

FREE ENTERPRISE: LEFT OR RIGHT? NEITHER!

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PART 1: HISTORY

“Once upon a time, three hundred years ago, the City of London was a stronghold of Radicalism, an outpost of the Left”. Hugh Dalton, Chancellor of the Exchequer, October 1945.

Introduction

In the *Financial Times* of 23rd December 2003 John Kay, a leading economics consultant and journalist, described the Ludwig von Mises Institute¹ as “a conservative think tank”. The following are among the central tenets of that particular Institute:

- Anti-war and anti-draft
- Anti-feudalism and anti-slavery
- Anti-detention without trial
- Anti-compulsory identity cards
- Anti-prohibition of acts of consenting adults
- Anti-prohibition of drugs

In other words the Mises Institute, which I know well, agrees with virtually all the main tenets of civil liberty groups, including Liberty (formerly the UK National Council for Civil Liberties).

That august and impartial institution, *BBC News*, in an on-line report on a lecture sponsored by the Adam Smith Institute (ASI) on 25th February 2004, described it as “a right-wing think tank”. Once again, however, the ASI would undoubtedly promote most if not all of Liberty’s major positions.

Both of these Institutes also support free enterprise: the reason for the Kay and BBC labels. It should not be surprising that civil liberties and free enterprise sit well together. After all, civil liberties demand that two people should be able to meet, speak, and agree (say) that they would like to exchange a tomato and an apple. It is hardly unreasonable to follow this up and make the exchange! But free enterprise consists precisely of the voluntary exchange (or not) of apples and tomatoes (as well as words): including any conditions which the participants may agree. As such it is firmly a civil liberty. Yet as we have seen, they are generally re-

garded as opposites, on a Right-Left spectrum.

The Origins of Right versus Left

Where does this strange division come from? The terminology itself appears to derive from seating arrangements in the French Estates-General assemblies of 1789. In any event there is no doubt about the political positions; Right represented authoritarianism (of those in power: the *ancien regime*) while Left stood for radical, even revolutionary, change, in favour of individual liberty in all its forms.

In the UK the Industrial Revolution had become possible because of the loosening of some feudal strings during the struggles of the preceding centuries of Renaissance and Enlightenment (John Locke, the father of classical liberalism, was at his peak in the late 17th century). In parliamentary terms the Whigs and the Tories ruled the roost until 1841 (latterly as Conservatives), when the Liberals became a force to be reckoned with under the banner of free trade and other genuinely liberal (i. e. left wing) reforms. The general philosophy became known as “classical liberalism” or “laissez faire”, which as Lord Acton said, was truly revolutionary.

The free trade issue, in the shape of the repeal in 1846 of the Corn Laws which had protected the British farming industry, caused Sir Robert Peel and other pro free-trade Conservatives to leave the party and joined the Liberals. The remaining Conservatives were even more in favour of the Establishment – and out of office for most of the next 30 years.

This, the heyday of classical liberalism, was a crucial period. Naturally the laissez faire principle covered civil as well as economic matters and thus embraced religious liberty as well as free enterprise. It was also pacifist. (Free trade is the ultimate pacifist.²) Classically left wing, in fact.

In contrast, the authoritarian Conservatives favoured the aristocracy, the privileged, the Church of England, plus nationalism and aggressive imperialism. It is true that they had begun to turn to in-

cumbent businesses for support, (which would be rewarded with protection) but as one would expect from their stance against free trade, this rarely extended to genuine free enterprise. Rather, in addition to agricultural interests, they looked to the professions and others from the earlier guild system, which had itself enjoyed monopolistic positions via royal favours. Old money was very much preferred to new money. Clergy, Medicine, Law, and War were far more revered than trade; hence the pejorative “Tradesman’s Entrance”.

Thus it was the left wing classical liberal economists, led by J.S. Mill, and emphatically not every 20th century school teacher’s favourite ‘social reformers’, who joined the dissenting Christians in their fight against continued slavery. Carlyle, Ruskin (warmongers both³), Kingsley and Charles Dickens were all to a greater or lesser extent pro-slavery⁴ as well as virulently anti-free enterprise. (Slavery was never a free market phenomenon.)

