

ON THE CAUSES OF THE GRADUAL EXTINCTION OF THE MARKET ECONOMY - PART 2

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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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In any economy, the results (production, productivity, efficiency etc.) are primarily reliant on repartition, as we hope we managed to demonstrate in another work.¹ Thus, both in a market economy and in a planned (or directed) economy the results will depend firstly on the way of allocating the goods. Though, no government in the world can provide a better allocation of goods than the one established by the market. There are no doubts about this and no proves necessary; even if this allocation given by the markets will sometimes end in bankruptcies. Or maybe for that very reason! The allotment directed by the governments is, as shown before, primarily influenced by interests (personal or of the group) and by feelings, let alone the capacity. Our point of view, thus, stays firmly attached to the market economy characterised by perfect competition (or, at least, as close to perfect as it can get) and not by the pseudo post-war market economy of the developed countries!

I am not the only economist who claims that the ones that govern use their political power to distribute or redistribute incomes favouring their groups of interests² and I do not think that any concrete evidence would be necessary to support these statements as we can permanently find such interventions all over the world. The problem is that together with these interventions they do not only generate a redistribution of the incomes but also a greater or smaller economic instability.³

If the governments confined themselves to clearly regulate the behaviour of certain economic agents that perform their activity outside the competitive markets, or to mitigate or even eradicate the undesired social consequences of their unethical behaviour, when for whatever reason such a conduct has nevertheless occurred, we would have no objection. Such interventions are compulsory and do no harm the market in any way, but on the contrary, are in its favour.

¹ Gh.Olah, **Repartizarea bunurilor**, Bucureşti, Editura Economică, 2008.

² see M.N.Rothbard, **Ce le-a făcut statul banilor noştri**, Bucureşti, Institutul Ludwig von Mises - România, 2005, p.61-97

³ for details see: M.N.Rothbard, op.cit., p.67; M.Friedman, **A Program for Monetary Stability**, Fordham University Pres, 1959, or **Capitalism şi libertate**, Bucureşti, Editura Enciclopedică, 1995, cap.3; Gh.Olah, **Repartizarea bunurilor**, Bucureşti, Editura Economică, 2008, cap.2.

Unfortunately, the interventions do not stop here. They often try – as we can witness happening at the present moment – to save certain companies from bankruptcy. Doing that they prevent the market from performing its duty: namely, to eliminate unprofitable or less efficient firms and by that to turn the economy as a whole into a more effective one. The governments do exactly the opposite: helping the insolvent firms by offering them money they redistribute the budgetary incomes collected from all the economic agents and firstly from the most profitable ones, to the insolvent economic agents, thus decreasing the overall efficiency.

On the other hand the governments try to stimulate and temporise production, thus generating, as already mentioned, economic instability. Certainly, the people at government will never admit this. They will claim that on the contrary, they intervene in order to correct the imperfections of the market or to ameliorate the unwanted and inconvenient consequences of these imperfections; still, they will by no means admit that some of those consequences are their very deed. If they were asked for instance how and where the current crisis has arisen from, they would answer they have no idea or that who knows what mysterious forces have triggered it. Some of them are right indeed: they are ignorant about how crises occur. Unluckily, even the economists regard cyclicity as fatality, as an intrinsic and relatively mysterious feature of the economic evolution. Governors indulge in this opinion. It is exactly what they want, namely that all economic unbalanced and instabilities occurred as a consequence of their wrong or intentional decisions would be perceived by the common people as fatalities. As far as we know, though, there are no mysterious powers with economic preoccupations! Natural factors (earthquakes, floods etc.), social factor (wars and revolutions) and the governments are the only forces that can drive economy to recession. And if we are to consider the fact that wars and revolutions are to a certain extent induced also by governments, then natural factors and governments remain the only forces.

When economy is affected by natural disasters people usually recover quite soon or in a reasonable period of time, even if rather often there are victims. They begin to resume their activities often during the very catastrophe, first by remedying its consequences. Still, when economy is affected by an economic crisis such as the current one, the recovery is much harder for the people that do not know what is going on or, especially, what is going to come next. They stay in expectation and they are right to do so as any decision can bring losses, though the absence of decision might cause damages as well.

