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Free Markets – Love/Hate Them

What is a free market? The basic definition includes 1) many buyers and sellers; 2) ease of entry; and transparency of transactions. Unfortunately, most markets do not completely meet these tests. Circumstance and major forces work against this desirable outcome. Most individuals and corporations work diligently to deflect market forces, and many markets are dominated by monopolistic traits. Many people despair over the “unfairness” of markets and want to substitute various forms of planning and centralized decision making to better distribute the bounty of the marketplace.

The great economic and political conflicts of the 20th century revolved around the central theme of the control of the marketplace and distribution of wealth. The century began with the ascendancy of central planning and control, and ended with the discredit of most of the tenets of the socialist revolution. At the beginning of the 21st century, the weaknesses of many of the icons of socialism such as Social Security and Medicare/Medicaid are being exposed. At same time, there is a beginning backlash against the corruption of free markets. So the conflict of the 20th century continues.

Free markets are worth the effort. Why? They are, without peer, the very best mechanism for creating value and distributing it. The reason for this superiority is both simple and profound. Free markets collect, absorb and process more information than any other economic arrangement. They are a collective wisdom that promotes the worthy and discards the unworthy. In the process, everybody gets richer.

Yet there is a virtual stalemate between the foes and supporters of free markets. Why are free markets vilified and denigrated by so many? There are a lot of reasons, but the centers of the conflict are the perceived fairness of free markets and the natural monopolies that exist in a modern economy. Added to this mix is the natural tendency of individuals to promote their own interest at the expense of others. No individual likes the hot breath of competition on his neck. The result is that a lot of the good things that free markets can create are offset by corruption and manipulation of the markets.

The use of free markets by individuals or groups is a great dichotomy. Users generate great value, but at the same time, the effort is an expression of self interest. Self interest can lead to great good, but it can also lead to corruption. There is no escape from this conflict. Societies ruled by law try to set up rules to control corruption and unfair market behavior. But the drive for self interest and manipulation go on and on.

Perceived or actual fairness is a big issue. Corruption and manipulation of the marketplace is commonplace. The reason for this behavior is that everybody has their own private personal account (literally or figuratively). The nurture of a personal account is the source of a permanent conflict of interest with any group account...corporate or public. Advocates of socialism like to proclaim the purity of a governmental substitute for the raucous free market. But the substitute doesn't relieve the corruption and

manipulation. Politics are just another free market subject to potential corruption and manipulation. It only changes the parties to the corruption and manipulation. In the meantime, the value generation of the free market is lost.

Natural monopolies and their regulation are another major source of political conflict related to free markets. These monopolies are not static and change as markets and technology change. Natural monopolies are common in transportation, communications and the supply of utilities. The federal, state, or local governments offer some level of regulation to control pricing and quality of these monopolies. Many services provided by government are natural monopolies. Examples are regulation of foreign and interstate commerce; national defense; taxation; environmental safety, public health and international relations.

In addition to the natural monopolies, government has assumed regulation of many economic activities. Achieving workable rules for regulation is a never-ending thankless task, because everybody developing and managing the rules have an inherent conflict of interest – their own private account.

The biggest threat to the economic well-being of the average citizen is the excessive fettering of free markets to achieve some public goal. Usually these goals are viewed to be laudable by much of the population, and politicians really like the money and power that they generate. While intervention in the marketplace is often unavoidable, the method and duration of intervention is key. In all cases, the goal should be to protect and defend the free market wherever possible. Substitution of bureaucratic decision making for market driven decisions weaken the economy and opens an avenue for corruption and manipulation. The great lesson of the fall of the USSR is that centralized planning makes for very poor economics, and it is a good way to starve. The billions of every day decisions in the free market cannot be replaced by a vote every 2-4 years.

R. E. Zagrodzky