ON THE CAUSES OF THE GRADUAL EXTINCTION OF THE MARKET ECONOMY – PART 1

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Based on several very well known theories and on more arguments of a logical and empirical status, the author of the present study claims that the gradual disappearance of the market economy has been and still is triggered, among others, by the transformation of the economic growth (under Keynes influence) into a high priority objective of governments, that of international competition etc.

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After WWII the economic growth has gradually become the main objective of the governments in most countries in the world, at least declaratively; but with many governments it was and still is an effective objective. Though during this period (since WWII) considerable economic results have been obtained in many countries in the world and especially in the developed ones, we believe it would have been better if the governments hadn't ever set such an objective as a priority.

Why do we hold this opinion? First of all, it is because this objective was, in its turn, a ground used by governments for justifying their interventions in economy. Indeed, after WWII, except a short while (when the United States were ruled by Ronald Regan and Great Britain by Margaret Thatcher), the interventions of the developed countries (but of some less developed as well) in economy were more and more pregnant and distinct. We however have to admit that some governments, as the Federal Germany one before 1989, but others as well, decided to limit their intervention in economy, at the same time with the production of (legislative) frame-conditions favourable for the market's functioning.[1] The European Union currently does the same thing by means of more legislative measures and by the help offered in different ways to the small and medium size enterprises. Nevertheless, on a long run, we can notice an increase of the interventionism in economy. It culminates in some recent measures taken by the governments of some developed countries in order to save from bankruptcy certain banks or private enterprises and which is actually equal to their partial nationalization.

Consequently, politicians (but part of economists as well) are presently (year 2008) in a rather delicate situation: on one hand, under the pressure of the current crises they find themselves forced to intervene trying to direct it, inclusively by measures such as nationalization, and on the other hand, facing the incontestable arguments of the economic theory to admit anyhow, at least declaratively, the superiority of the competitive market economy. Thus they state that by such measures as allocation of budgetary funds for the private firms in order to save them from bankruptcy (which practically means their partial nationalization) they wish to save the

[1] See Heinz Lampert, **Ordinea economică şi socială în Republica Federală Germania**, Iaşi, Editura ,,Al.I.Cuza'', 1994, and Reinhard Blum, **Un al treilea drum**, Iaşi, Editura ,,Al.I.Cuza'', 1994.

competitive market economy!!!

So we can say, and some really state it, that we are confronted with a referential circumstance: either a competitive market economy or a directed and planned "market" economy! In our opinion this moment has not yet come and for a long while from now on the economies of the countries will continue to function under the title of market economies, but actually as economies more or less directed.

Resuming, why would it have been better if the governments hadn't ever been preoccupied with the economic growth? What is wrong in the fact that the governments do care about the evolution of their economies stimulating them to produce more or taking care that they do not become too unbalanced or, as Lipsey and Chrystal would put it, "to avoid recessions and reduce unemployment"?[2]

There are plenty of arguments against the governments' intervention in economy, some pretty well known, and some less known. One of these arguments can be found in the theory of allocation formulated by the marginalists. As it is known, this states that no government in the world can assure a better distribution of resources on branches of activity than the one established by the market itself. It also says that without prices freely established on the market we cannot know which the appropriate form of resource distribution is. These prices are carriers of information without which the optimal allocation of resources would be impossible.

Though, the implication of governments in economy means distortion of market and diminishing of competition. Diminishing and deterioration of competition means in its turn that each year there will be fewer and fewer prices formed freely and, consequently, year after year, the allocation of resources on the branches of activity will be less optimal or less effective.

The governances and a great deal of economists, in favour of state's interventionism, claim that the state's interventions in economy are necessary in order to correct or mitigate the inconvenient and unwanted effects of the market's "flaws". A perfect competitive market – they say – has never existed, anywhere in the world. The market would be imperfect by nature and thus the governments have no choice, they are forced to intervene. This is how one of the most prominent economists formulates this idea: "We are aware that sometimes the market economy does more wrong than right, that there are «failures» of the market and that system does not always lead to the best outcome. One of the failures of the market economy – he says – refers to the monopolies and other forms of imperfect competition. Another failure of the invisible hand consists in the positive externalities, such as the scientific discoveries, or to the negative one, such as pollution, which influences the market. Finally, another bad point would be the politically or ethically unacceptable repartition of incomes."[3]

Leaving aside the fact that these "failures of the market" which Samuelson talks about are obviously not non-accomplishments of the market or of the invisible hand, but rather aspects or features of some economic activities or of the human behaviour, exterior to the market (and thus requiring regulation by law), we still have to admit that perfect competition market, extended to the scale of the entire economy of a country, has probably never existed anywhere in the world. Even though, an almost perfect competition (at least regarding its theoretical terminology) and, by all means, much more extended than the current one has always existed, without doubt, in the developed countries or, at least, in the Great Britain of the time of Adam Smith and the other classics; otherwise, his political economy under the name of **The Wealth of Nations** wouldn't have been possible and couldn't have appeared. In our opinion, it continued to exist at least until the mid 19th century and in a restrained and slightly altered form even until WWI. Between wars and especially after WWII, it deteriorated and visibly restricted, without completely vanishing, though. What could be the causes of the gradual and, in some opinions, inevitable diminishing of

[2] R.G.Lisey, K.Alec Chrystal, **Principiile economiei**, Bucureşti, Editura Economică, 2002, p.614.

