

Essays on Market and State

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Introduction

Below are some of my selected articles on market and state, prices and regulation. The first two, “Evolution of market and state” and “Market failure and government intervention” were written last year. The succeeding articles were written this year and posted in the online magazine, www.thelobbyist.biz, where I am contributing a weekly column.

I. Evolution of Market and State

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At the beginning of human civilization, in primitive hunting societies when resources were generally unlimited for a small population, there was no need for skills “specialization”. And so people were food hunters, home builders, warriors and self-administrators, all rolled into one. As population and human wants began to expand, some degree of skills specialization developed and so men learned to trade with each other. The animal and fish hunters traded their excess catch with craftsmen for the latter’s carpentry, hunting weapons, musical instruments and other artistic services. They traded with farmers who practiced the early technologies of agriculture.

Thus, the MARKET for the exchange of goods and services spontaneously arose, naturally invented. There were not too many varieties of each goods and services and hence, there was general homogeneity in product types and qualities. Hence, the presence of money as mode of voluntary exchange was not necessary; barter – goods for goods or services – was possible. The aggregate social surplus was small and communities could not afford, nor was there a need for it, to have a government made up of full-time administrators and enforcers of rules, whether collectively-agreed upon, or imposed from the top.

Later, as population and economic activities expanded, various forms of MARKET IMPERFECTIONS arose, like monopolies and oligopolies. This is natural because under unrestricted market exchange, consumers reward the efficient producers with continued patronage, assuring the latter's business growth and expansion. Consumers also punish the inefficient producers, those who sell bad quality commodities and services at bad prices, with non-patronage resulting in the latter's business stagnancy if not bankruptcy. Other sources of market imperfections are "negative externalities" associated with production such as pollution and noise, as well as "positive externalities" wherein potential producers of "public goods" like traffic lights in busy intersections, and peace and order in communities, are not inclined to produce the services because there will be many "free-riders" who will only enjoy the benefits but will not pay or contribute to shoulder the full cost of such "public goods".

So men invented GOVERNMENT, and hired administrators, regulators and policy-makers to correct many of those market imperfections. The latter of course invented TAXES and various fees to finance the effort of dealing with these complications. Initially it went well. Many disputes among the citizens were peacefully settled; some monopolies were regulated from further inflicting non-competitive behavior. The "externalities", both negative and positive, were addressed.

Later, governments introduced GOVERNMENT FAILURES and inefficiencies – bureaucratic red tape, corruption, exorbitant tax rates, multiple taxes and fees, excessive trade barriers, state-sponsored monopolies, and so on. The state was used by certain factions of capitalists and businessmen to protect themselves from other factions or batches of capitalists and entrepreneurs, both local and foreign, both existing and emerging. Among such barriers to entry of new competitors are government-legislated franchises and monopolies.

Government also institutionalized PROTECTIONISM of many local businessmen and producers in the form of high import tariffs, import quantitative restrictions, other forms of trade barriers to protect themselves from foreign capitalists and producers. Local businessmen erected barriers (either mandated in the Constitution or through Parliament-enacted laws) against entry of too many foreign inventors that will compete with their monopolistic and oligopolistic market structure. Or government bureaucrats, either by themselves or upon the prodding of the protected businessmen, create a maze of regulatory restrictions that effectively discourage the emergence of too many entrepreneurs, especially from ordinary employees, farmers, or managers. The existence of (a) high unemployment and underemployment rates, (b) high informal or underground economy, are among the major proofs of the success of bureaucratic nightmare.

So men invented non-profit organizations – more commonly referred to as non-government organizations (NGOs), people's organizations (POs) and other civil society organizations (CSOs) – to reform government and state failures. Initially, it dampened state bureaucrats' and policy makers' appetite for more corruption and inefficiencies. But since many non-profit organizations are themselves "allergic" of

the market and hate the concept of profit, much less huge profits, they can only demand governance reforms but not governance exit in many areas and sectors that government has already intervened. A “small and limited government” is not within their political horizon because they themselves are advocates of big government (aka “statists”), they themselves want to run the state and its interventionist agencies and corporations someday.

Thus, it became evident that “reforming government” by statist reformers, or by non-competitive capitalists, had become an oxymoron. Bureaucracies and interventions, once created, seldom decline, let alone die. And governments later invented habitual BUDGET DEFICITS (ie, revenues lower than expenditures). Many politicians run for government positions not to rein in government intervention, but to maintain, if not expand and worsen, those state failures.

