

THE FREE MARKET

GOAL

To understand the free market as a perspective of Race and Poverty

THIS BOOK OFFERS THE FREE MARKET as a possible approach to understand and work out the issues of race and poverty in America, if not the rest of the world. Racism and poverty exist in the free market; but the market itself may be able to handle those issues in a much more effective manner than current approaches involving the legislation of morality and the redistribution of wealth. The free market offers an area of no coercion because, in the free market, there is only voluntary cooperation through **voluntary transactions**; the use of force is not permitted in the public market. The exclusion of force includes government legislation and regulation that are generally coercive in nature; that is, the government cannot be used to legislate morality in the free market. The role of government is to primarily protect the property of the individual, including one's body. **Competition** in the free market generated by the self interest of the consumers preserves stability within it. The racialization of the **consumer** allows for subjective knowledge production that is equally valid for every individual consumer. In other words, no one gains an unearned advantage over anyone else through this racialization and knowledge production because everyone is a consumer. A consumer is one who consumes goods and services produced by him or herself and by others. The perspective of the consumer will be the broad perspective used to include everyone into the conversation equally. In the previous chapter, the construct "greed" was deconstructed to reveal the lack of productive content within that construct; everyone is greedy. No single person's greed is better or worse than another's greed. Doing away with what seems to be the primary critique

of the free market and keeping in mind the example of toilet paper from the last chapter, let us proceed with a basic humanities introduction of the actual workings of the free market.

THE FREE MARKET

The free market is a constructed place that prioritizes voluntary cooperation and competition. The free market's constructed space is simply any place where goods and services are voluntarily exchanged for payment and where businesses compete with each other for customers. The free market does not need a specific physical location to exist; it can exist anywhere transactions are made, even virtually on the internet. The voluntary cooperation prioritized in the free market means that people are free to participate or opt out; free to work or not work; free to compete or not compete; free to share or not share; free to be selfish or selfless; and free to choose goods from competing businesses. In a voluntary society, one is free to do what one wants but must also take responsibility for the choices she or he makes and cannot harm or damage anyone else and anyone's property, which includes labor. In the free market, anyone can sell anything to anyone at any price people are willing to spend voluntarily. In other words, forcing others to buy or sell some product or not to buy or sell some product is strictly prohibited. One may choose to buy something, but that person cannot force other people to buy the same product, especially through regulation and legislation. The use of force here is the public use of force. That is, in a private company or home, rules may be established according to the custom and beliefs of that family or business. Nevertheless, harming another individual or destroying someone else's property still has legal repercussions. One does not have the right to abuse one's family because each member of the family is an individual. Each family may live by whatever doctrine, dogma, religion, or political belief it desires. However, the focus of this book will be confined to issues of poverty.

Although anyone can sell anything they want at any price, people must want to buy the product at that price. If no one wants to buy the product, for whatever reason, no one can force anyone else to buy it. If one wants customers to buy a product, then one has to sell something others want to buy for the given price. Some things do not have a price because they are too valuable; other things have no price because they are too cheap to charge anyone (e.g. the Mona Lisa is priceless, but air is free).

This means that the market cannot prevent competition, that is, the buying and selling of any product to anyone. The market, and any governing body, may not prevent sales, nor may it impose arbitrary restrictions on the buying and selling of goods, e.g. through taxation. If someone is unable to sell one's products, then that seller must improve or innovate their offering to the market in order to attract consumers. This is the nature and character of competition. Because, at this point, the reader may be imagining children buying heroin at the local grocery, the ideas of responsibility and liability will be touched. Depending on the transaction, both buyer and seller have responsibility, and the seller has some measure of liability. Because the free market functions with these concepts, buyers and sellers take care and caution in every transaction. Sellers would be less likely to sell heroin to children and parents would be sure to teach their children about the dangers of drugs. Instead of passing responsibility to others (particularly to government agencies) through the use of regulation, that creates a false sense of security and safety, buyers and sellers are forced to consider choices and options carefully. Responsibility would fall on the buyers and sellers. In the cases of negligence, misrepresentation, or damage, one would go to court. Court cases would not be decided through arbitrary, morality-based legislation that is passed by elected politicians. Instead court cases would be decided through historically based property, contract and tort law. This kind of law was not legislated but it is a case-generated law that evolved over time through the settlement of actual disputes. That is, historical experience taught people how to resolve differences, which allowed them to continue to live together and cooperate.¹

The free market is free from government regulation and legislation, but this does not mean there is no law. The law utilized in the free market addresses damage and negligence through case generated laws. Standards of quality and safety are not arbitrarily imposed by government bureaucrats who either know little about the products or harbor subjective agendas for personal gain. Instead standards are determined by the producers of those goods. The standards set by actual producers would likely appeal to customers because producers are continually trying to increase sales. Even if several businesses decided to set a quality maximum (expressed as a minimum standard), competitors need only produce a product with a higher standard to attract consumers who want a better quality product.

