

Some myths about market and state responsibility

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Below are some of the fears and reservations that people think will happen if we shrink government to a low level and allow more markets to rule society and the economy.

1. Markets are unreliable and risky; if left to themselves would lead to monopolies and other abuses; hence, government must step in to regulate the markets.
2. Shrinking government will result to massive lay-offs, worsen the already high unemployment economy.
3. Progressive taxation – higher tax rates to the rich, lower to the poor – is needed to address or minimize the inequality in society. Individual income tax should not be abolished.
4. Shift to parental responsibility in the provision of certain social services like basic education and health care is not possible because of skewed income distribution in many countries; this could worsen the inequality. Hence, these services should not be left to the markets; the state should regulate and provide these services, at least to the poor families.

There are many more fears and reservations, even myths. But I will limit myself to these 4 at the moment. Below are some thoughts I have assembled to clarify those fears.

On #1, there are 3 inter-related fears articulated. Let me tackle each:

1a. On markets as unreliable and risky.

Very often, people think or define "markets" as those big corporations, the stocks and foreign exchange, the taipans, etc. Partly correct there. But in reality, the "markets" are us: consumers and producers, writers and readers, bus operators and passengers. Students who demand education, schools and teachers who supply education. The ordinary folks who need food, the farmers/fisherfolks/poultry growers who produce food; the carinderias or restaurant owners, ambulant vendors who cook and sell foods. Long-haired people who need hair-cut, and barbers who provide hair-cut services.

Weather and climate, technology and innovation, tastes and preferences, incomes and wealth, change through time. Hence, supply and demand of various goods (books, clothes, shoes, beer, tv, car, fish, pizza, etc.) and services (education, movies, health care, hair-cut, travel, massage, telecommunications, media programs, etc.) also change through time.

Thus, a specific clothing design will be a famous today, but will be out of style and replaced by another design a month or a year from now. There is no need for government to regulate those adjustments, both in product quality and price, because the buyers and sellers adjust with each other. The lucky sellers become rich, the unlucky sellers become poor. Until the next round of

product and service innovation and changes.

Yes, markets can be unpredictable and risky. But more risky for those who do not regularly innovate because the next guy could come up with new, more modern product, at a much better and competitive price.

Suppliers should be free to compete with each other in producing a particular good or service that will be attractive to buyers. Buyers should be free to compete with each other in getting a particular good or service.

About unbridled free market and the poor, it will not promote the welfare of everyone, the same way that socialism and its current variants, extensive welfare statism (or "welfarism" if you may) does not promote the welfare of everyone.

Free market is kind and good: it rewards hard work and performance, perseverance and innovation. But free market is also unkind and harsh: it penalizes laziness and complacency, dependence and irresponsibility. So you can see what will happen under unbridled free market -- lazy people will go hungry; irresponsible parents (bum and drunkards, etc.) who have plenty of children will see some of their children court starvation and death.

But as Adam Smith and that scientific study of chimps and other animals developed by "neuroeconomists" would show, people respond to kindness, people have that inherent love and care for their fellowmen, provided they see that the object of care and philanthropy also cares about themselves. So it is highly probably (well, it is happening now, globally) that the rich and powerful will adopt and help the poor kids of irresponsible parents (and leave the latter to rot and starve if they remain lazy and irresponsible), the sick and physically/mentally incapacitated people.

There aren't much space for many bureaucrats and other unproductive people in an unbridled free market. There won't be large-scale confiscation of income and savings to be transferred to the lazy and irresponsible with the bureaucracy and politicians as middlemen.

1b. If markets are left by themselves, they would lead to monopolies and abuses.

This is possible even temporarily because of product differentiation, but it seldom happens on a permanent basis. Firm A produces a regular car, will have temporary monopoly on that model and features. Firm B produces a car with a different design and bigger engine, another temporary monopoly on that model. Firm C rolls out a car with same engine power as A's but on automatic transmission, another temporary monopoly on that car model. Firm D manufactures a car with same design and engine power as B's but a four-wheel drive. Firm E comes up with a tiny, 2-seater, but very fast car. Firm A fights back with another small car, fast but more fuel efficient than E's car. And so on and so forth. In the end, there is no "car monopoly and abuses" by a single car manufacturer.

Although in economic theory, the existence of natural monopolies and/or oligopolies in some but not all industries, is recognized. The main justification for the "naturalness" of such monopoly is

to have economies of scale. Like a water utility firm in a densely-populated area. If there will be 2 or more water utility firms in the same area, there will be 2 or more sets of diggings on the same roads, creating bad traffic and disrupting a lot of economic activities in the affected areas. Thus, government involvement may be required but only in terms of enhancing existing and future contestability of these few markets, instead of direct participation in that market (either through production or trading). To make entry and exit of new players/producers easier and less cumbersome, often through many regulations by the Executive branch, and franchising laws by the Legislative branch. For the rest of the "healthy" markets, no "government cure" is necessary

In the real world, freer markets lead to more firms and producers, than monopoly firms. Looking around us, there is no car or bus line monopoly; no pizza or softdrink monopoly; no shoes and sandals monopoly; no beer and cigarette monopoly; no computer and banking monopoly; no real estate or mall monopoly. The only monopolies we have are those "chosen" and hand-picked by the government. Thus, it's government intervention that created monopolies, not market mechanisms. The appropriate role for government is not to "choose and bless" favored companies as monopolies but to ensure free entry and exit for private sector players who will work for market equilibrium. To a large extent, this is happening in the Philippine oil industry with the entry of new and independent players.