Early in the last century, some groups went extreme and invented communist parties and socialist parties to turn an already super-imposing state into a “Big Brother” interventionist socialist state, supposedly to “centrally plan” the basic needs of its people. Later, many socialist states could not even plan and produce how many tons of rice and bread, how many million liters of premium gasoline and diesel, how many pairs of jeans and shoes, what varieties of oranges and bananas, will be needed by their people in a month, in a year. Scarcity led to political instability, which later led to the collapse of many socialist governments, from the Soviet Union to Eastern Europe. The remaining socialist states (China, Vietnam, Cambodia, etc.) survive because they have allowed the market system to exist in the economic sphere while maintaining political monopoly.

So now, many former socialist states are back to allowing private and voluntary exchange of goods and services by their citizens. Once the central-planning, chief-allocating, all-encompassing state shrinks, the market and the price system would know where, when, how much, and for whom goods and services will be allocated.

II. Market failure and government intervention

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Not all “market failures”, like the absence of exchange by people who supply and demand a particular good or service, or the presence of negative externalities such as resource depletion, will need government intervention. There will always be “market failure” in all sub-sectors or sub-industries given the changing preferences of people who demand ever newer products and services. Or such “market failure” can occur when demand temporarily does not respond to a sudden availability of a new product or service as result of technological innovation, weather and natural events, other factors.

Case 1. Market Failure due to Absence of Supply

Some beautiful waterfalls in a country which have big potential for eco-tourism are not developed. Market failure here springs because while there is big demand by visitors to see beautiful waterfalls, there is no entity that will build the roads to make the place accessible, construct hand rails in dangerous areas, develop picnic grounds and cottages, and so on. Some politicians and anti-market groups can declare this as “market failure” and will move to establish a new government agency called “Waterfalls Development Authority (or Corporation)”, hire personnel, consultants, and politicians-appointed administrators. To do so, government will have to find financing through new tax measures, or raise existing taxes and fees.

There will be many groups of entrepreneurs who will be interested to develop the area, pour their own private resources, to earn money someday. But certain problems exist, like bad peace and order situation due to the presence of rebels and extortionists; problem with neighboring private landowners that will affect the access road to the area. It is also possible that intimidation and extortion is done by the local politicians and police themselves, or by the government's environment ministry or agency in the form of a maze of rules, regulations, and fees to pay, so that the cost of complying with these regulations alone would already cost a big amount of money.

If these problems (especially bureaucracy-created ones) are minimized if not removed, then private entities will compete to develop the area using their own resources, and no burdensome tax hikes or new tax measures will be needed. Applying user-fee principle removes the negative externalities of taxation, where even people who will not get to see those waterfalls are taxed.

There are millions of cases where supply is absent despite existence of demand by other people. There is absence of supply of a mango variety that produces 10 metric tons per tree per year, that is resistant to 95% of all known anthracnose and other mango pests in the world. Demand for this kind of mango variety will be very, very high, so there is another market failure there. But this does not mean that government should come in and put up a Mango Research and Development Authority, pouring vast amounts of money to be taken from the pockets of taxpayers. Time and market dynamics between suppliers and consumers will determine when, where, how and how much such commodity or service will be made available.

Case 2. Market Failure due to Absence of Demand

There are thousands, even millions, of scientific and technical papers languishing in academic libraries around the world, many of which have great engineering, health, agricultural, and other economic applications and potentials. But there are not enough takers from businessmen and entrepreneurs at the moment. Government need not put up a research and development institute, extend huge amounts of credit, set up a government corporation, or other forms of intervention to each and every promising research proposal. For every intervention that government can think and implement, there is corresponding expropriation from taxpayers' pockets and income; there is

corresponding new batch of bureaucracy created that need to be maintained; there is corresponding new batch of rules and regulations that will complicate otherwise simple situations.

During the rainy season, there is absence of enough supply of tomatoes, so that average price in the Philippines can jump from off-season price of P2/kilo to P40 to P50/kilo. During summer, with bumper harvest, there is absence of enough demand so that average price can slump to P2-P5/kilo. Some tomatoes are unsold and left to rot by farmers because the cost of harvesting and transporting them to public markets are higher than both wholesale and retail prices. In this situation, government need not create a Tomato Regulatory Authority or Tomato Development Corporation to stabilize prices and protect tomato farmers during summer, and protect consumers during rainy season. Such will entail additional taxes and fees, bureaucracies, and political intervention in price-setting.

