Free Markets: License to Steal or Instrument to Succeed?

Most economic fallacies derive from the tendency to assume that there is a fixed pie—that one party can gain only at the expense of another.
~Milton Friedman

Free markets, or laissez-faire capitalism, refer to an economic system where there is no government interference except to outlaw and prosecute fraud and coercion. Obviously, there is no free market in America. The U.S. market is HEAVILY regulated and manipulated; America hasn't had a free market in decades.

Housing Market Boom & Crash: Was Caused by a Massive Government Stimulus Plan

The housing market boom resulted from a massive GOVERNMENT STIMULUS PLAN. Immediately after 9/11, the U.S. Treasury and the Federal Reserve cut interest rates to historical lows and increased the money supplies to incredibly high levels. Government regulations that required banks to lower their lending standards in order to sell a larger percentage of homes to minorities who didn't qualify for loans because of their credit history and/or salary levels made the housing bubble that later exploded in a nuclear burst a foregone conclusion.

What economic philosophy did our Founding Fathers base the economy of the United States on?

Since our culture currently finds Truth unknowable, it is a good idea to go back in time to the founding of our country. Two great works which represented radically new and different assumptions regarding the human condition were published in 1776: The Declaration of Independence written by our future President, Thomas Jefferson, and <u>The Wealth of Nations</u> by the Scottish economist, Adam Smith. **Both accept as basic assumptions the unalienable right of the individual to be FREE, with the weighty corollary of being responsible for his actions—personal responsibility.**

Predation by the Private Sector

Many Americans mistakenly believe that the U.S. has an essentially free market and that unbridled greed is responsible for all the predation and negative situations that occur in our economy. Professor John R. Lott's book, <u>Freedomnomics: Why the Free Market Works</u> discusses the accusations of rampant predation in the market in the chapter entitled "Are You Being Ripped Off?" Predation is when an entity charges below-cost prices to bankrupt a rival, charging much higher prices once the rival is out of business.

A very good reason why this doesn't happen as often as alleged is that charging higher-than-normal prices after forcing a competitor out of business would attract new rivals who may have purchased the inexpensive assets of the predator's prey, so they could undercut the predator's prices, and put him out of business.

Predation with Governmental Collusion

Predation most often occurs when businesses collude with Congressmen and/or government agencies to unfairly handicap their competitors. Examples include the dairy industry, which uses the U.S. Department of Agriculture's Federal Milk Marketing Orders to set statutory minimum prices, or the Gasoline Retailers Association using state law to do the same or the sugar industry using Congress to establish quotas on foreign sugar imports.

Higher education is another governmentally-approved predator. UCLA spends $40,000 per student in tuition, charging in-state students $6,522, giving the public (government-sponsored) college a significant competitive edge over private universities. State universities have actually acquired many formerly private universities after driving, or threatening to drive them out of business this way. Professor Lott cites examples of this: George Mason University School of Law, University of Buffalo, University of Houston and University of Pittsburgh. The State University of New York reportedly threatened to open a public university across the street from the University of Buffalo unless it joined the state system.

Why is it not unfair when Congress legislates predation, but it is when foreign governments undercut U.S. prices?

Governmental predation also occurs when the U.S. Department of Justice goes after a private business using similar predatory practices of intimidating its rivals and selling goods and services below cost. The U.S. Department of Commerce then charges foreign countries accused of selling good below cost in the U.S. with anti-dumping fees. Why, if selling goods below cost is seen as unfair business practice in the international arena, is it not an unfair practice domestically when sanctioned by Congress or other governmental agencies?

Actions Have Consequences

Lott's chapter "Crime and Punishment" begins with the maxim, "The higher something costs, the less people will do of it." For instance, when the Atlantic Coast Basketball Association increased the number of referees on the court from two to three, fouls fell by 34%. Fouls were more likely to be called, and thus became more expensive to do. The same principle is at work in areas which pass concealed-weapon carry laws, or where the death penalty was reinstated and more prisons were built. The ratio of potentially armed victims, or severity of punishment increased, and the U.S. crime rate in those areas fell.

When taxes or fees are increased, people don't just continue to produce and earn as previously, instead many move, retire, or produce less to fall into lower tax brackets. This is why history shows that tax increases bring in lower revenues while tax cuts results in more revenue being collected.

Government Regulation: Sometimes Racist & Harm the Underprivileged

Economist Dr. Walter Williams argues that regulated, restricted, and monopolized markets actually harm the people the regulations supposedly intend to help less preferred latecomers with little political clout. Owning and operating a taxi was once a good way to climb one's way out of poverty. However, in most cities today, one has to purchase a license costing tens of thousands of dollars (New York City's taxicab licensing law, as of May 2007, requires **$600,000** for a license to own and operate one taxicab. Business licensing laws are not racially discriminatory as such, but they have a racially discriminatory effect.

The Davis-Bacon Act of 1931 was originally racially discriminatory and continues to have a racially discriminatory effect today. Mandating that "prevailing wages" be paid on all federally financed or assisted construction projects, it discriminates against non-unionized black construction contractors and black workers. During the 1931 legislative debate, quite a few congressmen expressed racist motives such as Rep. Clayton Allgood's (D-AL) comment that "Reference has been made to a contractor (t)hat…has cheap colored labor that he transports, and he puts them in cabins, and it is labor of that sort that is in competition with white labor throughout the country." Different rhetoric may be employed in support of this act today, but its racially discriminatory effects remain the same.

Free Market is unappreciated in yet another way: one can eat good food, or see some nice clothing and flashy cars in poor black neighborhoods, but not any nice schools. Why aren't there any good schools? Clothing, food and cars, until the recent government take-over of GM, have been distributed by the free market mechanism while schools are distributed by the political mechanism rewarding union members instead of quality teachers.

Truly "free markets" with no government interference except to outlaw and prosecute fraud and coercion will provide individuals with the freedom they need to take risks and build wealth without all the inflation and market crashes by the untutored predations and regulations caused by people in Washington thinking they know how to fix the market without unintended consequences.

Free markets, as envisioned by our Founding Fathers, not government regulations, grant the individual the right to earn, produce, succeed, and, yes, even fail based upon the merits of his abilities and actions.

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