Within this framework, businesses must compete with each other for customers. In order to attract customers businesses must provide goods

¹ John Hasnas, "Have Markets Failed," video lecture to ReasonTV's Headquarters in Los Angeles, May 26, 2013.

and services at a fair price; fair prices would be prices that people are willing to pay. As long as there is competition with other businesses, quality and price will be fair. If, for example, a company or several companies agree to sell a product above market price (overcharge), a competitor only has to maintain a lower price to break that incidence of price manipulation. Even if every business agrees to artificially raise prices on certain goods, the market allows for **innovation** and creativity to undermine and break that monopoly or oligopoly on those goods at those prices. An example would be the movie rental business. There was a time when renting a movie was unknown and movies could only be viewed via TV or the movie theatre. When renting movies became possible, one had to go to a store and physically pick and take home a tape. Rentals moved away from tape to disc recordings of many varieties. That market was dominated in the Northeast by Blockbuster Video. That business was undermined by video delivery services such as Netflix. Delivery of movies by snail mail is being replaced by streaming media via the internet. The presence of competition breeds innovation, which in turn is important to keep prices low and quality and choice high. It is difficult to maintain market dominance in a market that fosters innovation and competition. Many fields of life in the U.S. do not enjoy this type of innovative and competitive climate but are heavily regulated and controlled. **Regulations** represented as protections for consumers result in protection for existing and established businesses whose interests are opposed to those of the consumer.

NOT FASCISM OR CORPORATISM

The free market construct being proposed here is not to be confused with two other systems often conflated with the free market brand of capitalism, fascism and corporatism. The construct, **fascism** is commonly misunderstood to be the opposite of capitalism, but because many do not know what free market capitalism is, many also believe that the system they advocate is not a fascist system, when in fact, it is. In fascism, though industry is in the hands of private individuals, the industry itself is controlled by the state. In other words, the various industries are not really independent businesses that are competing against each other. Instead, they are often instruments of the state to facilitate the agenda of those in power; sometimes they exist as long as they submit to government demands. The conditions in a fascist type market are unfavorable for the consumer because

there is no real competition between rival companies; goods and services are sold through coercion, direct and indirect. Because the corporations are owned by private individuals, many mistakenly think that what they observe is a free market capitalist system. An example of government controlling the pricing of products produced by private companies is the 2014 decision by a federal court to have a "monitor" from the US Department of Justice in the Apple Computer company to "supervise all the company's pricing decisions."²

Corporatism, or crony capitalism, is where corporations and government collude with each other in a symbiotic-type relationship. Large corporations ask for, help write and benefit from government regulations in exchange for political support for politicians. Politicians pretend to be against corporations and pretend to be for the interests of the consumer when they push for various regulations.³ In this system competition is prevented or severely hindered and coercion is expressed through hegemony; people are taught that certain choices are the right choices to make; e.g. the "buy American" marketing campaign. The Food and Drug Administration often bend to the wishes of large pharmaceutical companies to prevent competition from start-up and foreign drug companies. One case would be with regard to the drug "Iressa," which can cure cancer for some people. Rather than allow further testing to continue in America, the FDA removed it from the market as it did not serve the interests of large pharmaceutical companies and the many cancer treatment facilities across the country.⁴

In a corporatist or fascist society, some rich people get richer and many poor people get poorer. This is primarily because certain kinds of people and businesses are protected and maintained by the regulations of society that the politicians passed in the name of protecting the consumer. It is interesting that when wealth gaps appear and are extreme, capitalism is blamed instead of the corporatist or fascist arrangement between business and government. These two economic forms are often conflated or confused with free market capitalism. In the free market, the role of government is to protect the individual, not corporations. The individual consumer

² Dara Kerr, "Apple loses bid to yank court-appointed antitrust monitor," February 10, 2014, news.cnet.com.

³ Peter Schweizer argues that politicians use extortion to extract money from corporations in return for favorable legislation in Washington. Peter Schweizer, "Extortion: How Politicians Extract Your Money, Buy Votes, and Line their own Pockets," (Houghton Mifflin Harcourt Trade, 2013).

⁴ Jim Epstein, "A Miracle drug cured Ed Levitt of Stage IV lung cancer, then the FDA withdrew it from the market," December 3, 2013, reason.com.

is most important in the free market rather than certain corporations or special interest groups.

PRICES

Price acts as a messaging system that communicates interpreted data to many people constantly. It is interpreted data because unregulated prices are reflections of a world of different priorities. As was discussed in the previous chapter, many resources are limited in supply and availability. Because many resources have multiple uses that require differing quantities, suppliers of resources adjust prices according to demand. They may not know why demand is increasing in one industry or decreasing in another, they just know they must adjust their prices accordingly. Small changes in price may lead to small changes in the cost of manufacturing products. Dramatic change in price can spark the search for alternative materials for that product. For example, when crude oil spikes, research for alternative fuels increases; research for natural gas, solar or wind power to name a few. End users or consumers do not need to know if a resource they normally use is being sought after by another industry. Their concern is the price. The price informs buyers of the relative value of the products they are purchasing. Because money is also a resource that is limited, consumers have to choose between, for example, buying the next gaming system, saving for future tuition, or purchasing tonight's meal.

Prices are important for individuals. Prices tell people what to buy, how much to buy, what to produce, what not to produce, who to work for, and whether to work at all; prices even inform college students on which major to declare. Through prices, individuals can make decisions based on their own abilities, priorities, and needs, and their decisions affect prices, as well. This becomes a complex dance of constantly changing variables, actions, and reactions that no person or government could possibly calculate and predict, much less manage; prices are constantly changing 24 hours a day, 7 days a week, 365 days a year.