[3] P.A.Samuelson, W.D.Nordhaus, **Economie politică**, Bucureşti, Editura Teora, 2000, p.49.

the perfect competition market?
There are more theories regarding the causes of the imminent death of the competitive market economy. One of these belongs to Marx. Analyzing the evolution and the perspectives of capitalism, he shows how, under the pressure of competition and the inherent spectra of bankruptcy that threatens particularly the small or less efficient firms, there is a permanent process of concentration and centralization of capitals following which the number of companies remained in each sector of activity is in continuous fall and the dimension or their economic power in continuous growth;[4] the competitive market of various products is thus gradually transformed into an oligopolist or monopolist market. The concentration of capital means increasing the dimensions of the firms by capitalizing profits and centralization means exactly the same but following the bankruptcy of small or less efficient firms (that cannot cope with the competition) and their being taken over by the winning firms. The conclusion is as clear as possible: competition will eventually trigger the disappearance of the competitive market economy and, as Marx foresaw, its replacement by socialist economy.
Another theory, emerged after WWII, states that the technical and the scientific progress have come to cost so much nowadays that only the big firms can afford to finance them; in the case of fundamental researches the costs are often so high that only governments (sometimes only more governments united) have the necessary funds. Consequently, it would be in the interest of each country that the governments support a continuous growth of the firms' size.
Perhaps there is a bit of truth in each of these theories. Thus, it is known as certain and could be noticed in practice that in a market economy bankruptcies are something inevitable and as normal as possible. Moreover, for the increase of performances or for the effective use of resources they are actually necessary. Usually, the insolvent firms are swallowed by the winning ones and the size of the latter increases afterwards. At the same time the size of the firms grows by means of fusions or by means of profits' capitalization. Both phenomena occur also because of competition because, as it is known, normally, the large firms go bankrupt less frequently as compared to small firms and thus their wish of being bigger and bigger is not else but natural. On the other hand, statistics show that, indeed, scientific research is more and more expensive, every day. This can prove sufficiently powerful reason for the governments to encourage or tolerate the increase in the firms' size together with their numbers decrease in each sector of activity; even if the price paid is, each time, the alteration or the diminishing of competition. Still, this theory (that states the technical progress is mostly due to the large firms) is rather controversial.[5] Some economists claim that large firms, because of their solidarity and of the confidence they have confronting bankruptcy are more conservatory and rigid as compared to smaller firms. The latter would be more preoccupied with innovations and inventions as compared with larger firms. It is only this way that they manage to adept rapidly to the requirements of the market and cope with competition. Could this be the real reason why the European Union supports the SMEs or maybe, more likely this support has an aim in maintaining certain features of competitive market?
In our opinion, these are not, though, the main causes for the gradual deterioration of the competitive conditions. Competition generates indeed the disappearance of competition, as Marx stated, but only if it is allowed or helped to fulfil its objectives. Scientific research can also push the economy of a country in this direction, especially if there are no obstacles to the concentration and capitalization of capitals. The main cause of the gradual diminution of the conditions of competition is, though, different, namely **the interstate competition.**
It is known that the governments of the developed countries set up, as early as the latter half of

[4] K.Marx, **Capitalul, vol.I,** Bucureşti, Editura Politică, 1960; see especially ***Legea generală a acumulării capitaliste***, Section 7, chap. 23 and ***Tendința istorică a acumulării capitaliste***, chap. 24.
[5] See D.C.Korten, **Corporațiile conduc lumea,** Bucureşti, Editura Antet, 1998, p.249-250, see also R.D.Putnam et al., **Cum funcționează democrația**, Iaşi, Editura Polirom, 2001.

the 19th century, institutions and antitrust laws in order to stop the deterioration of the condition of competition on local or national markets, but how well these institutions succeeded in performing their tasks can be judged form the outcomes: day by day the market of the developed countries, but, as a matter of fact, the international one in general, are less and less competitive;[6] despite the fact that, by the agency of World Trade Organization, the developed countries have managed to eliminate a series of barriers to their international trades.

The governments in the developed countries could have well put an end to the deterioration of the conditions of competition if they really wanted to, and that without the help any antitrust law. It would have been enough to implement a system of progressive taxation, differentiated on branches of activity, but applied not on firms' incomes or profits, if not on their size, rendered either by their turnover or by the value added or, eventually, by the measure of their own capitals and the attracted ones.[7]

For instance, when the number of firms in a certain sector of activity is reduced (by concentration and capitalization of capital, by purchases and fusions etc.) to a certain limit under which perfect competition would turn into, let's say, an oligopolist one, any other increase in the size of the given firm should be taxed double or even triple in comparison with the taxes levied on the firms that produce and sell under competitive conditions. The same taxation system could be applied to the natural persons when their contribution to the productive capital of a country (under the form of some firms, for instance, or of shares at certain firms) exceeded a certain limit, compared with the average productive capital on family.

