

Scary Bedtime Stories

The tall tale that is Free Market economic theory is actually a collection of abstractions that have little resemblance to economic history or practice. Perhaps a more accurate description would be that it is a major piece of public relations persuasion in service to the paternalism of "corporate management knows best and is on your side." Its primary use seems to be to confuse people who lack confidence in their own experiences, who have been nurtured with corporate bed time stories, or who are illiterate with respect to financial information or economic principles.

The original theory exalting the myth of the Free Market was developed by Adam Smith and David Ricardo, and then embellished and formalized by later neo-, classical economists. Smith can be forgiven for some of the limitations of his economic concepts and principles, because he also advocated a moral philosophy which favored the community.

The mercantilist version of economic theory originated in the late 18th century which was also the very early period of the industrial revolution. At that time commerce was still primarily among merchants. Factories were largely operated by merchants. It was assumed that all economics began at the exchange process.

Price Theory and Cost Structures

The "free market" price theory declares that if companies are allowed to compete freely then the market will eventually determine both the price of any certain item and balance the supply against the demand of that product. It is also stated that any interference in the action of the "invisible hand" or "mechanisms" of the market will cause harm. This belief system often takes on the status of theological faith. Within in the assumption of perfect competition there is conspicuously no definition of a "normal" level of profit.

The faith and public relations value of "Free Market" ideology is the expectation that various economically based problems will be sorted out by themselves. The dirty secret is that this sort of passiveness creates an environment where markets can be prejudiced in favor of gross greed in multiple forms. It also a culture in which resistance to regulation, to accountability, or to unionization may seem reasonable. It is playing in a casino under house rules expecting to eventually also hit the jack-pot.

Free market competition as defined by the financial capitalist economists does not include real life details such as the fixed costs necessary to produce the related products. It also does not address the need to replace equipment when a machine wears out or if the technology becomes outmoded or inefficient.

The evasion of the conditions for a "Free and Fair" Market is usually accomplished through false promises or corporate contributions to political campaigns. The political indulgences purchased usually take the form of various interventions in the form of subsidies, tax credits, tax abatements, resource depletion allowances, tariffs, defense contracts, no bid contracts, or other favors.

In the context of market pricing, for instance in a natural foods market, pricing of individual products is largely based upon what the current price is for comparable products in other stores in the area and upon the costs from wholesale suppliers. Small stores generally have relatively higher overhead costs. This means that those stores will generally have a smaller profit margin than large stores who are able to take advantage of economies of scale, for instance by both buying goods in large quantity and selling them also to a larger number of purchasers.

Other variables also have their importance, such as location, level of service, advertising, and reputation, both positive and negative. Overhead and fixed costs such as rent, equipment, staffing,

financing costs, and other factors also affect the final price and sustainability of a business. Very large competitors also tend to have the resources to under price goods for a period of time to force smaller competitors out of business, so that they can control a larger portion of the market share and can thereby recover their profits in a localized version of a monopoly.

The concept of marginal cost declares that the cost of each additional item sold or produced will have only a marginal additional cost. The prediction is that the cost to the purchaser will approach the marginal costs of that service or production process. This does not include the costs to establish or sustain any particular economy of scale or to comply with local codes or other regulations. The assumptions that define free market economics also lead into the expectation of establishing a boom and depression free macro-economic system.

The Financialization of Economics

The actual realities became very clear in the economics related to railroad based corporations and in other heavy industry such as mining and steel making. In the situations where competition is strong, and fixed costs and financing costs are high, the discounting of prices, rates and production costs can result in massive bankruptcies. This created a situation which is to the advantage of speculators that are prepared to buy up liquidated assets. The railroads received right of way grants of land and accommodations from various levels of government which were intended to offset the large fixed costs involved.

When there is a greater concern for productivity, consolidation could be a path to greater efficiency. Formerly separate companies could build upon each others assets and sunk costs. This would work as well on a smaller scale within flexible manufacturing networks. Efficiencies can be achieved in the economies of scale, both by

buying and selling in large quantities. Other efficiencies can be achieved by specialized technologies and by sharing a common distribution system in marketing the final products.

Another solution to the problem of destructive competition was established by J. P. Morgan and the banking and bond holding interests that he represented. It was the financial consolidation of the railroad industry to limit competition. Its primary concern is always the return on the invested capital. This solution was also repeated by Morgan, associated banks, and other investors in other major industries.

This strategy was and is monopolistic in its intent and influence, discouraging competition generally to increase the corporate profit margin. The flaws in this model include that the management of this type of integration tends to be financially oriented not toward productive efficiency, but based upon measures of the received returns on investment. There are also certain dis-economies of scale in coordinating a large number of production or marketing units. By this type of concentration will tend to resist the competitive innovation of production technologies.

Typically this strategy has no concern at all for the wealth that business and industry could generate for the communities where they operate. The only population for which finance centered capitalism has concern is for the management class and the primary share holders. The rest of the population is considered to be a market if they can afford the related products, or if not then as a surplus population or an under-class to be further exploited.

These consolidation strategies are also dependent upon having a cheap source of transportation energy to centrally co-ordinate the related production processes and units. This strategy also includes resisting all unionization efforts to maintain cheap sources of labor. Energy for the transportation of goods also becomes even

more important for globalized corporations where goods are produced a long way from the point of purchase for the consumer.

The globalized corporations have actually financialized their production process onto numerous sub-contractors licensed to produce brand name products. Environmental and public health risks are exported as well. The effect is that these corporations often produce nothing other than profits, dividends, and executive salaries.

In the case of production and technologies that have been identified as necessary for national security or defense, competition is generally considered to be counterproductive. The nuclear energy industry is an example of an industry which would be entirely unprofitable as an industry, because of the very high costs of building, maintaining, and disposing of the wastes of reactors. If not for the intervention by government by the capping of insurance liabilities, defense related subsidies, and placing environmental responsibility upon the government. As an industry it would not exist at all except for its subsidies.

In the collapse of the “Free Market” fantasies, fraud been exposed as the standard. When major corporations are threatened with bankruptcy as a result of a system that made an ethic out of greed and evasion, the solution has been to rescue these businesses as if their economic health was absolutely necessary. If the wisdom of the free market was applied they would be allowed to fail. So far the outcome of undue influence of wealth on politicians and governance processes has been to force the transfer of huge amounts of debt onto the public and away from the insolvent corporations and individuals who have avoided at every opportunity to operate with transparency, accountability, and respect for our communities.

The definition of oligarchic economics is rule by the wealthy few, and which is effectively the opposite of a socialized economic democracy.

“Free Market” Economics as a Cover Story for Oligarchic Economics

Re-Imagining

Economics