The Liberal Party suffered its own major split after Gladstone—again entirely in keeping with *laissez-faire*—took up the cause of Home Rule for Ireland. The Conservatives took advantage of the split, and were also helped by a long depression from 1873, which caused many businessmen to demand closer imperial ties. Thus the military-industrial complex was already in evidence well before 1900.

Over the next few decades the Liberals became progressively less liberal and have invariably been outgunned by the Labour Party formed in 1900. Despite occupying distinctly illiberal ground ever since, the Labour Party has been seen as on the Left.

We have a metamorphosis in terminology on our hands!

Today’s Right-Left Doesn’t Work

But in any case there is a major problem with today’s Right-Left spectrum since it represents a straight line which is totalitarian at each end. Logically, it is thus totalitarian all the way along the line. The old line was far more defensible, representing authority at one end and individual liberty at the other. Using authority or statism versus liberty, it is easy to see that free enterprise is in the same category as the freedom to take drugs. The rule is ‘anything that’s peaceful’,⁵ i.e. does not physically coerce (or carry a threat thereof), together with

sanctity and due enforcement of agreed terms. In other words, “contract not status”.

In contrast the current Right-Left spectrum offers only different forms of statism. If we turn the line into a triangle the base can represent the authoritarian Right-Left line and the apex at the top can represent *laissez faire*. All three major UK parties are strung along a Right-Left line not very far up from the base! In setting up the straw man of a capitalist-worker division for its entrée to politics, the Labour party’s prospectus was false; their aim was and still is a mere rearrangement of the deckchairs for the privileged, in particular Trade Union leaders. In fact if we shorten the triangle’s base and raise the apex, we see the old Right-Left line rotated to South-North, the big issue being statism versus freedom, as it always was and in truth still is.

This remarkable metamorphosis, intensified throughout the twentieth century, represents a triumph of statism over individualism which makes the feudal system look tame, and which has walked in through the back door almost unseen. The major reasons are twofold:

- (a) On the old Right-Left spectrum, splits on the left opened the field to the statist.
- (b) Of particular interest to Corporate Government, business has been equated with free enterprise, an equation fortified by the consequences of (a).

The rest of this article covers the first of these reasons.

The Left Doing the Splits⁶

The first split on the left came from the decline of *laissez faire* via inner rot, symbolised by its becoming blind to the feudal oppression of the Irish. The gap was filled by two distinct strands. The first strand, the Saint-Simonians, adopted his confused belief that not only the State but also market businessmen were exploiters: which left only statism as a means to get rid of them. The second strand, genuine anti-statists led by Marx (originally) and Bakunin, couldn’t resolve the dilemma of how (without private ownership and without the State) the ‘collective’ would run its property,⁷ and eventually targeted capitalism, effectively falling in with the Saint Simonians. The result was a rebadged and revitalised form of conservatism which glorified statism and hierarchy, the UK version forming

the Labour Party as described above. Statism has never looked back, and Right versus Left has no residual meaning (except for cat-calling). Historians have long recognised the fusion of Bismarckism, Fascism, and National Socialism,⁸ so that George Bernard Shaw found no difficulty in praising the domestic policies of Hitler, Stalin, Mussolini, and Oswald Mosley.

Go West, Young Man?

The second split on the Left came mainly in the US where the history is more complicated: and more revealing of the long pedigree of collusion between business and government which I discuss further on.

The Republican Party was established in the 1850s as a party of economic intervention⁹ in what was then largely although not entirely a *laissez faire* country. Gabriel Kolko's classic *The Triumph of Conservatism*¹⁰ highlighted a permanent concert party between the US government and big business in the first two decades of the twentieth century. A much later book, *The Myth of the Robber Barons*¹¹ confirmed Kolko's thesis and went further back, splitting the so-called Robber Barons into two groups, the far larger one being political entrepreneurs not interested in, or even favourably disposed towards, free enterprise. Furthermore these politicians had been extremely successful since 1850. (The story of the railroad industry is replete with examples of what might be called the railroad-government complex.)