Our point of view is that there is no desire for stopping the process of deterioration of competition, because of the interstate competition. On the international market, the firms are confronted with the same competition as in their home countries (perhaps even harsher) and with the same results or consequences in what bankruptcy is regarded. In such circumstances, how could the governments of the developed countries stay still and note passively the vanishing or the retreat of their own firms form the international market? Of course they could not. Consequently, they began to support or help them in different ways: remitting certain taxes, a method quite frequent even nowadays; subsidising them in certain situations, as it is currently the case with all agricultural product and others; and, especially, tolerating or even encouraging the concentration and centralization of capitals up to a level considered acceptable in rapport with the antitrust laws, though a level established in each country separately, by a governmental institution or, at any rate, just relatively autonomous form the government. The results can be easily seen. The free competition is extinct and in many cases it has already succumbed. It is the very governments that made this disappearance possible, by all means. Thus, now it is the time of the planned and directed economies. Marx's dream, and, in a way, that of Keynes, will soon come true.

These causes already discussed can be completed with several others: the delight of being a leader; the people's often exaggerated trust (or at least that of some people) in their intellectual and managerial capacities; the egotistic interests of those that govern, taken individually or as a group etc. At the moment when the crisis of 1929-1933 started, the economy of the developed countries was no longer, for a considerable while now, a purely competitive market economy, or, at any rate, was no longer as competitive as it had been by the latter half of the 19th century. The process of concentration and centralization of capitals started in the time of Marx had already shown its "results": the economies of the developed countries had already passed through more periods of crisis. As a consequence, in the eve of the Great Crisis, the pure or perfect competition market was rather diminished as compared to the time when the great classics lived and thus the

[6] See D.C.Korten, op.cit., particularly chap. 17.

[7] Details about this subject can be found in our work: Gheorghe Olah, **Repere de politică economică**, Bucureşti, Editura Economică, 2001, chap.2.

economies of the developed countries were not capable anymore to self-regulate and to self-balance themselves; at least not on a short run as the governances would have liked. So, Keynes was right: the state was compelled to intervene. But the famous economist did not have to fight against the physiocrats' principle (laisser faire, laisser passer, le monde va de lui meme) because it was bearing no blame; the physiocrats' principle is truly valid in a perfectly competitive market economy. Instead of asking the governments to intervene in economy in order to direct it, it would have been better if he had asked them to stop the deterioration of the conditions of competition or, even better, if he had asked them to recreate or rebuild these conditions. Instead, Keynes' ideas matched so well the governances' wish. This is what they, themselves, wanted: to intervene as much as possible in economy and direct it. "Politicians – state Dornbusch and Fischer – seek for economists that would support their position."[8]

As aforementioned, people enjoy leading and often believe exaggeratedly in their managerial capacity. These traits characterise especially those that govern; and that is even more relevant considering that the latter never pay out of their own pockets the losses economy, and all of us, suffered as a consequence of their wrong decisions. How could they believe in the power of Adam Smith's invisible hand, when they could notice, together with Keynes, that the economies of the developed countries tend more and more often to become unbalanced and these unbalances are more and more profound? So, Keynes simply opened a track for them and, moreover, offered them relief: from now on they could intervene in economy with no fear as they had on their side the fundamental work of a famous economist.

Keynes provided economists with food for thought and jobs to take. He had presented some directions and means of intervention, but it was too little. Macroeconomics had to become an exact science. Economists got down to work and discovered (or invented) a series of instruments of intervention in economy to provide the governors. With each new discovery or with each new theory the optimism increased and when it finally reached a peak, disaster came: the global economy is experiencing a new recession. We most certainly refer to the current crisis. How was this possible?

We mentioned a little earlier that the individual or group egotistic interests of some people can be blamed for the depreciation of the conditions of competition. In the present case, we talk about the individual or group interests of those that govern. The interventions of the governments in economy are each time distributive or redistributive; any intervention of the state in economy results in a redistribution of incomes.[9] Unfortunately this distribution cannot be done following scientific criteria or, to put it differently, following equitable and at the same time effective criteria from an economic point of view, but as Samuelson admits, in the end of our quotation, following ethical and political criteria. Ethics is not a science though in the real sense of the word, it is rather – as Petre Ţuţea put it – a sort of "rail travel guide": each gets down where considering appropriate.[10] As for politics, it can be anything, and, if we are to observe the facts, it is most times the expression of certain interests.

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[8] R.Dornbusch, S.Fischer, **Macroeconomie**, Timişoara, Editura Sedona, 1997, p.542.

[9] For details see Gh.Olah, **Repartizarea bunurilor**, Bucureşti, Editura Economică, 2008, chap.2.

[10] P. Țuțea, **Între Dumnezeu şi neamul meu**, Bucureşti, Fundația Anastasia, Editura Arta Grafică, 1992, p.39.

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