Government policies attempt to control and manipulate prices through edict, law, or tax and ignore this dynamic of price. Government regulations are developed based on subjective knowledge production, which concerns itself with only a single use of a multiple use resource. The interconnect- edness of prices and the behavior of people do not mean that the area of life targeted by the legislation will be the *only* area affected by the price

control. For example, when the price of sugar is regulated through import restrictions to protect domestic sugar farmers in America, any product that uses sugar may rise in price. Some product manufacturers, unwilling to raise the price of their product, substitute corn syrup for sugar because corn syrup is cheaper than sugar; this leads to most manufacturers switching to corn syrup to remain competitive. Sugar farmers in the U.S. make an average of 3 billion dollars a year more with the restrictions, and each consumer must pay about ten dollars more per year for their purchases; the average consumer does not notice the cost, and corporations reap the profits of their ability to legislate morality through their connections in Washington D.C.⁵ Corn farmers (who are also subsidized by or receive money from government) benefit from this arrangement too as demand for their corn increases. Corn farmers, in turn, pass these increased costs to the consumer. Because corn is also a multi-use resource, the increased demand in one industry affects price and demand in other industries; so other prices will be affected by any changes to the production or cost of this commodity. A major alternative use of corn is corn feed for farm animals; these farm animals are a source of food for many. When the price of corn rises, the price of corn feed also rises. When the price of corn feed rises, the price of the animals that eat the corn feed rises. In this way, most food products that use corn and corn-related products increase in price. In addition to the increase in price, it is likely that some farm owners will seek alternatives for feeding their livestock.

It is easy to see the ripple effect of price control, which most people cannot predict nor manage. In the free market, "no policy" is better than "any policy." In other words, when government passes arbitrary policy to favor certain industries or because the regulation sounds compassionate, there are many negative consequences that hurt consumers and the businesses that received those benefits in the first place. In this sugar industry example, eventually, cheaper imports will be sold in the U.S., and when that happens, domestic farmers won't be able to compete; they will either adapt at high cost or go out of business. The years of protected commerce has hampered development in methods for the U.S. sugar farmer. It would have been better for no government intervention, which would have forced farmers to develop better farming methods to compete with the foreign sugar, and Americans would always have had cheaper sugar. One might

⁵ "Why is there Corn in your Coke?" November 19, 2012, LearnLiberty.org; Ernest C. Pasour Jr., "U.S. Agricultural Programs: Who Pays?" The Independent Institute, November 1, 2008, www.independent.org.

even say that the use of corn syrup would not be as prevalent today had the government not protected domestic sugar.

Many different people are affected by arbitrary policies, but the poor are adversely affected the most by the rising cost of many goods. It is interesting to note that the poor are often used and invoked when price policies are debated and legislation is proposed. In the case of sugar farmers, the image of the poor family farm is employed to evoke sympathy and generate support for continuing farming subsidies. True or not, the lower income person in the city must pay more for the same products because sugar farmers are now protected against competition. The working poor pay taxes, which go for programs that include farming subsidies. The poor are supposed to be the beneficiaries of this type of welfare policy, not an industry or other racialization. From 1980 to 1998 each sugar farmer received \$3 million annually through this legislative policy.

THE PRICE OF RACISM

Not only do goods and services have prices, but our choices have prices as well. For example, if a person has a preference for buying German cars, then in the U.S. that person will likely not only have to pay more, but will have fewer choices than someone who has no preference at all. Someone who prefers to shop at small local stores will probably expect to pay more than someone who shops at a big box store like Costco. What most people do not realize is that discrimination or racism, too, has cost; choices based on our own personal standard of discrimination, that is, racism, have costs. The market accounts for this discrimination/racism in ways that most people do not understand. The costs of racism are misinterpreted by those who are unaware of the basic principles of economics. In other words, people should have to pay for their preferences. It is this ignorance of the cost of choice that allows so many to be convinced that legislation is the only way to account for and counter racist behavior in everyday life. Rather than trying to coerce people to change their beliefs through ineffective legislation and regulation, in a free society, people should be allowed to make free choices, even choices that subjectively may appear to be bad or racist choices according to some arbitrary standard. For the individual making the choice, it is not a bad choice; it is a free choice based on that individual's preference. This freedom to choose should be protected not because society is insensitive, but because the market works out and resolves this type of

arbitrary discrimination. Also, legislators cannot predict the consequences of policy, no matter how well-intended they might be.

For example, if I am the kind of racist who only wants to serve Asians at my fictional restaurant, then I have to pay for this discrimination by having fewer customers. In other words, I have to turn away potential customers and word will spread that I discriminate against non-Asian customers. Other entrepreneurs with restaurants near my own that serve anyone will draw all non-Asian customers in addition to Asians who are uncomfortable with my discriminatory policy. Additionally, they may pay higher wages to their workers because they have more customers and they can afford to do so. Because they pay better wages, I will lose some of my better workers because they can earn more with my competitors. Eventually, I would be faced with the choice of either serving everyone including non-Asians or closing as more and more of my customers patronize my competition. I may still be a racist, but I am going to serve anyone, with a smile, if I want to stay in business. The end result is what is desired by most people: restaurants that serve everyone. The racist feels the pinch quickly and legislation that might have had unintended consequences was not written. Also, it is possible that the market has softened my anti-non-Asian feelings because I now realize those non-Asians are keeping me in business. Coincidentally, this dynamic increases social tolerance of the other; hostility towards the other bears a price that is often too high for most people to pay. Racism, in general, tends to be very costly. Many people in the free market realize that arbitrary racism is so costly that it is not worth maintaining. In other words, discrimination that includes factors not relevant to the products of the transaction increase the cost of the transaction without a corresponding increase in quality of the product. A consumer gets less for his or her money in this transaction. This principle of cost holds true for large businesses and businesses in small towns. The color of the skin of the people going to a restaurant matters little when compared to the customer's ability to pay for the food and whether they will recommend the eating establishment to their friends.