1c. On government must always regulate markets.

As mentioned above, many market imperfections (monopolies, oligopolies, cartels, other variants) are state-sponsored, state-created, and state-maintained. These are done through single or limited franchises by legislation, trade protectionism, restrictions against foreign investments, cabotage law in shipping, high taxes and complicated tax rules that affect profitability, various bureaucratic red tapes and maze of regulations that distort level playing field and discourage competition. For instance, local producers like cement manufacturers which always hike their prices when competing cement imports are curtailed. Local shippers charging high rates because foreign shipping lines are prohibited from transporting local cargos in domestic routes under the cabotage law.

So, on these instance of various forms of regulation, it is governments that actually hinder the free markets and obstruct the otherwise fast and natural adjustments of market players – the producers and consumers of various goods and services. Government in these cases prevent consumers from getting better quality, good price, imported goods and services through trade protectionism as lobbied by some local producers. Governments prevent many aspiring employees to become entrepreneurs by taking a big portion of their monthly and annual income, by further taking away their savings through numerous consumption taxes (VAT, excise tax, etc.), and by giving them a maze of regulations, inspections, tax rules, harassment by revenue collectors and other bureaucrats.

2. On massive lay-offs and unemployment.

This will happen if we merge many government departments or ministries in one sweep in from just one or 2 years; or if we privatize many government corporations and banks, state universities, etc. in 1 or 2 years. But that is not advisable. These sensitive measures will require

transition period. Thus, the shrinking of bureaucracy should be done in stages. Say, from the current SUCs' 85% dependence on state subsidy to 50% within 4 years, down to 25% within 8 years, down to zero subsidy within 10 years.

Besides, job creation should be the domain of the private sector, not government. When a private firm goes bankrupt, it just closes shop, and their managers and workers go looking for jobs elsewhere, or set up their own small business with their savings and some borrowings. When a government corporation keeps losing, it does not go bankrupt; government taxes the citizens more, or borrow more, just to keep that deficit-generator corporation.

When entrepreneurs and businessmen are not choked with multiple taxation and a maze of regulations, more private businesses will sprout up – from auto air-con or vulcanizing shops to computer and food shops; from carinderias to hotels; from pump boats to shipping lines. And they will create the jobs that the 1.2 million new job entrants Filipinos need every year.

3. On the need for progressive taxation.

Many governments have "progressive" taxation where the higher the income of an individual, the higher a percentage of that income that will be taken away by the government. This philosophy is largely driven by the desire to force, to coerce, equality among people. Hence, high-earners are penalized with high taxes while low- or zero-earners (like bums and lazy people) are rewarded with low or zero taxes plus plenty of subsidies and transfers.

In many countries too, governments do not stop at taxing incomes. Whatever amount was the take-home by the private citizens are further taxed, among others:

- * tax on consumption (value-added tax or VAT, sales tax, import tax, excise tax, amusement tax, vehicle registration tax, travel tax,...)
- * tax on savings (earnings from bank deposits, tax on holding bonds, etc.)
- * tax on investments (business permit fees, franchise tax, environmental fees, documentary stamp tax, real property tax,...)
- * inheritance and estate tax, and so on.

So-called progressive taxation can actually have regressive effects. You are penalizing the hard-working people by taking more of their incomes. This can encourage laziness to some people, or spur them to go into the "underground" economy where no taxes are collected.

4. On shifting to parental responsibility, not state responsibility, education and health care.

This is a long-term goal, to give justice to hard-working parents, and (unfortunately) penalize less hard-working (if not lazy) parents. One can argue that an initial equilibrium assumes equal endowments, so that in the absence of such utopia, we can settle for equal opportunities provided by universal education and state welfare. That future productive citizens should not be penalized for having lazy parents.

While there is some truth to this observation, there is even larger logic that parents who studied

hard when they were young, worked hard after schooling, have few kids, should not be heavily taxed so that the government can subsidize less-responsible parents who are less-skilled, have big families, and are not ambitious and hard-working enough.

Admittedly, it is politically “incorrect” to say these things, and one can be branded as “heartless”, “too selfish”, for saying those things. But a break to this bad habit of artificial welfare should be made somewhere. Obviously, they were not done in the past, so the mentality remains up to these days.

On health care, one solution is to deregulate medical education. Schools which offer BS Medicine for 6 years total (vs. the current 8 years, 4 pre-med, 4 proper medicine) should be allowed. Supply of medical students and graduates is low because of the expensive and long training period. With more physicians, more private clinics and hospitals, more competition among health care professionals, there will be more affordable health care for most of the citizens.

On disasters and calamities, or social welfare in general, there is no lack of private sector initiatives here. Various civic clubs - Rotary, Jaycees, Lions, Kiwanis, Knights of Columbus, Masons,... -- the church, village or homeowners associations, media, etc. are often seen in these projects. Some of those financially-healthy clubs are donating and constructing whole school buildings, building clinics, in remote villages and provinces.

Giving charity is a natural thing to do for many people. Especially when done via voluntarily cooperation.