Naturally true left wing liberalism or *laissez faire* declined enormously during World War I but in the US it recovered somewhat in the 1920s. Furthermore Roosevelt's 1930s New Deal was so interventionist that many businessmen, despite their lack of a consistent free-enterprise philosophy, couldn't stomach it. So once again, the radical left fused with the far right (previously pro-war) taking an anti-FDR and anti-war position. When the FDR aberration ended, the right wing returned to type and the radical left which had joined them was left stranded with a right wing label. Another split on the left, and another nail in the coffin of liberty.

PART 2: BUSINESS AND FREE ENTERPRISE ARE NOT NATURAL BEDFELLOWS

Introduction

In Part 1, I described the history of the Right-Left political spectrum and concluded that it metamorphosed and is now worthless; both wings are statist (believing in a powerful government controlling economic and social affairs). The original meaning, authority versus liberty from that authority, remains the crucial divide.

I offered two reasons why the Right-Left metamorphosis has not been rumbled – splits on the Left and the supposed identity between “free enterprise” and “business” (which I showed had never been the case historically). Herein I continue this latter argument over the 20th Century.

But first I suggest another identity or at least a very close link, between two so-called opposites of Right and Left, namely state warfare and state welfare.

War and Peace... and Socialism

Free enterprise is inextricably bound up with free trade. The European doctrine of *laissez-faire* and free enterprise, within and across borders, was a doctrine of international peace in which the frontiers of nations are immaterial to their citizens. War was common before this doctrine came on the scene and after it went, but not in between (broadly between the Napoleonic Wars and World War I). The old and erroneous idea of mercantilism, revived later in the nineteenth century, held that the interest of one nation's citizens could be furthered only at the expense of another. Each country had to “protect” its producers from international competition but also provide its citizens with the cheapest available consumer goods. The only way to square this circle is to expand one's territory. (Germany wanted to be self sufficient but couldn't feed itself.)

We can define Socialism as a system in which the control of the means of production is in the hands of “society” which means the State. Whether or not these means are nominally owned privately is neither here nor there. The question is, who's the boss? In this regard the ruling philosophies of Germany, Italy, and Russia were almost identical during the interwar period. International socialism

is virtually impossible¹² and all three practised National Socialism of which Fascism is but a variety, well illustrated by Mussolini's hop from one to the other. National Socialism, which cannot invest capital abroad, necessarily features economic nationalism too. This is the handmaiden of war.

War Socialism, Business, and the Welfare State

The twentieth century wars were, for the first time, total wars (perhaps prefaced by the Napoleonic Wars in this respect). People and companies were conscripted, previous rules were abandoned, and civilians were killed on a massive scale.

The conscription of businesses was enormous in World War I as well as World War II, in the UK¹³ as well as Germany (and the US). Everything except strictly necessary consumption was commandeered into the war effort. Every private interest must be subordinated.

Ludwig von Mises wrote, "What has transformed the limited war between royal armies into total war... is the substitution of the welfare state for the laissez-faire state".¹⁴ The clear precedent was Bismarck's National Socialism which built the world's first modern welfare state—very much admired by Churchill. Apart from the fact that both warfare and welfare increase state power and thus serve statism there are two basic links here. Firstly, efforts to improve the welfare of any group within a nation by dictat—be it farmers, steelworkers, workers in general, healthcare or education consumers (or producers)—leads to protectionism, migration controls, and hence war. If goods and people cannot cross borders, armies will. Secondly, total war involves great danger to, and sacrifices from, civilians (who have no natural hatred of civilians elsewhere); the state must have support and obedience, which means becoming the sole provider as well as the sole "defender". Thus did the cry "proletarians of the world unite" change in short order to "proletarians of all countries, don't come here and take away my job". And thus did the vast majority of European socialists carry their National Flags into two world wars.

The same is happening now in the war against Iraq—where the real feature of the major political groups is their common ground in promoting, or acquiescing in, the Omnipotent State—inimical to free enterprise.¹⁵ Business, of course is another matter...

Free Enterprise versus Business

Partly propelled by two world wars, economic life has seen an enormous change over the last century in the shrinking of free enterprise within business, to the point where the requirements to succeed in big business are those of a political lobbyist.¹⁶

The commandeering and increasing control of business during the World Wars is not in doubt and victory, along with Keynes' ringing endorsement of both mercantilism and big government, contributed to the view that if state power worked in wartime why not in peacetime¹⁷—although the same reasons couldn't be used in Germany!