Case 3. Market Failure due to Negative Externalities

Land clearing and conversion, from forest use to agricultural use, creates negative externalities (or side-effects). Soil erosion is exacerbated, streams and rivers are covered with eroded soil and rocks, and marine life is affected. But such land conversion is a natural reaction of people based on emerging prices of agricultural vs. forest products. As population expands, demand for more food production increases, so will the price of agricultural crops, from grains to vegetables and fruits. If people, especially those living in the affected area, do not value highly the forests, then more land conversion will happen, until it reaches a point that people's valuation of forest vegetation is deemed higher than more ricefields, banana and mango plantation, sugarcane and coconut plantation.

But the usual reaction of statist individuals -- those who believe in more government intervention, subsidies and taxation -- is for more government regulation, retain state ownership of vast public forest land. This thinking prevents the emergence and establishment of clear property rights to citizens as individuals, cooperatives, people's organizations, or corporate entities. They gloss over the natural tendency of people that those resources that belong to no one or everyone tend to fall in disrepair, while resources that belong to you, you tend to take care of.

Case 4: Market Failure due to Positive Externalities

Among the so-called "public goods", or commodities and services that benefit the majority if not everyone, are traffic lights, peace and order, justice administration, and clean air. When these services are provided, "free-riders" or people who enjoy the benefits of certain services but are not willing to voluntarily contribute for the maintenance of such services. Hesitance of private enterprises to provide such services stems from the fact that once provided and supplied, it is difficult to collect revenues from the free-riders, and it is almost impossible to exclude other people who benefit from the services but are not willing to pay the costs of such services.

But it is shown by many private residential villages that many of those considered “public goods” can be privately-provided, and they are able to discourage or eliminate the free-riders. In private villages, subdivisions and residential buildings, the homeowners’ associations act as small government. They administer the provision of basic infrastructure and social services functions that are thought to be the “turf” or domain of government – road and drainage construction and maintenance, garbage collection, street lighting, security and protection of lives and properties, and even occasional immunization and other health care services. They are clear examples that provision of many so-called public goods can be privatized. And the private enterprises are able to collect sufficient revenues to make the service provision sustainable and continuing.

Bottomline: Not all market failures are worth solving, curing, or intervening by government. Buyers and sellers adjust themselves through time given changing patterns in supply and demand conditions. Government “cures” in non-core functions, whether waterfalls development or tomato regulation or tertiary education, often do more harm than good. There is wisdom in this sentence, “If market imperfections arise, government can help by doing nothing.” This is because government interventions very often (a) are financed too far and widespread (raising taxes, reducing citizens’ take-home pay), and (b) are done too long (the agency and the bureaucracy stays on even after private players have adjusted to changes in supply-demand situations).

The succeeding articles were posted in the online magazine, www.thelobbyist.biz.



III. The logical poor

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In the 70s to the 80s, there was a famous British rock band called “Supertramp” and one of their cool and hit songs was “The Logical Song”. A part of it goes like this:

“Now watch what you say or they’ll be calling you a radical,
Liberal, fanatical, criminal.
Won’t you sign up your name, we’d like to feel you’re
Acceptable, respectable, presentable, a vegetable!”

The Philippines is in a continuing grip of political instability as more cases of corruption charges are being investigated involving a number of top government officials who contracted big amount of taxpayers’ money for projects to “fight poverty” and “improve governance”. These are two seemingly “holy” goals that can justify high and multiple taxes and fees. After all, who doesn’t want to see an “end to poverty”?

But there are many shades of poverty and reasons for poverty. Among the quick ones that I can think of are the following:

1. Acts of nature – whole villages and farmlands wiped out by strong typhoon and landslides, or strong earthquakes and tsunami, or volcanic eruption and lava/lahar flows, etc. These are understandable causes of poverty and the victims really need some government support, assuming that they will seek it.
2. Acts of men – high and multiple taxation and corruption, thick bureaucracies that slow down if not kill entrepreneurship and job creation, robbery, killings, and wars. These are often government-created inefficiencies that can lead to mass poverty.
3. Acts of personal irresponsibility – people who don't want to work; or work little and consume plenty or expensively; or work hard but also drink/gamble/spend hard; or those that get involved in frequent troubles; etc. Some of government’s welfare programs help encourage a culture of complacency and irresponsibility.