What bothers most people is the way in which this end result where restaurants serve everyone was achieved. It seems like "bad" racism or racism that has been taught as intolerable is condoned and normalized. In situations such as this, people feel that someone should be punished. In spite of the effectiveness of the market in dealing with this form of discrimination, many still push for legislation to force equal treatment. People are unaware that, by legislating morality in this way, one removes the cost of racism and so protects the racist and his or her racist beliefs. Regulations often hide

and mitigate the cost of being racist, while being ineffective in changing people's beliefs. For example, equal pay for equal work laws remove the cost of racism by creating a situation where there is no difference between hiring a colored person and someone who is white. From some perspectives, the question of fairness is raised, and the demand for equal payment for the same job is legislated. Before this legislation, however, it was cheaper for a business to hire more blacks than whites, simply because they are cheaper to employ. To make this easier to understand, think of the hiring process as employers buying labor. If something is cheaper, you can buy more of it, in this case, labor. By removing the difference in price, one removes the cost of discrimination and makes white labor the same price as colored labor, so racist employers may not hire any colored people. The regulations remove the penalty of being a racist and actually encourage more racism in society. It is a widely known piece of knowledge that colored unemployment rises as white unemployment declines with rules such as this. It seems that many expect the unemployment rates to remain unchanged with legislation resulting in a benefit for colored workers. One example of such legislation is the minimum wage law. **Minimum wage legislation** is known by some as the most racist law in America. Prior to minimum wage laws, black teen unemployment was always lower than white teen unemployment. Today, with continually rising minimum wage levels, black teen unemployment is nearly double white teen unemployment rates.⁶ Rather than trying to coerce certain so-called acceptable forms of behavior and thought, it would be more effective to force people to have to pay for their racism. Arbitrarily signified discriminatory practices are generally more expensive than non-discriminatory practices. In other words, it is less expensive to be less racist. Freedom is preserved and more of what was desired in the first place is the result.

It is worthy to note that slavery is not possible in the free market. **Slavery**, by definition, is not voluntary. The buying and selling of slaves flies in the face of the idea of private property, which includes the self; simply, one cannot buy and sell the property of others without the owner's consent; slaves rarely give their consent in this regard. Slavery also is extremely expensive. There is no need to buy a slave when one can hire day laborers.⁷ Simply put, because there are cheaper labor sources other than slavery available, the free market would not have supported slavery in America, at the very least, in the 1800's.

⁶ Walter Williams, *Race & Economics*, (Stanford: Hoover Institution Publication, 2011), pg. 43.

⁷ Theodore Allen, *The Invention of the White Race, Vol. One: Racial Oppression and Social Control*, Verso, 1994, pg. 16.

Part of the reason it did persist for so long in the U.S. was because it was a practice that was protected by law. In other words, the very government charged with the responsibility to protect the property of individuals failed.

The market itself discriminates against bad business practices (including slavery). Some racist business practices are costlier than others. It is far more practical for people to allow the market to punish those practices that are counterproductive and need to be weeded out of the market. Legislation and regulation reinforce, strengthen, and legitimize certain racist practices to the detriment of society as a whole.

I want to preface the next example problem by saying it is a hypothetical situation using an actual historical event; it is a "what if" type problem. A comparison will be made between the free market perspective and the traditional perspectives taught in schools today. The problem question is: "Why did Rosa Parks (a civil rights heroine) have to sit in the back of the bus?" The answers one might hear are the standard answers taught to most children in the U.S.: it was the racist bus policy that stated blacks had to sit in the back of the bus if a white person wanted to sit in the front. A free market view would indicate the problem originated when the argument was made to have the city control public transportation through one company; in other words, there was only one bus company allowed to operate in the city. The proponents of this legislation most likely produced knowledge that highlighted various benefits of having no competition in the transportation industry. In reality, this was the creation of the worst kind of monopoly; a **government-run or controlled monopoly**. It is the type of monopoly that most people imagine when they think of evil monopolies, though they do not realize it.⁸ The knowledge production by those legislators was fundamentally racist because it favored everyone affiliated with the bus company against the interests and to the detriment of consumers. Because the monopoly was protected by law, Rosa Parks had no choice but to ride that company's bus. In other words, government monopolies tend to be mismanaged, inefficient, increasingly costly, inconsiderate to customers, and yet still stay in business

⁸ When people imagine an evil monopoly, most would likely imagine a large private corporation; but this is more the result of knowledge production usually produced by competitors. The fact that there is competition means that a corporation cannot be a true monopoly. If that corporation has a large enough market share to give the impression that it is a monopoly, it may mean that it is producing a product that everyone is buying voluntarily because it is the best product. Government-run monopolies are actually what people are taught to hate. This is because the government monopoly makes competition illegal and so consumers are forced to buy the product that is offered, no matter the quality and price. In fact, the quality of government monopolies falls short of what could be achieved by independent corporations through competition and innovation.

because competition is illegal. If competition was allowed, then rival companies seeking more riders would pursue policies that would make operation cheaper, more efficient, satisfying and fair to all riders. This does not mean that racism is eradicated; rather it means that people are held accountable for the choices they make. Because certain racist choices offend and drive away potential business that may lead to bankruptcy, business owners focus on serving their customers well, no matter their color or gender.