F.A. Hayek saw the difference, dedicating *The Road to Serfdom* (1944) to "The Socialists of all Parties". Business and the Labour Movement both worked in a collaborative effort for joint privilege against liberty and enterprise, "particularly at the expense of the poorest".¹⁸ Robber Barons had come to the UK, with totalitarianism in their wake.

Nationalisation and Regulation

World War II saw another massive rise in statism, and was followed by another: a huge swathe of nationalisations which Hobson¹⁹ called 'The Nationalisation of Industry' attributing it directly to "Military-Strategic Origins", this argument and corporatism remaining familiar right through to the Margaret Thatcher era. At the same time the love affair with intervention, stopping short of nationalisation ("you can keep your factory but we'll tell you what to do with it") intensified. National Planning²⁰ or Corporatism²¹ was the only game in town.

The National Economic Development Council (NEDC: introduced by a Conservative Chancellor in 1961) was welcomed by both business and trade union leaders as well as by the Governor of the Bank of England who himself promoted wage and price freezes some four years later.

Privatisation and Regulation: from Socialism to Fascism

The Margaret Thatcher revolution was crucial in stemming the tide of socialism. But unfortunately it made two great errors, the first being to leave much of the Welfare State industry intact and the second to complement privatisation with regulation (certainly not deregulation) which accelerated State

regulation into entirely new territory. A trawl through any relevant publication²² for regulators and others with legal power to control and shape industries and firms will produce an alphabet soup with a vengeance.

The underlying problems with state regulation are manifold. It imposes a single trade-off between cost and protection for millions of diverse users. It is formed on the hoof, and has unintended consequences. It has no cost/benefit analysis.²³ It always gets tighter over time as other failures emerge. It creates barriers to entry and hits small businesses hardest. It increasingly permits criminal prosecution under a low burden of proof. Most of all it corrupts enterprise. Indeed the “requirement” for and the formulation of state regulation is often driven by a firm or an industry trying to insulate itself from competition.¹³ Finally it creates an atmosphere of fear.²⁵

It is not that there are no alternatives.²⁶ If consumers need regulation the market will provide it: either by dedicated agencies, magazines like *Which*, quality brand names, positive middlemen such as John Lewis, “undedicated” monitors such as the press, personal recommendations, or just gossip and so on. Most importantly there is trust, a quality which has been sidelined or brought into disrepute by regulators or governments who prefer box ticking and who in any case are not necessarily trustworthy, or even capable, themselves.²⁷

On top of all this, state regulation is founded upon entirely faulty economics—principally that a large market share in any (arbitrarily defined) segment of business is a harmful monopoly and that competition should be ‘promoted’ or ‘stimulated’—when all that is required is freedom of entry into any line of business.²⁸ Instead we have stifling employment laws, stifling regulations,²⁹ and stifling occupational licensing (ever tried to set up a pharmacy?). And all this from bodies who are not only themselves monopolies but also above the rule of law.

Corporate Governance: More Corporatism?

Arguably the best investment book of all time, Graham & Dodd’s *Security Analysis* was able in 1987 to point to some 75 years of US Government-sponsored erosion of shareholder rights, which it called “the euthanasia of the shareholder”.³⁰ The UK record is at least as bad.³¹ Imposed governance is another example of State-sponsored regula-

tion which has made things worse.³² The cosy cartel in the 1950s and 1960s of big business, unions and government breakfasting in Downing Street sidelined individual shareholders, who were rapidly becoming a dying breed via taxation policy and other Government intervention.³³ Nowadays the cartel has different constituents: ‘Corporate Social Responsibility’ (CSR) busybodies, regulators and increasingly investment bankers are providing yet more weird and wonderful rules to protect companies from both free enterprise and the individual savers who provide them with funds.³⁴

In *Governance* June 2003, Elaine Sternberg proposed a market-based alternative to Higgs.³⁵ Few people seem to understand the idea of market-based regulation as opposed to state regulation or “self regulation” the failure of which in the financial sector led directly to state regulation. In this sector a fully fledged Corporate State is already here.³⁶

“Everything within the state, nothing outside the state, nothing against the state” (Mussolini)

The thrust of this paper is that the last century was characterised by an unprecedented growth of state power in the West and more particularly in the UK. Much of this is due to a phoney Right-Left political spectrum which is itself statist; “we the people” have been fiddling while Rome burns. Both taxes and decrees have multiplied, the former by a factor of 10³⁷ and the latter probably by even more. Both are self-reinforcing as previous efforts fail to work. Democracy cannot withstand such an onslaught. Mussolini’s slogan must be reversed.