Any or all of these striking you will ensure that you will become a “logical poor” or you “logically become poor”. But if poverty is caused by personal irresponsibility, then we should not “fight poverty” and instead, allow misery. Because it is not fair when governments, including foreign aid bureaucrats, will confiscate (or justify the confiscation of) a big portion of our income and savings to subsidize people who don't even bother look for a job or do not know how to save for the rainy days.

A friend once asked me why I could be so “cold and heartless” in saying these things. Well, it's borne out of some personal observations. For instance, in a rice farming village that I frequently visit, I have heard and seen some farmers who died poor and miserable. These are industrious guys who work 6-7 days a week, but they also drink 6-7 nights a week. When their intestine or kidney or lung or other internal organ gave way, they have little or no savings to tide them over. If projected medical expenses are big, any support by relatives and friends will not be enough.

And I don't know if the “poverty fighters” in governments and foreign aid institutions take into account poverty due to personal irresponsibility. If they cannot realize the tax burden of the bureaucracies that they work with and the economic distortions created by their intervention, then I doubt that said poverty fighters will really be successful in their avowed mission.

IV. Market failure vs. Government failure

27 February 2008

One big reason why there are so many instances or scandals of corruption and inefficiency in government is because there are so many opportunities for stealing and waste in so many agencies. And it has come to that situation because government has assumed or arrogated upon itself so many functions and responsibilities, many of which should have been personal, parental, and corporate responsibilities in the first place. No thanks to many people who endlessly rant “market failure”, the “greedy nature of markets”, and “tendency for wide social inequity under markets” thinking.

Repeated attacks and distrust of the market is often bordering between ignorance and just evil desire to intervene in other people's lives, like taking a big portion of people's income and savings through various taxes and fees. The market is often equated with big corporations, like those engaged in the stock market and foreign exchange market. But market refers to all individuals, both consumers and producers. Even the economically dependent (children, physically or mentally disabled, old people), and the plain lazy and irresponsible people who don't want to work, are part of the market. Because even if they earn no income, they consume (food, milk, medicines, alcohol, cigarettes, haircut, etc.), and that makes them part of the market for various goods and services in society.

“Market failure” has been abused to justify various forms of government intervention, regulation and taxation. And a number of people who enter the bloated government have seen opportunities for stealing and corruption. Some politicians run for public office, or bureaucrats beg to be appointed to high government positions, mainly to steal; or secure certain business favors that would not be available to them if they are out of government. Or perhaps just an ego-trip to show to other people how “intelligent” and how well-connected politically they are.

Those in government whose main intention is to steal can do it in various departments and their attached agencies or bureaus. Or there are several hundred government corporations, financial institutions, state universities, even constitutional bodies, to occupy where stealing or rent-seeking can be done. Or head certain regulatory agencies that decide who can do business and who cannot. All that one who leads any of those regulatory agencies do, is to make plenty of strict regulations, so that some of those who want to be allowed to do business quickly will be forced to pay bribes or grant certain economic and political favors. This largely explains the widespread existence of illegal gambling, illegal drugs, prostitution, and other services despite the fact that government prohibits all of them, at least in paper.

Those multiple and repeated instances of robbery, or small-scale wastes that happen a hundred or a thousand times elsewhere, already constitute ample proof of “government failure”. But instead of government withdrawing from those sectors and services where abuses, red tape and corruption are repeatedly noted and reported, "government failure" is addressed by another set of government intervention, by instituting plenty of anti-corruption bodies and counter-check mechanisms and procedures. These moves are often pouring more public money to determine how much public money have been stolen and wasted already.

An option to go "back to the market" and "less government intervention" is far out among the minds and demands of many groups and people, even from those very vocal sectors and individuals that regularly note government failure, like those in media, the academe, NGOs and civil society groups.

There will always be market failure in all spheres of our lives as individuals and communities become more specialized, as tastes and preferences constantly change and evolve. For instance, Juan demands a rice variety that also boosts his and his family’s immunity against dengue and malaria because they live in a mosquito-infested neighborhood. But such rice variety does not exist yet, so this can be taken as “market failure” already. Or even assuming that such variety is already available but its price is too expensive for Juan and his family, other people will again call this “market failure” because the supplier/s of such rice variety only think of their profits, not public health and nutrition.

Market failure often creates market solutions. An initial lack of supply of a certain good or service that caught the attention of a big section of the public results in entrance of new players and producers. Pretty soon, the problem is no longer lack of

supply but over-supply. Over-supply sends a signal to various producers and suppliers in the form of declining prices. The market's self-correcting mechanisms guide societies, producers and consumers alike, to allocate resources where they are needed, and stop supplying those resources when they are no longer needed.

