There Is No Such Thing as a "Free Market"

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Global Research, February 14, 2021
Theme: Global Economy

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"There isn't one grain of anything in the world that is sold in a free market. Not one! The only place you see a free market is in the speeches of politicians. People who are not in the Midwest do not understand that this [the US] is a socialist country"
(Dwayne Andreas, former CEO of Archer Daniels Midland(1))

Monopoly and Oligopoly: 'The Invisible Hand of the Market' is Nonsense

A market is where people who have things to sell meet up with people who want to buy. We are all familiar with the local markets where small traders set up their stalls, but the term also applies on a worldwide scale, so there are global markets, such as the market for oil, or the market for coffee. The theory of markets assumes that sellers will vary their prices in order to try to make the most profit, but at the same time buyers can shop around to find the lowest prices. If one seller is making excessive profits, another seller will step in and sell more cheaply, so competition between sellers stops profits from becoming too big. All sellers are forced to become more 'efficient', otherwise they will go out of business. If there are lots of buyers and lots of sellers then all buyers can get a low price. This is known as competitive markets, or 'the invisible hand' of the marketplace. Mainstream economists suggest that this 'invisible hand' is the best way for economies to operate.

There are lots of problems with this theory, but the main one is that whilst it sounds good in a textbook, it has little relevance to the real world. The theory only works if it is applied to large numbers of small businesses. It assumes that no business has too much power. But in the real world, many industries are now dominated by a single dominant company, such as Google (known as monopoly), or a handful of big players (known as oligopoly).(2) These big companies are able to limit competition to make excess profits. For example, in Britain and the US, there are only a small number of major banks, and a small number of dominant supermarkets.(3) The same is true in much of the rest of the world. Oligopoly is often true with international trade.

Sometimes small groups of dominant companies will illegally collaborate to fix prices.(4) This is called a cartel. A notorious example of this was the seven largest oil corporations, known as the Seven Sisters oil cartel.(5) They met in Scotland in 1928 to agree to stop competing against each other. They fixed prices and partitioned the world's oil supplies, guaranteeing huge profits for themselves. This type of price-fixing is much more widespread than most people realise.

The global trading system today also has extra layers of powerful middlemen who control much of the buying and selling. The prices of tobacco, coffee, bananas and many other basic foods are manipulated by small numbers of big buyers, who again make sure that there is only limited competition between them.(6) If they work together to control prices then they are able to overcharge customers and pay less to suppliers, thus making excess profits at the expense of everyone else. The prices paid to growers in poor countries often bear no relationship to the prices paid by consumers in rich countries.

Senior executives of big companies claim publicly to be in favor of competitive arrangements of markets and trade, but in practice they try to develop the monopoly or oligopoly arrangements that are intended to avoid competition, and they bribe governments to assist and protect them. These are important parts of 'really existing capitalism'.

Wealth equals Power

Unlike democracy, which is one person = one vote, a market system is one pound or one dollar = one vote. In other words, money gives people economic power. If we lived in a society where everyone was reasonably wealthy and approximately equal, then it might be possible to make an argument that market-based systems could work. However, we live in a society where most people are not rich, and there is great inequality. Markets take no account of the unequal distribution of wealth that already exists. Under these circumstances, market-based systems always give an advantage to those who are already wealthy and powerful.

How Adam Smith Has Been Misrepresented to Create propaganda

Supporters of 'free' markets use the word 'free' to mean free from government interference. They often quote the economist and philosopher, Adam Smith, who wrote about the 'invisible hand of the market' creating good outcomes for society. However, his writing has been deliberately distorted to turn it into propaganda. Smith used the word 'free' to mean something completely different. He meant free from big companies and wealthy landowners with too much power, who could make unearned profits (these are sometimes called economic rents, or 'free lunches'.) Smith was all in favour of governments interfering to stop companies gaining that power, and to stop them making excessive profits.(7)

Markets might work for haircuts, but cannot be relied upon for essentials

If a market is structured correctly and properly regulated, then it might work reasonably well for some things, such as hair-cuts or restaurant meals. In general, things that are not considered essential, where new businesses can be set up fairly easily, and no business dominates the industry.