Corporate Governance is a microcosm of the above and the Governance industry is one of Rome’s fiddlers. The proliferation of intermediaries (including institutional investors) between savers and their funds (most caused by government)³⁸ is the essential issue. It is impossible to make these intermediaries behave like shareholders (missionary-intermediaries such as Hermes will always be thin on the ground). If the industry is serious, it must join the battle against statism. Fight for free enterprise before it’s too late. Go on, be a real old-style Leftie!

Notes

1. Ludwig von Mises Institute, www.mises.org.
2. The roots of Fascism were on the left. Mussolini and a group of fellow socialists launched the Fascist movement in 1919. See Robert Paxton, *The Anatomy of Fascism*, London, Allen Lane, 2004.
3. See chapter XXIII of Ludwig von Mises, *Human Action: A Treatise on Economics*, Irvington-on-Hudson, NY, Foundation for Economic Education, 1996.
4. See my own article 'Economics, Slavery and Victorian reformers', *Economic Affairs* (Institute of Economic Affairs), Vol. 21, No. 2, June 2001, pp. 49-52.
5. The concept of private ownership is essential for liberty, as agreed amongst many commentators including Leon Trotsky and Milton Friedman. See chapter 1 of Tom Bethell, *The Noblest Triumph: Property and Prosperity Through the Ages*, Palgrave Macmillan, 1999.
6. I am particularly grateful to Murray Rothbard whose 1965 article 'Left and Right: The Prospects for Liberty' is available from www.mises.org/fullstory.aspx?control=910.
7. See note 5 above.
8. See note 2 above.
9. See Robert Ekelund & Mark Thornton, 'The Awful Truth about Republicans', *Mises Daily Articles*, 25th March 2004, available online from www.mises.org/fullstory.aspx?control=1476.
10. Gabriel Kolko, *The Triumph of Conservatism*, MacMillan, 1963.
11. Burton W. Folsom Jr, *The Myth of The Robber Barons*, Young America's Foundation, 1966.
12. See chapter 12 of Ludwig von Mises, *Socialism*, Liberty Fund Inc., Indianapolis, IN, 1922/1981. Also available online from the Ludwig von Mises Institute.
13. See Professor J. Maltby (University of Sheffield Management School), *Financial Reporting and "the conscription of trade and industry 1914-18"*, 2003, available online from www.shef.ac.uk/management/research/2003-11.pdf. Also Stephen Broadberry (University of Warwick) & Peter Howlett (London School of Economics), *The United Kingdom During World War I: Business as Usual?*, 2003, available online from www2.warwick.ac.uk/fac/soc/economics/staff/faculty/broadberry/wp/wvipap4.pdf.
14. See chapter 35, 'The Economics of War', in Ludwig von Mises, *Human Action*, op. cit..
15. As General Sherman said, "war is Hell, competition is war, and therefore competition is Hell".
16. Any business or industry nominally in the private sector, which seeks to profit from government via funds (subsidies, orders) or protection (barriers to competition) is not practising free enterprise. Examples which may not be immediately obvious are defence, the sports industry, and licensed "black cab" taxi-drivers opposing deregulation. Cases in point include the Chemical Industries Foundation whose Director General eulogises the DTI in a letter to the *Financial Times* 8th April 2004, and Cobham which has welcomed a commitment to increased defence spending by the taxpayer.
17. According to Lew Rockwell, founder of the Mises Institute, statism was the new general theory of politics by the 1930s; for the first time in history the West had come to believe that the state should control "society, economy, property, culture, family and faith".
18. See chapter XIII, 'The Totalitarians in our Midst', of F. A. Hayek, *The Road to Serfdom*, London, Routledge, 1944/1997.
19. For lists of nationalisations (and privatisations), see Chapter 10 of Dominic Hobson, *The National Wealth*, Harper Collins, 1999.
20. In his *Ordeal by Planning* (London, Macmillan, 1948), John Jewkes points out that the Ministry of Labour had the power to direct workers into particular lines of employment.
21. Corporatism is the notion of the corporate state, which figured prominently in Fascist theory. Corporatism began during World War I and continued to grow until the Margaret Thatcher era. The document 'A History of UK Steel Industry Associations' (Ian Blakey, 2002, available online from