The current crisis cannot be the result of natural factors; presently we do not have knowledge of any natural factor that could have been blamed to have produced this crisis. The conclusion draws itself: only governments or at any rate some governments can be guilty for the development of the current crisis. However, there are economists that foresaw it many years ago. They did not know precisely when it was to occur but they knew precisely that it was to happen sooner or later.⁴ But how do crisis appear?

Interventions in economy from the parties of the right when at lead usually come in favour of the employers, thus stimulating the exaggerate growth of production. Production can be stimulated by reducing taxes (VAT, tax on profit etc.), by cheapening credits and others. While production and offer can grow somewhat unlimited, especially on the basis of credits, the consumption is relatively limited. It is limited primarily by the consumers' incomes. It is nevertheless true that when credits become cheaper, consumption tends to decrease too (for that very reason) but consumers usually limit their requests for credits in accordance with their capacity of refunding them by instalments, a capacity, as we know, dependent on incomes. Consequently, there is a certain gap that appears between production and consumption, between demand and offer, a gap that should normally disappear. The elimination of this gap is done periodically by the recessions or crises the economies experience. Recession is thus necessary for balancing production and consumption and lasts as long as the market is overcrowded with goods. "What production

⁴ M.N.Rothbard, *op.cit.*

produces in several months takes market several years to absorb”, as Engels wrote, about the year 1870.⁵ It can be noticed that after all, production cannot, anyhow, grow unlimitedly either, but just for a while, which is still much longer than the period in which consumption can rise due to loans.

The parties of the left can themselves destabilise economy. They usually support their own electors, respectively the poorer classes. Redistributing the incomes in the favour of the latter, they disadvantage the chief employers, whose incomes will decrease at least in comparison with their previous incomes. Thus the opposite situation can occur, namely the demand being bigger than the offer and we witness an increase in prices or inflation. In fact, as it can be noticed, both the parties of the right and those of the left, often make use of inflation in directing incomes towards their interest groups. Inflation is, after the budget, the governments’ main instrument in redistributing incomes. It is at the same time the most relevant factor of economic instability.⁶ After a longer or shorter period in which a government produces inflation, there is inevitably a crisis, as Rothbard says: “the bill has to be paid eventually, but in the form of disastrous phenomena that come as a reaction to the prolonged boom built upon inflation.”⁷

Some specialists state that the lack of regulations would be the basis of the current crisis and, in a way, we could say they are right. Indeed, in an economy dominated by monopolies and oligopolies and with a financial market so sophisticated as the nowadays one, on which a series of derivate instruments circulate, lack of regulations can generate chaos. In such an economy or on such a market the lack of regulations does not necessarily mean, however, as these specialists want to claim, more economic freedom (in the sense free action of the market laws) but, on the contrary, more anarchy. Even a perfectly competitive market supposes rules; rules as clear as possible and which necessarily have to be obeyed by all economic agents. Inasmuch as the nowadays market are so little competitive, these rule are necessary, and when they are absent the guilt stays solely with those that govern; the latter, as we have previously seen, are, on the other hand, to be blamed for the disappearance of the competitive market. Consequently, it is not at all absurd to think that lately, when chaos emerges, it is controlled and intentional. In whose favour? In conclusion, if the successes obtained by the developed countries are mostly connected to the competitive market economy and to the democracy, as it is usually termed (and, in our point of view, absolutely founded), then the governments of these countries have no pardon when they support or tolerate actions that finally lead to the alteration or the disappearance of the competitive market economy. Secondly, if the disappearance of the bankrupt firms is beneficial for economy, as demonstrated by the economic theory and known from the concrete reality, then it is beneficial whether it is produced due to the competition inside a country or occurs on a global market through the mechanisms or due to the international competition. Otherwise, globalisation can no longer be considered a positive phenomenon. Consequently, when a government supports, in a way or another, the domestic firms to reach a monopoly position on the international market, it not only helps the firma and that country’s economy to achieve unfair incomes on the expense of firms or economies of other countries, but also contributes ultimately to the disappearance of the competitive market and its replacement by the socialist or communist economy. Under these circumstances, however, the pressures exercised by the governments of such countries upon the others, for the total opening of the borders or for the renunciation at all barriers within the international trade, are pure hypocrisy or duplicity.