Government failure on the other hand, almost always results in more government checks and balances, more bureaucracy, and hence, more taxes and fees to finance the expansion of the bureaucracy. Government failure is more sinister, more damaging and more disastrous to the lives of people, especially of private taxpayers.

Crisis situation of corrupt administrations should be a good opportunity to remind people that the problem lies less on the morality of the people that administer the state, but in having a big and interventionist state that can turn angels into devils. Stop or limit this transformation of people by limiting the size and power of the government.

V. Voluntary exchange vs. Forced exchange

4 March 2008

In the on-going political turbulence in the country, the philosophical divide between the government sector and the private sector becomes more acute. The government is mired in endless corruption scandals and many people who hate to see those scandals and robbery are getting desperate since many politicians in the opposition are as suspicious and corrupt-looking as those in the administration. Life in the private sector just goes on. It must go on because it is in charge of the productive activities in society.

The private sector world is characterized by voluntary exchange. A person comes to another person to offer or sell his or her services like tutorial, cell phone repair, or carpentry; or goods like fruits, fish, or hamburger. The other guys choose from among those who offer the various goods and services, and pick the ones who offer them good value for their money. No one is coerced to surrender his or her money to someone else, unless there is a corresponding exchange of satisfactory service or commodity.

Those who offer good quality services and commodities at a competitive price naturally attract more clients and customers. Through time, those producers and suppliers will become bigger, while those who offer lousy services and bad quality commodities will lose their customers and clients, and pretty soon, they will become bankrupt and be forced to move to other sectors or industries. Suppliers and sellers know this, so they are compelled by circumstances, by their environment, not to become complacent producers. In this competitive and non-distorted situation, public and social welfare is served. Those who sell food are forced to sell good quality food.

Those who sell their labor are forced to render good quality work. Those engaged in trading and marketing are forced not to over-price their products and services.

In contrast, the government sector world is characterized by forced exchange. People are coerced to surrender their money to a big and armed institution. Fixed income earners are automatically deducted of a certain percent of their income. Their bank interest earnings, their gains or profit from selling their house or land or other resources, are automatically withheld of a certain percentage. When they buy and consume something, the price they pay is higher because of surcharges and taxes imposed on the original price of those services and commodities.

Also in forced exchange, even if the citizen does not believe that this and that services should be provided by the State, or he may believe that those services should be provided but he does not like the quality of the service given to him, he has to bear with these. Even if he does not like the personnel and people assigned by the State to provide particular services to him and his community because they may be arrogant or lazy or simply corrupt, he has to bear with them.

In the market system of voluntary exchange, the system of reward and punishment is fast and spontaneous. Those who keep on producing good quality services and commodities at a good price continue expanding, and those who keep on producing bad services or selling at unreasonable prices will soon be out of business. No paper work, no bureaucracy, no litigations needed. The incentives and disincentives are very clear and transparent.

In the government system of forced exchange, the system of reward and punishment is long, managed, and bureaucratic. The corrupt and robbers can be rewarded with material wealth and undeserved attention, their innocence or guilt and shenanigans to be determined in long court proceedings, assuming there will be enough witnesses who are brave enough to withstand bribery and physical harassment, who will pin them down.

The irony of life, however, is that many people who dislike corrupt governments and institutions are themselves too enamored with expectations of more government subsidies, taxation, and intervention. They like the dynamism of voluntary exchange in a market economy, but they are also easily driven by envy when they see people and companies that become bigger and successful. If society is to develop and mature, our people should banish in their minds envy and the philosophy of continued dependence from the State.

VI. Politicizing global rice price and distribution

12 May, 2008

Politicization of pricing is where political processes like street rallies, media releases, and political horse-trading among political groups and NGOs, and politicians and government bureaucracies is the main determinant of how much (price) and how many (volume) should a commodity be sold or bought by the citizens. It is usually done by administrative measures (a particular government bureaucracy sets the price) or by legislation (enactment of a law by a Parliament or Congress of a particular country).

This is totally different from price setting via the free market system, where producers and consumers “meet” at a particular price point at a given time and place for each similar product or service. Thus, the price of a particular variety of tomato can vary from one province or village to another on the same month, or its price will vary from rainy season to dry season on the same province or village. The quantity and quality of a commodity change on a particular place and time relative to the demand by consumers, resulting in different prices for the same commodity at different places.