When there is a shortage of something, the price will usually rise, so the rich can always buy whatever they want, but the poor are not able to afford things. If computer consoles are too expensive, some people go without. This creates lots of unhappy children but no one dies. If food is too expensive, people starve. When we see a famine on TV, it is rarely because there is a shortage of food in the world. It is because people in some places cannot afford to buy food.(8) In the US, millions of poor people cannot afford healthcare. It is widely recognised that markets and private companies cannot be relied upon to provide essentials for the poorest people.

Externalities – Corporations do not pay their true costs

There is one particular area where even free-market supporters recognise that markets don't work. This is called externalities, where corporations do not pay the full costs of their activities.(9) At the moment, corporations do not pay for the depletion of natural resources, such as fishing stocks, freshwater, forests, and soil, all of which play an important role in life on Earth. They do not pay for causing global warming, or for other forms of pollution, such as plastics in the ocean. They do not pay for the ill health of employees, or the health consequences of people in developing countries who are affected by corporate activities such as mining. They do not pay for bank bail-outs when the financial system fails. Different groups of companies pursue different activities that create huge externalities, such as ill health being caused by tobacco companies, or cities becoming ghost-towns when factories relocate abroad. Some corporate activity poses a risk that the whole financial system could collapse, or that large numbers of animal species will be lost. However, these tend to be ignored because economists have no way of calculating them and incorporating them into their mathematical models.

Most economics textbooks give the impression that externalities are a trivial issue, but in the real world they have huge impacts on many people. Research in 2010 suggested that externalities add up to at least $2trillion each year(10) but externalities like global warming or the destruction of ecosystems are many times greater than this. They are so big that they swamp everything else. In reality, the cost is so great that it cannot be calculated.

One of the best writers on the subject, Jonathan Cook, has explained that the profit motive actually encourages companies to offload costs onto others in order to make profit. The more externalities they can offload, the more profit they make. "Externalities are not incidental to the way capitalist economies run. They are integral to them."(11)

The Myth That Big Companies 'Earn' their profits – Private profits for the few at the expense of the many

Executives and shareholders of private companies are aware that they would make much less profit, or none at all, without government subsidies and bailouts, and without society paying so many of their costs. This is known as privatising profits while socialising costs(12) and is one reason why great wealth ends up in the pockets of a small number of people. This raises the obvious question:

Why should companies make huge profits, and why should executives and shareholders be entitled to enormous payments, when they receive so much help from the government, and when they offload huge costs onto the rest of society?

In fact there is no real justification. The system has simply become a mechanism to allow the rich and powerful to extract wealth from society. The profit motive is now specifically about pursuing inequality, as the aim is to pay more to shareholders and executives by exploiting everybody, and everything, else.

Wealth Extraction – 'The Market' is code for Privatisation and De-regulation

If markets worked as textbooks say they do, no business could make big profits, and executives and shareholders would find it almost impossible to become excessively rich. Academics and journalists interpret 'markets' to mean 'competition', but they forget that when we have big, dominant companies, competition will usually end up with those dominant companies being successful, earning excess profits, and enabling executives and shareholders to extract excess wealth. People sometimes use the phrase 'market failure', as if we should be able to make slight changes to get competition to work, but this is unlikely when big companies can manipulate the rules in their favour.

The mainstream media's use of the term 'free markets' is propaganda. It has become code for 'less regulation by governments' (de-regulation or liberalisation) and persuading governments to allow businesses to make excess profits by controlling more of our societies (privatisation). It is not about good outcomes for society, or the 'best' economic system. The success of this propaganda about markets has led to what is known as a 'market society', where more and more aspects of our daily lives are re-structured to allow powerful people to extract more wealth.

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This article was first posted at medium.com/elephantsintheroom

Rod Driver is a part-time academic who is particularly interested in de-bunking modern-day US and British propaganda, and explaining war, terrorism, economics and poverty, without the nonsense in the mainstream media.

Notes

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