www.uksteel.org.uk/history.htm) reveals that The National Federation of Iron and Steel Manufacturers was formed in 1918 because “the government could not cope otherwise with such diversity in the industry at a time of national crisis”. Furthermore, statutory price controls following denationalisation in 1953 could be seen as the precursor of modern regulation.

22. See for example The Cabinet Office (www.cabinet-office.gov.uk) and Dod’s Online (www.first-web2.co.uk).

23. See Keith Boyfield & Tim Ambler, *Do the UK Regulatory Agencies Provide Taxpayer Value?*, London, London Business School, Centre for Marketing, 2004. Available online from www.london.edu/news_events/March_2004_Ambler_regulation_report.pdf.

24. For examples in Financial Services, see my own article ‘Government by Horse-Dealing’, *The Actuary* (the journal of the Staple Inn Actuarial Society, www.sias.org.uk), October, 1999.

25. As Patience Wheatcroft points out in *The Times* April 1st 2004, “It is rarely deemed sensible to take issue publicly with one’s regulator and many in the financial services industry have been browbeaten into not taking issue with the government....”

26. See John Blundell & Colin Robinson (eds.), *Regulation Without the State*, London, Institute of Economic Affairs, 2002. The chapter ‘The Benefits of Private Regulation’ by David Boaz points out that in fact regulation without the state is all around us in everyday life.

27. All too often regulators forget that some consumers can be nasty too and don’t give a damn about cheating insurance companies, for example. They also deem consumers fit to vote but unfit to manage their own affairs. As for capability, the Department of Work and Pensions has failed to finalise its accounts for each of the last nine years, and has an error rate of 20% in calculating individual benefits.

28. A genuine private and harmful monopoly under free enterprise is a rarity if not impossible. See David Friedman, *Machinery of Freedom: Guide to a Radical Capitalism*, Chicago, IL, Open Court Publishing, 1989, and Faustino Ballvé, *Essentials of Economics: A Brief Survey of Principles and Policies*, Irving-

ton-on-Hudson, NY, Foundation for Economic Education, 1997. Nor is it clear that a state regulator could improve the position if it discovered such an animal.

29. In the pensions industry, no less than 27 new regulatory proposals, from 7 regulators or departments, are currently in formation but incomplete.

30. See chapter 36 of Benjamin Graham & David Dodd, *Graham and Dodd’s Security Analysis* (5th ed.), New York, McGraw-Hill, c. 1988.

31. See my own article ‘Private Investors, the Biased Playing Field’, *UKSA Update* (the publication of the UK Shareholders Association, www.uksa.org.uk), No. 99, 2004 (No. 1).

32. See the reference to Ronald Coase in my own article ‘Governance: Of What and for Whom?’, *Governance*, May 2002. Similar and more recent conclusions are drawn at the US Brookings Institute (www.brook.edu).

33. See note 31 above.

34. See note 31 above.

35. See also Elaine Sternberg, *Corporate Governance: Accountability in the Marketplace* (2nd ed.), London, Institute of Economic Affairs, 2004, and my own articles in *Governance*, May 2002 (ibid.) and ‘Let 1,000 Governance flowers bloom’, *The Times*, 31st January 2003.

36. Corporatism in the financial sector has been building up since the 1930s, when the London Stock Exchange began to lose its supervisory functions to the state. Today it is little more than an arm of the FSA whose selection of permissible and prohibited practices is quaint to say the least and would certainly be very different under free enterprise exchanges. See note 31 above.

37. See my article ‘Tax and the Division of Labour’, *Economic Affairs*, Vol. 23, No. 1, March 2003, pp. 7-10.

38. See Hobson, op. cit., pp. 1174-1155 and note 31 above.