Producers predict or speculate that the price of a particular product or service will rise, or the price might remain but the volume will increase by a big amount, on a particular week or month (say during Christmas, city festival, or village fiesta), so they put their money, time, and effort ahead to prepare for said period in order to make a good profit. This should not be considered as “market manipulation” or worse, “hoarding” on the part of traders because consumers can also behave the same way, say stocking certain commodities when the price is still low in anticipation of future price increases.

In the home front, politicization of many commodities and services – oil, medicines, housing, fare, wages, rice, others – is happening. In rice, the bureaucracy in charge of politicizing rice prices is the National Food Authority (NFA). It makes artificial prices both to farmers and consumers, courtesy of the billions of pesos of tax money every year being plowed to it by Congress in annual appropriation and subsidies. Whether it is really doing its job with zero corruption and hanky-panky is another story; the main story is its role in politicizing rice price setting, although one can safely assume that zero corruption and price politicization is an oxymoron, a big contradiction in terms.

In the international front, there is a proposed body made last week, calling for the creation of an Organization of Rice-Exporting Countries (OREC), obviously inspired by OPEC, composed of Thailand, Vietnam, Laos, Cambodia, and Myanmar. These are all neighbors of the Philippines and all are member-states of the Association of Southeast Asian Nations (ASEAN), the ASEAN Food Safety Reserve Board, as well as the East Asia Emergency Rice Reserve (EAERR).

The initiator of this proposal was Thailand's government officials, noting that while Southeast Asia is the "food center" of the world, the region has had little influence on the price.

This is politicizing rice prices at the international level. Company A that buys the rice output of average Thai rice farmers cannot just sell rice to Company B in the Philippines that imports and sells rice to Filipino consumers. Company C that buys the rice harvest of average Vietnamese farmers cannot just sell rice to Company D that imports and sells rice to Hong Kong consumers. All companies in rice exporting countries will need the approval of their respective governments before any voluntary exchange through trade can take place between them and their foreign buyers. Although the bureaucracy is mainly on the supply and exports side, the demand side is also affected because private importers will have to deal with rice trading bureaucrats of the exporting countries. Besides, many governments of rice-importing countries have a rice or food regulatory bureaucracy that controls the importation and distribution of rice.

Hence, the creation of the proposed OREC is a bad idea. But if the proponents and architects of this idea have bad intentions, then it will most likely become a reality. Although bad ideas are sometimes made out of good intentions, most bad ideas come with bad intentions – to control prices, control trade, control who can buy and who cannot buy, control who can sell and who cannot sell. In short, control and manipulate the lives of other people, directly or indirectly.

For ASEAN member-states that are net rice importers, they might think that the creation of a rice export cartel might not adversely affect them since they are just neighbors and belong to the same club of nations, the ASEAN.

For the Philippine agricultural bureaucracy in particular, they will most likely not find this anomalous. The NFA for instance has been in the business of controlling rice prices, rice procurement and rice trading at a limited degree for many decades now. Dealing with another bureaucracy from its neighboring countries whose business is similar to what it is doing, should be easy for it.

The evil desire to control and manipulate other people through various price control schemes and price politicization, which indirectly alters people's behavior in their consumption and production habits, will always remain in the minds of people who despise individual liberty. Giving other people various choices and options of where they can sell at what price, perhaps makes them shudder. These people should be exposed for what they really are and their evil intentions.

VII. Inflation and state parasitism

29 May, 2008

The public in many countries around the world are enduring the pain of ever-spiraling prices of commodities, starting from high prices of oil, high prices of rice and other food products, housing and rental, electricity costs, and so on. And their real income – nominal income minus the value “eaten away” by inflation – is declining.

In the United Kingdom, truckers blocked major streets leading to London. In France, fishers blocked ports leading to the English Channel. In Bulgaria, truckers converged in a convoy that also caused traffic near the capital city. In the Philippines, some public transportation operators conducted transport strike – all actions protesting high fuel prices.

Many governments around the world recognize this, and they have instituted certain measures that will hopefully reduce their citizens’ suffering. Among such measures are (a) mandating employers to give higher minimum wages to their workers, (b) directing companies to make some of their services free to the public, (c) forcing companies to give some discounts to certain consumers, and (d) commanding companies to make their patented products be available for manufacturing by their competing firms.