Marriage is also an exercise in racism or discrimination and demonstrates how discrimination is costly; another construct for discrimination could be “pickiness.” I firmly believed that I should marry the best person for me. I was going to exercise extreme prejudice in my choice because I would only get one chance to get it right, since divorce is not a voluntary option for me. This meant I discriminated against all men, non-Christian women, and non-Korean women, as well as all women unwilling to live with my folks and me for a year after marriage. Of the few women remaining, many of them discriminated against me for various reasons, but mostly because I was going to be a pastor and the fact that we had to live with my parents for a year. The price paid was steep, and I did not get married until I was 33 to the best person for me. It was my choice and the price paid was mine to pay. It would have been unusual and intrusive for a third party or a government regulation to tell me who the right person to marry would have been. No one was going to have to live with my wife for the rest of their life except me. As long as one is willing to pay the price, that person should be allowed to pay that price.

The construct “racist” has been deconstructed to add positive and productive connotations in the use of that construct. In addition to the subjective negative uses of racist, there are positive uses and expressions of racist. Usually people do not use the construct “racist” in situations similar to the marriage example; rather in addition to picky, people use the words loyal, love, and devotion as alternatives signifying the positive aspect of discrimination. That is one may choose to interpret pickiness or discrimination as a negative trait, however, this type of discrimination can also be characterized as exclusive devotion or love to one individual. It is a subjective activity to believe one’s racism is better or worse than another’s. Given that the cost of any racist trade-off is extremely high, people are naturally forced by their own beliefs to make adjustments for a better life. Consideration of what is a double standard enables one to see the logic and meanings beyond the typical subjectivity of a body of prior knowledge.

It should be a comfort to know that the market is extremely discriminatory against unproductive ideas, resulting in failure of those unpopular

ideas. After all, what is business but the application and expression of ideas? Bad, unpopular, and costly ideas will have few subscribers. This is the same dynamic that takes place in the market of products. This reality of the market ensures the broad atmosphere of high quality and safe products for consumers to consume. Though some may object and point out that some producers may opt to produce products that are unsafe and are of low quality, the observation is subjective. In other words, everyone is free to buy what they want to buy according to their situation. A low income family may not be able to afford the "best" or most expensive option on the market and so may buy a lower priced, lower quality option. Lower price and lower quality does not necessarily mean unsafe. Producers and sellers have some measure of liability or responsibility for selling the products and likely will be clear about the risks that come with lower priced options. For example smaller cars are generally cheaper than larger cars. Part of the difference in price is the tradeoff in safety of the larger car. To ban the sale of smaller cars simply because they are not as safe in certain situations as larger cars may make sense to some people. However, the decision to buy a smaller car should be left with the buyer. If cheaper cars were banned then fewer people would have access to that mode of transportation.⁹

One might raise the issue of market failure as an objection to the natural regulatory process of the market. In other words, it is imagined that there are situations when the market by itself is unable to manage corruption and politics. Though the socialized reaction today is to have government step in and manage where the market has failed, the result is that actual government failure replaces the fear of potential market failure. Government regulatory failure can be much more devastating than the market could ever be through its own self-interested pursuits. For example, the British Petroleum (BP) oil spill in the Gulf of Mexico was brought on by government regulations that encouraged oil companies to drill in deep water. Oil companies do not have (at present) the technology to drill in water a mile deep. Oil companies require insurance coverage to help pay for damage caused in the event of an accident. The liability for drilling in deep water is unlimited and so no insurance company would cover that type of drilling; because in the event of an uncontrollable oil spill from a deep water rig the cost of the damage is potentially infinite, no insurance company would be able to cover that expense. Insurance companies are businesses, too. Because oil companies would be unable to secure insurance coverage, they would not drill in deep water. The government held drilling licenses for the gulf and

⁹ U.S. Customs and Border Protection website, "Prohibited and restricted Items," www.cbp.gov.

realized no one would buy those licenses given the potential for unlimited liability in the event of an accident. The government then passed the 1990 Oil Pollution Act, which capped liability at \$75 million; in other words an oil company would be responsible for only \$75 million in damage. This is a small figure compared to the potential billions a company could make before a major accident. With the passage of the act in 1990, many oil companies now drill in the Gulf of Mexico. In the free market, BP would not have been drilling in the Gulf at that location because the government would not have been able to pass a bill that would cap liability; if the company wanted to drill in the gulf, it would have had to develop the technology to make drilling at that depth safe. Because liability was capped by the government, not by the market, corporations were encouraged to engage in behavior that the market would have disallowed.¹⁰ This dynamic is known as a **moral hazard**. By capping liability the government encouraged and incentivized high risk behavior, that is, very bad decisions.

The BP oil spill example should illustrate the effect of government regulatory activities. For the sake of argument, if we posit that the result of both market and government failures were the same, then the difference would be that consumers paid for the government failure and the damage it created. In a free market system, BP would have been responsible for all damage and cleanup costs without limit.