Nevertheless, we have to admit that the indolence and negligence of common people can as well be considered causes of the deterioration of the conditions of competition. We can notice that most of us are unaware of the evil they produce to themselves accepting passively the

⁵ K.Marx, **Capitalul**, vol.III, București, Editura de Stat pentru Literatură Politică, 1956, p.423.

⁶ M.N.Rothbard, op.cit., p.61-67

⁷ ibidem, p.104.

interventions of the governments in economy. Not only do they accept but many of us even expect government to solve all problems they are confronted with: jobs, salaries, homes etc. On the other hand, the fact that simple people have this attitude should not take us aback too much since many economists are themselves devotees of state interventionism. In such circumstances, the governments can allow themselves to ignore the isolated voices of few specialists and to expand their forms and means of intervention each year.

Summarising the things mentioned so far, we find that the transformation (with Keynes massive support) of the economic growth into a high priority objective of the governments has finally led to the gradual but more and more prominent expansion of the governments' intervention in economy, to the almost directly proportional and, again, gradual retreat of market economy and of the conditions of competition, to the less effective allocation of resources and to the increase in the economic instability with all the consequences it brings about. Among these consequences we can definitely count the exaggerate growth of the consumption of resources and of the level of pollution, the confrontation with the issue of exhaustion of several resources, the appearance of certain fatal diseases due to nutrition and pollution, the more and more pronounced spoliation of a part of population by the other and so on.

If governments had established as a priority objective not the economic growth but rather the maintenance or the recovery of the conditions of competition and the ceasing of pollution, all these negative consequences would not have existed or, at any rate, would have been much reduced. All in all, why is it a must that the economy shall grow? Why is the economic growth absolutely necessary? To solve the increase of unemployment – Keynes' followers would probably say – and to live better. But what does "to live better" mean? To eat more or to eat more products full of chemicals? To have no more air and no more clean water and to be full of illnesses? To hate one another more an more daily because of the unfairness generated by the implication on governments in economy? We are positive that most of us would happily waive these "benefits".

In what unemployment is concerned, this phenomenon has no real connection with economic growth if not with development, more likely. Economic development does not necessarily mean, though, the increase in GDP or in production volume but simply in labour's productivity. In other words, as a consequence of the economic growth, the same production can be obtained in a relatively shorter time or with comparatively fewer workers. The increase in labour's productivity is, in its turn, based, as it is well-known, on the technical progress and better qualification.

Employers are happy to dismiss part of the workers when they can, as thus they reduce costs and increase their profits. Unfortunately, this raises unemployment as well. So that unemployment should not grow, governments feel forced to generate or create new workplaces; i.e. to stimulate economic growth. Together with the appearance of new workplaces, there is an increase in the GDP, but there are also the other problems aforementioned. As a consequence we have to choose: either unemployment or economic growth. Luckily there is a third solution as well, and this is the shortening of the workday or workweek. We know that the technical progress is the result of the efforts made by the previous generations and that it has as an aim, besides growing work productivity, to reduce physical and intellectual effort of all those in work. This diminution can occur by two procedures: gradual transfer of physical and intellectual effort from man to machines and gradual reduction of the workday and workweek, decrease possible due to the increased work productivity. Such diminutions have been applied along history and will be performed again, even if the employers do not accept them too liberally as they affect their profits. Governments are, though, representatives of the entire society and from time to time they are compelled to accept reductions of this kind. When unemployment and unions will put a pressure big enough upon governments, the latter will be left no choice but accept the simplification of the workday or workweek. By now, the unemployment's sluiceway was the

economic growth, by extending services and exaggerate increase of production in older sectors. But everything has an end. After all, why should only employers benefit from the technical progress and not the entire society, as well, by the reduction of the work time? Wouldn't we all be more privileged?

The reduction of work time does not necessarily mean the decrease in production but still may mean the stopping of the economic growth and thus of the increase in resource consumption, of pollution, of the spread of diseases. The decrease of the work time can mean that society has reached the conclusion that they can produce enough products for everybody and there is no need to increase that volume except when there is a growth in the population's number. As it can be noticed, we are again to choose: either an increased consumption of products, but also of resources, together with a higher level of pollution, or a more moderate consumption, but healthier and with more spare time, for family (especially for children), for sports, travels, education and qualification etc. Up to now, society has opted for the former alternative; perhaps it is high time we chose the latter!

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