

Are Republicans for Capitalism or for the Capitalists?

During the Cold War we had little time for subtle distinctions. The world was divided starkly into the Right and the Left. On the Right were people who believed in the protection of property rights, in the virtues of free markets, and in the dangers of government interference. On the Left were those who believed markets did not work and that governments had to step in to substitute for them, as well as to redress the wrongs of the past by redistributing wealth. The rich, fearing expropriation, mostly sided with the Right. The poor, hoping to gain some of the crumbs from redistribution, mostly sided with the Left. Hence, throughout the world, pro-market parties became the parties of the rich and anti-market parties the parties of the poor.

The fall of communism has allowed us to make finer and more reasonable distinctions. People are slowly recognizing that there is a difference between being for free markets and being for the elite that have benefited from them. This distinction seems to be escaping the current administration.

Truly free markets create competition, which undermines the position of established firms, forcing them to prove their competence again and again. While this competition is an opportunity for the have-nots and a stimulus for the constant improvement of the economy as a whole, it is a threat for today's elites. The elite who derive their positions from their current abilities are spurred by competition to try harder, to the benefit of all. But those whose position derives only from past accomplishments or inheritance have a reason to oppose truly competitive markets, the single most important tool of capitalism.

In other words, a significant portion of the incumbent super rich can be against free markets because they see them only as competition and not as opportunity. By contrast, the free market's strongest supporters are typically self made small and medium business owners and professionals, who do not have the organized political power to lobby for special protections and who need the level playing field of a free market.

Once these distinctions are recognized, the old mantras of the Right need to be questioned. For instance, is all regulation bad? While excessive regulation suffocates markets, lack of regulation can be equally effective in killing them. Rigid airline safety standards, for instance, facilitates new entry in the airline industry. Without them, customers will be too scared to fly in any but the most established airlines, granting them a de facto monopoly. The total absence of rules can tilt the playing field towards the established, at the expense of market competition. There is a distinction between market supporting and market suppressing regulation, a distinction we did not have to make in the past when the alternative was to have no markets at all.

Similarly, attitudes towards taxation have to be revised. Nobody likes to be taxed. But the forms of taxation that benefit markets are not necessarily those that benefit the rich. Estate taxes, for instance, reduce the concentration of wealth in the hands of incompetent heirs, reducing their ability to exert political pressure for protection. Similarly, shifting some of the tax burden from income to wealth would penalize inefficient owners and force them to give up control of poorly managed assets. But

these are precisely the kind of taxes that penalize the super-rich the most. The interests of the market diverge again from the interests of the rich.

Being pro markets and being pro rich is not the same. It has never been. But in the fight against the overweening regulation of the post-war welfare state, and faced with the stark alternative of communism, the subtle difference did not matter. Now, however, parties on the Right all over the world are being forced to choose. In Italy the Right has not only chosen to side with the rich, it has literally been acquired by a rich man and turned into his personal lobbying organization!

Fortunately, we are not quite there in the United States. But the signs are not comforting. The administration's recent policies have tended to side with the incumbents, against the greater interests of free markets. The imposition of tariffs to protect the steel industry has suggested that the interests of an inefficient few (but politically powerful) firms can dominate those of the nation.

Many small and medium firms whose access to financial markets has been cut off would benefit greatly if confidence in those markets were restored quickly after the recent accounting scandals. But the temptation to find a few scapegoats rather than undertake a deep-rooted investigation of the potential conflicts of interest in accounting firms and banks is strong, as has been lobbying by those whose interests are threatened. To take just one example, a sensible proposal to require rotation of a firm's auditors every few years has been watered down to only require that the partner in charge of an audit be replaced with another partner from the same firm every few years. Given the experience of Arthur Andersen, which partner would reveal the misdeeds of his predecessor, no matter how egregious?

Finally, recent tax proposals also leave much to be desired. The abolition of the inheritance tax and the proposed reform of the tax on dividends run the risk of further concentrating wealth and jeopardizing the political support for free markets.

The Republican party should make up its mind. Does it want to defend a few against the larger interests of capitalism or does it embrace, not just the rhetoric, but also the substance of a pro market agenda?

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