THE CONSUMER

The perspective of the free market is the perspective of the **consumer**. In other words, the basic racialization of the free market is the consumer. A consumer is a user of **products** and services that s/he acquires in the market. Everyone who lives in the world is a consumer because everyone needs to buy food, clothing, and shelter. A consumer can be rich or poor, male or female, black or white, tall or short, old or young; everyone must use goods and services to live in society. Many people produce goods and services that other people consume, but everyone consumes products; such products include food and knowledge that must be produced by someone. The consumer racialization covers everyone and, at the same time, preserves the individual preferences and choices of a person, even within the racialization. Another expression for the racial group consumer is **general interest**, that is the interest of all consumers as a whole. Consumer and

¹⁰ Hasnas.

general interest (the specific and the generalization) are much more broad and inclusive racializations than most others; in fact, they include everyone. The racialization of consumers avoids the problems associated with narrower perspectives that establish hierarchies and systems of privilege. Any other racialization that can match this type of generality without ignoring the specific individual is a good starting point to understand the free market aspect of many areas of life. That is, not only are physical goods and their producers in competition with each other for consumers, but ideas and beliefs are also in competition with other ideas and beliefs for consumers; e.g. religions, economic schools of thought, scientific schools of thought, etc. Because poverty is an issue to be addressed in this book, then the consumer racialization lends itself easily to this topic.

The consumer makes choices often independently of any particular racialization and according to his/her individual preference at that particular moment of time and space. To reiterate, racialization generalizes and usually does not speak for every individual in that racialization. Most people in a particular narrow racialization may prefer to eat bread, but then some member of that group may be on a carbohydrate-free diet. The typical racialization is incapable of taking that detail into account, but the free market and the racialization of the consumer allow for each person to buy according to his/her individual wants and needs. One might even say that typical racializations are only descriptive of a group at a specific point in time; it does not enable accurate predictions of what individuals within that racialization will choose over time or even how society's view of that individual would change over time. The original food pyramid is a great example of how generalizations imposed on everyone is problematic when it assumes that everyone is the same and the individual is ignored. The racialization of consumer avoids the limitation of other racializations and has no expectation other than consumers consume. The food pyramid supposedly teaches good eating habits for everyone; however, it originally did not take into account different dietary restrictions or beliefs of many in society; e.g. vegetarians.

In this way the consumer racialization generalizes and yet preserves the uniqueness of the individual. In other words, the individual is not lost in the racialization. To protect the freedom of the consumers in general is to protect the rights of all individuals. Individuals also are liberated from the idea of **collectivism**; the idea that individuals belong to and are identified through a group or a particular racialization. One does not need to be affiliated with the right group of people in order to be protected. Rather one is free to associate with anyone one wants because no matter the association,

the consumer as an individual is already protected. Also individuals do not have to wait for the political process to work itself out to express opinion and be represented. Choices in the free market are gratified immediately, most of the time. It might be argued that the "consumer" is the most ideal kind of racialization.

In the free market system, consumer satisfaction dictates the behavior of sellers. If customers are not satisfied by a product, they will not buy that product. The color of the customer is less important than his/her ability and willingness to pay. The race of the seller also is less important than whether s/he has products others want to buy. To maintain patronage from consumers, businesses must provide the right combination of service, quality, and price; this is done with the understanding that competition may choose, prioritize, and market similar products in different ways. As in the example of toilet paper, a small improvement in one company's product is enough to start competition among producers for customers. Having sellers competing for the patronage of consumers is a desired and necessary aspect of the free market because this not only requires producers to constantly improve their product but it shifts control to the general interest or consumers as a whole away from smaller special interest groups. If a company makes something that breaks easily while another company makes long lasting goods, fewer people would buy that product that breaks easily and instead would buy the longer lasting product. Thus, companies must be careful about the products they sell. They have the motivation or incentive to produce and sell a safe and reliable product, since they are liable or legally responsible for any damage or harm that might result through the use of that product. The cost and process of testing and guaranteeing safety becomes the responsibility of the producer and seller, not anyone else. Often in some of the less regulated areas of commerce today, third party evaluators and testers exist to rate and review new products for consumers without government oversight. In fact, it is likely because of the lack of government oversight that these evaluators and testers exist. The government does not **subsidize**, that is, help pay for this behavior nor does it impose minimum standards for product quality and evaluation. Yet, the service of testing and evaluation are free to the consumer in spite of the high quality of information. For computer components, for example, sites such as www.tomshardware.com provide just the kind of service discussed here.

An objection to this type of arrangement would be the "asymmetry in knowledge" argument. The seller (or buyer) may have more knowledge than the other party and take advantage of the other's ignorance. However,

this situation is mitigated or managed in the market through various methods. Independent organizations may exist for the purpose of reviewing new merchandise for potential customers as in the example of computer components. Other areas of business have the same system in place that prioritizes consumers rather than producers. The computer/console gaming industry distributes advanced copies of games to testers and reviewers to generate buzz and interest for the product once it is available. Companies like www.gamespot.com and www.tomshardware.com must focus on consumers otherwise they will no longer be able to sustain the necessary internet traffic to stay in business.

Also, some products that have been in the market for some time are reviewed by people who already bought the product; customer reviews are a common aspect of online shopping; these customer reviews provide a wealth of often accurate information for traditional shoppers as well. Smart and discriminating shoppers take advantage of this information to make more informed purchases. The liability of safety and protection are still with the seller and producer.

In our society today, the government pretends or poorly attempts to perform the activities of product selling companies. These government agencies often establish guidelines or minimum safety standards to give the impression to consumers that products are safe. This practice benefits corporations because products only have to satisfy the minimum safety standards. Products may satisfy the minimum safety guidelines but this does not mean the products are safe. One example is the flame-retardant chemical, Tris. The Consumer Product Safety Commission issued in 1973 enforced the "Flammable Fabrics Act" of 1953 and required children's sleepwear to include flame-retardant. The chemical Tris was used for this purpose; however, 4 years later, after realizing it was a carcinogen, it was removed from the market.¹¹ Furthermore, regulations cannot account for cases of human error. Many accidents are due to human error rather than equipment failure. Regulatory agencies cannot protect consumers from themselves, all the time.

