# Trussonomics, producer capture, and the contradictions of neoliberalism

*In an analogy between politics and markets, democracy can be described as a power market whose main reason is to prevent concentration in the hands of vested interests. However, political markets can be captured by producers (politicians, the media, think tanks, and lobbyists), to the detriment of consumers (voters).* ***Pippa Catterall*** *writes that rising bonuses at a time of rising prices and falling real wages are indicative of how much markets have been distorted in favour of a distinctive form of producer capture.*

Successive British governments since Mrs Thatcher’s ascendancy in the 1980s have portrayed themselves as market oriented. A supposedly pro-market orientation also lies behind some of the more controversial ideas touted by Liz Truss during the Conservative leadership election over the summer and her emphasis on growth in her speech to the party conference on 5 October. Despite her U-turn on the 45% tax rate, her fiscal policy remains focused upon tax breaks for the rich, seemingly based on the assumption that tax cuts are necessarily pro-market and pro-growth through encouraging spending and thus more consumption by the relatively well-off. Ideas such as Charter Cities, by supposedly freeing up the process of investment, are similarly assumed by Truss and her confederates to be pro-market and pro-growth.

This is despite the fact that both these and other measures are, of course, like all government interventions, not so much freeing markets as doing the opposite by distorting them in favour of certain beneficiaries. After all, there is no such thing as a completely free market. There are always structural asymmetries of power, influence, and knowledge in any market. Furthermore, all government decisions, however well-intentioned, are effectively pricing signals to the operation of markets. There are therefore simply gradations in how much markets are distorted and controlled by vested interests or by governments. Governments in turn often simply represent coalitions of vested interest behind a legitimating facade which suggests that they somehow rule on behalf of the community as a whole.

As an aside, a major reason for creating some kind of market in the distribution of power conventionally referred to as democracy is to try to prevent concentrations of power in the hands of vested interests that might otherwise occur. It is also to hold those wielding that power to account for their actions to the community as a whole. In other words, despite the fact that, like all markets, political markets can be captured by vested interests, they should operate as accountability mechanisms. The question is, are the producers – the politicians, their media acolytes and their associated think tanks and lobbyists – calling the shots, or are the consumers (in the marketplace of democratic politics a group known as voters) doing so? This brings us back to how the market for social goods is (not) working.

In neoliberal theory markets are also supposed to be accountability mechanisms. Hayek spoke of markets as discovery mechanisms whereby competition gives consumers the power to determine and drive down the prices of goods and services. How is that working now in Britain's supposedly liberalised energy market?

In practice, as Hayek himself acknowledged, the pricing mechanism is far from perfect as a means of bringing consumer power and choice to bear on markets. Prices are not determined simply by the relationship between supply and demand of classical economics. Nor are they only set by what consumers are prepared to pay given the rigidities and information asymmetry of markets. They are also significantly shaped by how supply is made available, and the rents extracted by vested interests in the process, especially for products like energy, the purchase of which is almost never discretionary. With energy companies primarily beholden to shareholders and bonus holders, the consumer pressure Hayek theorised will not operate. Instead of consumers shaping the market, what we have instead is producer capture. This producer capture is actively abetted by current government interventions. Furthermore, using taxpayers' money to compensate energy companies for price caps is a transfer of risk from vested interests to the public sector. It rewards over-compensated producers who have already captured the energy market anyway, removes the risk/reward principle which neoliberals theorise is the basis of entrepreneurial capitalism, and punishes consumers while removing much of what little market power they have. Such policies are neither pro-market nor pro-growth.

Similar objections can be made to other pet projects such as Charter Cities. Quite apart from the negative effects these will have on the tax take and the public services those taxes pay for, investment which requires the artificial stimulant of reductions in regulation is unlikely to be high quality. Sustained growth comes from improvements in productivity resulting from effective investment, and this can come from either the private or the public sector. What the Truss government seems to envisage instead is private and unaccountable management of public services as a result of a fetishisation of the supposed efficiency of commercial interests. This is about producer capture of markets without the constraints of consumer empowerment, competition, or political accountability. It is therefore the opposite of the consumer empowerment neo-liberals like Hayek sought. Additionally, it is also neither pro-market nor pro-growth.

The same can be said for the tax cuts agenda. Putting more money into the hands of the well-off helps their saving ratios and enables them to invest in certain assets. Much of that money in recent times has gone into over-investment in property, producing a fundamental distortion of the British economy. This also drives up property prices to the detriment of large numbers of consumers. Consumer demand for the necessity of housing is insufficient to pull down its market price as a result of these market distortions sanctioned by government. Allegedly neoliberal government interventions have thus led to producer capture of housing markets, with serious social consequences. Tax cuts will simply exacerbate this social injustice and again prove neither pro-market nor pro-growth.

Some 40 years of supposedly neoliberal economic management has led to the precise opposite of what neoliberalism is supposed to deliver. Market power has been increasingly concentrated in the hands of a few who – as with energy prices – distort markets for their own benefit. Furthermore, this is done with the connivance both of government and of allegedly Hayekian think tanks such as the Institute of Economic Affairs, among whom Hayek's own focus on the centrality of consumers in markets seems completely forgotten. Rising bonuses at a time of rising prices and falling real wages are indicative of how much markets have instead been distorted in favour of a very distinctive form of producer capture. Furthermore, this also shows how little influence workers and consumers have on prices in current markets. As well as encouraging the sequestration of wealth into relatively unproductive asset classes like property, this calibration of markets ensures what in the early twentieth century was called under-consumption. This under-consumption led to Keynes' insight that instead encouraging more consumer power across society is not only more socially just but also more likely to encourage productive investment. We need to move away from the producer capture encouraged by current policies. Indeed, the one achievement of the Truss government has been to make brutally clear, in spite of neoliberal theory, how far vested interests like hedge funds have been able to capture markets. Instead, we need an economic reset restructuring markets much more in favour of consumers and earners.

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*Notes:*

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