remarkable. Either due to chronic failure of imagination, or sheer nostalgia, the assumption of this revitalised New Right seems to be that Britain is currently experiencing the 1970s all over again, and de-regulation will ride to the rescue.

One curiosity of this baroque policy revival is that, in its inevitable anti-tax rhetoric, its target has shifted slightly. Perhaps in view of the political disaster which was George Osborne's cutting of the highest rate of income tax in last year's budget, the main target of the anti-tax movement has shifted from income tax to capital gains tax (CGT).

Osborne himself had raised CGT from 18% to 28% in his emergency 2010 budget. But it was only as low as 18% because Alasdair Darling had abandoned the tapering system in 2007, which saw CGT vary between 10% and 40%, depending on how long the asset was held for. Income tax is such a politically charged area of fiscal policy, that politicians are fearful to make very significant changes. Large amounts of political capital can be

A horse, as designed by a neoliberal think tank.

expended, in exchange for relatively small increases in tax revenue. CGT, on the other hand, is a far more fluid area of policy, which allows the Right to become more ideologically exercised and vocal.

The Adam Smith Institute put out a report attacking the level of CGT in February.

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Philip Booth of the IEA wrote a piece for *Prospect* in the same month attacking CGT, inheritance tax and stamp duty, as impediments to growth. Then, in a speech to the IEA, Fox demanded that CGT be abolished altogether, in order to get the economy moving again. While Conservatives of a neoliberal persuasion like to talk up the benefits of hard work, they are looking to treat the proceeds of speculation, rent-seeking and asset price inflation more favourably.

While it seems highly implausible that even a Conservative Chancellor will adopt any of these proposals, what is being showcased here is a fundamental oversight in neoliberal thinking, that was present throughout the genesis of the New Right on both sides of the Atlantic. What Fox et al strategically – or blindly – elide, in their attacks on CGT, is the distinction between constructive entrepreneurship and a form of *rentier* capitalism dominated by asset speculation. The rhetorical trick of neoliberalism, both in its long period of exile as a critique of Keynesianism and socialism, and in its applied phase of the 1980s and 90s, is to use the language of 'enterprise' to defend the freedoms of speculators and asset-strippers.

The argument levelled by the Right is that a tax such as CGT is holding back an army of potential new businesses, all of whom are afraid to invest for fear that their assets will increase in value and they'll be robbed by the taxman when they come to sell them. The reality, of course, is that Britain has already suffered from a vast asset price bubble, fuelled by cheap credit, in which ownership of properties and firms became governed by a logic that owed everything to their market value, and nothing to the creation of new value. The mentality of the financier infects not only business, but also a generation of buy-to-let investors, for whom the promise of home ownership is to be able to live off rent and equity withdrawal, rather than anything productive. A society which valorises capital gain to this extent may be even more socially dysfunctional than one which valorises income inequality.

The Austrian economists who gave birth to neoliberal thought during the 1920s believed that the West faced a straightforward choice, between socialist bureaucracy on the one hand, and dynamic entrepreneurialism on the other. Either there must be the state, or there must be free enterprise. What this simplistic worldview ignored (but which their compatriot, Joseph Schumpeter, was cognisant of) was that *capitalism* can stifle economic freedom, just as much as socialism. The power of corporations, incumbents, financiers and other entrenched interests can seize control of the capitalist system, sapping its energy for their own private gain. But neoliberals were always curiously blind to the potential for private economic power to constrain liberty.

The challenge is to distinguish between what Labour leader, Ed Miliband, referred to as the 'producers' and the 'predators', in his 2011 conference speech. There is venture capital, that employs qualitative insight into technology and science, to support highly uncertain start-ups; then there is private equity, which employs financial economics to take ownership of a company so as to extract value before returning it to the market. The tax system will never be able to make a clean distinction between the two. But it is a characteristic sleight of hand on the part of the Right to claim that CGT punishes 'enterprise', when this term has more often been a veiled reference to financial asset players.

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