Often when failures by regulatory agencies occur, most of the blame is put on the companies that made the product while the role of the agency is downplayed. Shifting blame away from regulatory agencies allow for the agencies to continue to exist and grow in size and power. Their budgets come from tax payers that are forced to pay for inconsistent and often politically and fiscally motivated service. Regulations also dictate to

11 Milton and Rose Friedman, "Free to Choose," New York: Harcourt Brace Jovanovich, 1980, pg 212-213.

producers what should be produced and how. In a system where regulatory agencies pass many rules and requirements the market is no longer free.

Pricing, the messaging system for consumers in the market discussed in the previous chapter, becomes distorted as companies must spend more to comply with arbitrary requirements continually being passed by government agencies. The price distortions created by government agencies send false signals and messages throughout the market, disrupting other market prices and the decisions consumers need to make. The Federal Reserve System, enacted in 1913, was established by government and was to operate independently of congress. Its main responsibility was to control the supply of money in the country. The activities of the Federal Reserve Bank distort the prices of money resulting in malinvestment or bad investment decisions by companies and individuals in society. These distortions hide the risk of various choices; risk is the chance of failure. In other words, what might seem like a responsible and safe choice is actually a high risk choice.

The mortgage crisis of 2008 was the result of new government regulations concerning loan rates and lending practices. The new rules created a moral hazard, a situation where choices do not appear as risky as they actually are, thus motivating people to make choices against their interest and long-term benefit. The new regulations passed through the Clinton and G. W. Bush administrations gave people the ability and motivation to buy a house when they should not have. Price speculation and an economic housing bubble was created by many people obtaining mortgages easily. It was unsustainable and popped in 2008. Many homeowners lost their homes, but the banks that made bad loans were bailed out by the government.¹²

Furthermore, government testing and regulation of many other products for the supposed protection of the consumer are far from effective, efficient, and cheap. Consumers are forced to pay for poor services from

12 Tom Woods, *Meltdown: A Free-Market Look at why the Stock Market Collapsed, the Economy Tanked, and Government Bailouts will Make Things Worse*, (Regnery Publishing, 2009), pg 12-32. Woods lists several major steps in the build up to the housing crisis. In 1999 Clinton pressured Fannie Mae and Freddie Mac, Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation, to ease lending standards to make loans easier; Clinton brought back a Carter administration act, the Community Reinvestment Act, which further lowered the bar to qualify for a mortgage which triggered widespread speculation in the housing market; the pro-ownership tax code encouraged people to invest in homes through various tax breaks and incentives further driving speculation in the housing industry; FED chairman Alan Greenspan, lowered interest rates from June 2003-June 2004 making cheap money available for even more speculation. The irresponsible and bad business practices encouraged by government regulation was protected later by the government bailout of the banks.

the government. Because the government is not liable for damages and harm when it makes a mistake; there is no incentive for the government to do a better, more efficient, and more cost-effective job. However, the process gives consumers a false sense of security and safety. Moreover, consumers cannot opt out of government services; it is illegal to do so, and there is no choice.

GENERAL INTEREST AND SPECIAL INTEREST

All consumers, collectively, are the general interest. Standing opposed to the general interest is the special interest; the people who make a special interest group are also consumers but they have an agenda that goes against the general interest. As was mentioned in chapter 6, the special interest group is the political expression of a racial project or racialization. Any and every racialization has the potential to become a political special interest group. Many have already become special interest groups and are active in Washington and other places of power to have specific regulations and legislations passed in their favor to the detriment of the general interest. Slowly, over time, the number of special interest groups has grown to a point where much of their activity has been normalized. Organizing as a group (strategic essentialism or self-discrimination) and hiring lobbyists to push their agenda for their own benefit against the interest of everyone else is "race making" and has become big business. It is a slow death for the economy, and the poor are the hardest hit. Elected officials in Washington welcome the attention because it gives them the opportunity to "buy" votes by legislating morality.

Knowledge production to promote special interest causes never ceases and keeps knowledge producers (which are a special interest themselves) busy. Often forgotten in the long list of special interest groups is the most powerful of all special interest groups, the politician. They are the most powerful because they have the ability to write laws and legislation. It is no wonder that government employees or public sector workers are paid at a higher rate and have better benefits than private sector (non-government) workers doing the same job. It is also difficult to fire a government employee no matter how incompetent they are because efficiency is not their goal. Note that in a system where every organization/company must compete with other companies, the government would always lose; this is because the government agencies are designed to run as monopolies,

companies ever free from competition and thus, free from the need to improve and maintain quality, service and customer satisfaction. The price of government services are often partially hidden because those services are subsidized making them appear less expensive than they really are. In other words, the price tag at the time of purchase of a government product by the consumer is the price after the consumers were taxed to pay for production and development; consumers are essentially charged for products for which they already paid.