All these measures are meant to (i) increase the income of the poor, and (ii) reduce the expenses of the people, the poor especially. Cute and commendable goals. But do those measures respect private property rights, and will they really achieve the stated goals? My brief answer to both questions is NO. Why?

One, wage is a function of productivity, not of inflation or number of children that a worker has. Forcing companies to give higher wages even to unskilled and low-skilled workers will force some companies to stop hiring these people. And unemployment and hunger for this group of people will increase, not decrease. Firms and entrepreneurs should be allowed to set wages commensurate to the skills and productivity of their workers. And the economy should encourage the blooming of more employers and entrepreneurs so that workers can have more choices to whom they want to work for, or if they themselves want to become entrepreneurs someday too.

Two, compelling companies to provide some of their services free to the public will cause over-use or over-consumption of said services, and since companies will not earn from these, they will not expand investment, resulting in mediocre quality of those services, or they may altogether opt to scrap those services. And the public will suffer. An example of this is the proposal by many top politicians and regulators in the Philippines to compel the three telco companies to stop charging for SMS or text messages, and only charge for voice calls.

Three, requiring companies to provide discounts that cannot be charged as tax deductible, will force companies to either evade the law, harass those entitled to discounts by asking many documents, or give them bad quality service like expiring food and medicines. An example of this, also in the Philippines, is requiring restaurants, drug stores, hospitals, public transportation, and other sectors to give a 20-percent discount to senior citizens. Bigger companies can absorb the revenue loss, but others, especially smaller firms that survive only on low-profit margins, are either complaining or not following the law at all.

Four, coercing companies to make their patented products where they spent a big amount of money and time to invent, be made available for manufacturing and distribution by other companies so that these products can be sold cheaper, will discourage if not kill innovation. An example of this is compulsory licensing (CL) of some pharmaceutical products. An innovator company usually spends nearly US\$1 billion and 10-12 years of several clinical trials and other R&D processes to produce one good medicine, and not all of those medicines may be profitable since they will have to be sold at a high price to recover the enormous cost at the remaining patent life, which is only 8-10 years out of the 20-year patent.

What governments are doing in these cases is extend their regulatory power after private enterprises went through an earlier process of regulation and taxation. Regulation allows regulators to behave as if they own firms that they are regulating, even if they are not. Ownership and control are two different things. One need not own something but if he has control of that thing, he can do whatever he wants. Like a family driver. He does not own the car, but when his employer is away and he decides to drive the car to visit and tour his friends without the knowledge or permission of his employer, he can do it. If he gets caught, that's another story.

Governments have two very important tools in their hands which they can use if they are really sincere in reducing inflationary pressures in society: reduce taxes and free up markets. First tool: reduce, simplify, or better yet, abolish certain taxes that make the price of various goods and services more expensive. In oil for instance, the British government holds the distinction of having the highest oil taxes in the European Union, if not the world, where up to 65 percent of oil retail prices are taxes. The US government, both federal and state, collects about 19 percent of oil retail price as taxes. In the Philippines, the government collects three different types of taxes for gasoline products: import tax (now at one percent, previously three percent), excise tax (about US\$0.14 per liter), and a 12-percent value added tax.

Second tool: free up markets, and reduce complicated regulations. Let the real owners of private enterprises – their stockholders – and their managers do what they think is necessary in a level playing field and competitive environment.

Since many governments do not show any intention of reducing their regulatory powers over the businesses of companies and lives of individuals, they only show how

parasitic they can be. A parasite creates more harm and problems for its host, like sucking its blood and multiplying much faster than the host.

But unlike animals preyed on by worms or fleas, people as host to parasitic governments are capable of exposing their parasites and possibly fighting back, but only if the people will realize the burden of heavy regulation and taxation. The inflationary pressure experienced by many peoples around the world is one symptom of the weight of thick layers of bureaucracies and regulators who all have to be paid salaries, offices and supplies, travels and bonuses, pension and pork barrel.

A competitive economy with more productive people and less regulators and bureaucrats is capable of holding off inflationary pressure, especially for basic necessities like energy and food. Productive people can produce and distribute more food, more energy sources, more houses, more cars, and more schools. An economy can even experience short-term deflation – prices falling down – in a situation like this.

By exposing and understanding the parasitic nature of high government regulation, intervention and taxation, people should be able to free themselves up. And people should be ready to assume more personal responsibility about their own lives, their own family, and their own community. Then people can really say that they have high level of individual liberty.