Politicians act in their own self-interest just as any other special interest group. The problem is that the interest of most politicians stands against the general interest; the very group for which they claim to be working. Thus, the politician has to maintain the appearance of working for the people while working for him or herself. The news program *60 Minutes* broke the story of insider trading by elected officials. Members of congress who sit on committees that decide influential regulation know which companies will benefit from various legislations before the public does. Through creative interpretations of the law, they are able to contact their brokers to buy or sell the appropriate stock to reap guaranteed profits.¹³ Because congress wrote the laws on insider trading, members of congress are able to exploit ways of getting around the restrictions of insider trading laws. It is in this way that they can avoid arrest and fines that are enforced on the average citizen. The recently passed 2013 STOCK Act (Stop Trading on Congressional Knowledge Act), which was supposed to prevent future congressional insider trading, was revised in a way that preserves much of the insider trading "loopholes." In other words, as with most government regulations, the Act was only cosmetic.¹⁴

Many regulations passed that were advertised and sold as protection for the general interest are actually protections for special interest groups against competition. Removing competition is against the interest of the consumer, and this type of short-term gain for a business comes at a long-term cost for everyone as the country slowly gets buried under financial obligation after financial obligation; this can also be known as regulatory compliance. These obligations raise the cost of goods and services

13 For example, trading on so-called "non-public" information is perfectly legal. (Stephanie Condon, "Senators introduce "STOCK ACT" to stop "insider trading" in Congress," November 15, 2011, www.cbsnews.com.)

14 There are numerous commentaries on the matter that fall under the rules of knowledge production. Though the executive and legislative branches of government and their staff must file financial disclosures, many lobbyists and people who are able to wander the halls of congress are free to continue their practices unimpeded.

throughout the country, which affects the poor more than other racializations. That is, catering to the various special interest groups in the country results in detriment for the poor in the form of higher cost for food and services. Many would argue that the role of government was supposed to be the protection of each individual citizen of the U.S., but has now become the instrument of hegemony to take from the individual, all in the name of helping the poor or protecting the defenseless and ignorant consumer. In the current system, the government often does the opposite of protecting the property of the individual against powerful special interests. Some of the worst cases are the various abuses of eminent domain (the right of government to take private property for government or better public use); this includes cases where corporations and individuals use their influence in government to have lands seized below market price and against the wishes of the owners.¹⁵

Through regulations freedom is denied for business opportunities because startup ventures are squashed under a mountain of red tape and regulation. The price of doing business is distorted to favor those companies that already exist and discourage new companies from forming. The people who suffer most are the poor who are denied lower cost goods so that politicians and their cronies can enrich themselves.

Food trucks, trucks that have been converted to mobile kitchens, are a good example of a relatively cheap business opportunity for lower income families. Families that have few options and no education but are willing to cook and work long, hard hours in all kinds of conditions can take their shot at being entrepreneurs. The primary advantage of the food truck is that the cost of overhead is relatively low. One initially only needs to have enough money to buy the truck and initial supplies. Because successful food trucks are so lucrative and they are mobile, they are an ideal start up business platform. Successful food trucks are successful because of the combination of quality, convenience, and price compared with other food choices. However, food trucks are also competition for more established, expensive and older restaurants in the areas in which they operate. Established businesses exert their influence and political connections to have inspections and licenses required for food trucks, which add to the cost of doing business. Many cities go a step further and allow restaurants to decide whether or not to issue food truck licenses. Though advertised as protection for the consumer, legislation of this variety is protection of established businesses against new competition, especially low cost competition. The doing away

15 Steven M. Greenhut, "Abuse of Power: How the Government Misuses Eminent Domain," (Seven Locks Press), 2004.

of competition through legislation is bad for the consumer, particularly the poor. The opportunity to make money quickly is criminalized, and at the same time, the poor are forced to buy products at a higher price. As has already been discussed, without government regulations, health and safety standards are dictated by the market. If for example, people get sick from eating at a truck, people will stop eating there driving them, either, out of business or to maintain high health standards. Furthermore, reality TV has given people an inside look into the heavily regulated brick and mortar restaurants; they are not as sanitary as many believe them to be.

TOLERANCE: ROOM FOR EVERYONE

It is worthwhile to further note that, within the free market, there is room for almost everyone and almost any ideology. If I want to start a socialist community where everything is shared, where everyone cooperates for the good of the community and not for the individual, then in the free market, I may. However, I may not force or require others to do the same; participation must be voluntary. This also means that I may not attempt to pass legislation to coerce others to live this way; participation must be voluntary. Attempts to trade with non-socialistic communities must follow the rules of the free market. Further, no one may force another community to trade with that socialist community.

At the same time, in many other societies where socialism or central government planning is dominant, there is no room for the free market as described above. For example, a socialist society would generally not permit citizens to start areas of free trade. That level of freedom, for the average person, would upset the power structure as established and preserved by the state. In a corporatist society, only the approved activities through the approved systems are permitted to exist legally. A free market society has no such bias or agenda and as a result is much more tolerant of difference. This tolerance throughout society establishes a climate that is much more creative and innovative and is directly beneficial to the poor of society.

SUMMARY

The free market prioritizes voluntary cooperation for the consumer; everyone operating within a society is a consumer, so everyone within a society should benefit from the free market. In the free market, the individual, regardless of their racialization, is protected because no special interest is allowed to legislate morality. The voluntary character of the market incentivizes competition among businesses for the patronage of customers. This simple dynamic ensures quality and accountability among sellers to the benefit of the consumer, especially the poor consumer. Protection of any kind through the legislation of morality weakens the position of the individual and is most detrimental to the poor.

QUESTIONS FOR DISCUSSION

1. In the past, if you had a lesson on capitalism, did you learn about the free market? If not, what do you think you learned instead?
2. How is constant change good for the individual and bad for the individual?
3. How might constant change be good for society and bad for society?
4. How might constant change be good for the status quo and bad for the status quo?