

ARE THERE FREE MARKETS? STATE INTERVENTION: MYTH AND REALITY

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Summary

The myths to which the title refers lies in the fact that while being shunned by most present-day economists, state interventions into markets occur all the time both at micro- and macro-economic level.

In the first part we consider the microeconomic level of firms and corporations. It will be shown that in many economic sectors which require long-term investments (e.g. aeronautics, nuclear power plants, railways) the concept of a “pure” or “free” market in which the state would play no role is a proposition which is not consistent with observation. This argument will be illustrated by considering the airliner industry in the United States.

In the second part we emphasize that since 1945 Keynesian economic stimulation has been used on a permanent basis in the United States as well as in other countries. Thus, instead of withdrawing the state continues to play a major economic role. Yet, there is one area from which the state has really withdrawn, namely the organization of labor relations. The consequence was a quick deterioration of the situation of unions and workers.

Finally, in the last part we wonder how neoliberal economics managed to win the “war of ideas”? We briefly describe some social networks which played a major role in this respect.

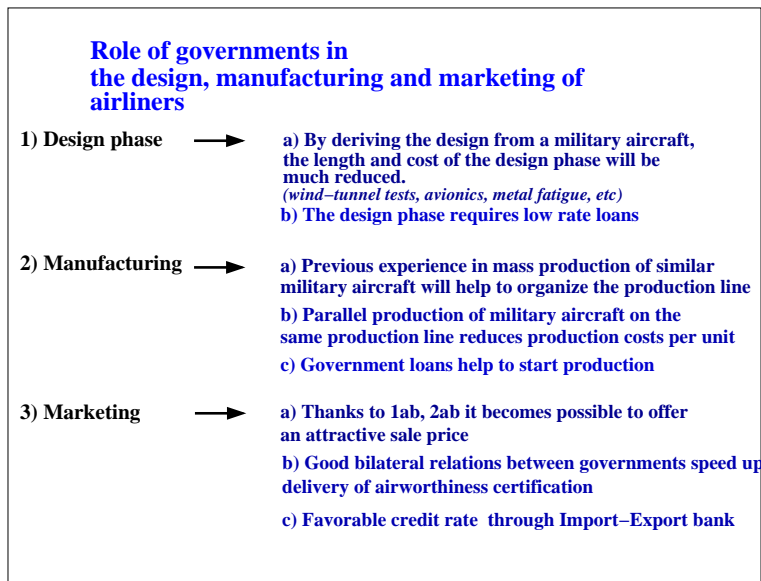


Fig.5.1: Role of government in the design, manufacturing and commercialization of airliners

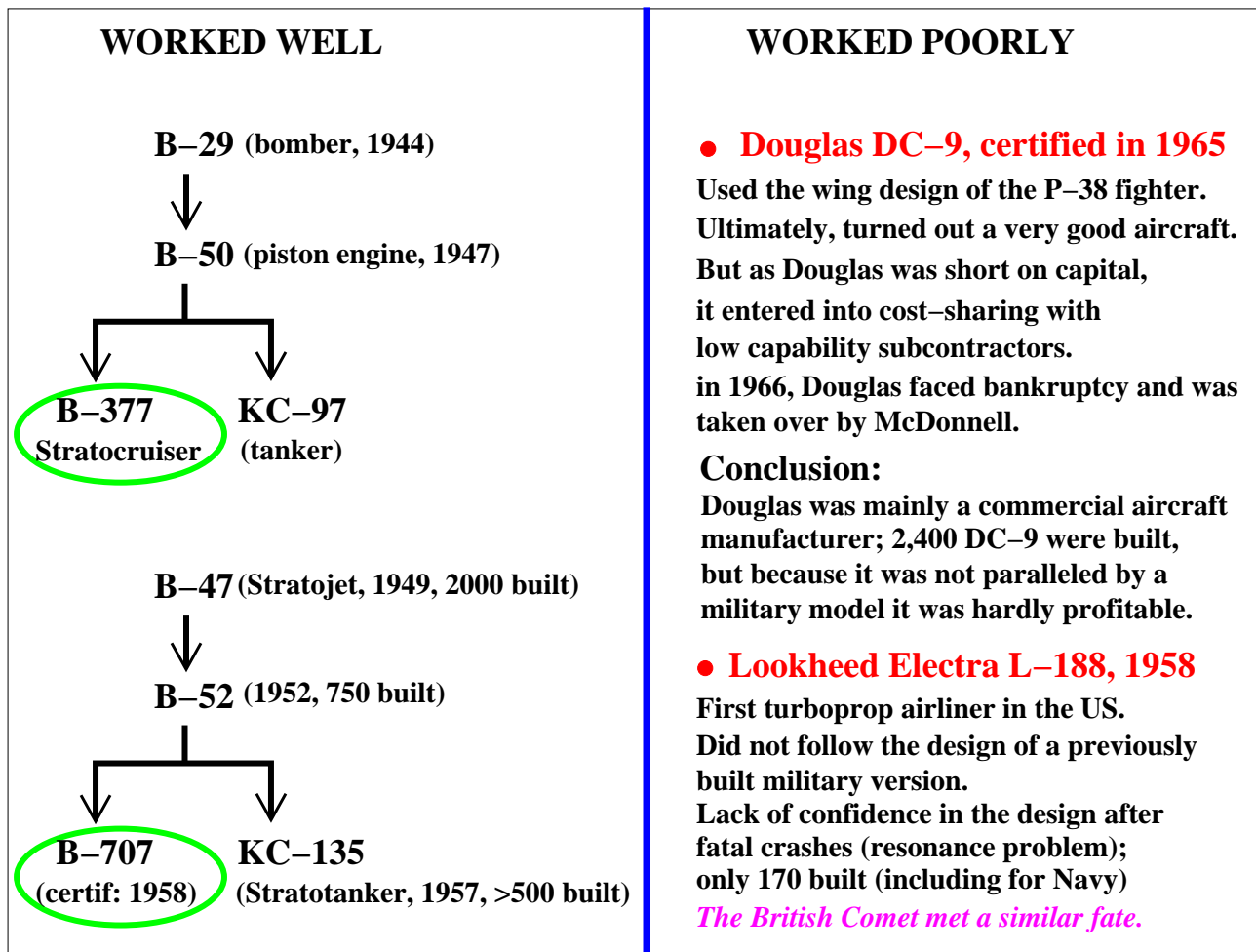


Fig.5.2 Comparison of successful and unsuccessful airliners.



Fig.5.3: Boeing C-97 Stratofreighter and Boeing 377 Stratocruiser. The commercial 377 was basically a civilian version of the C-97 and its tanker version KC-97. Federal funding received for the development of the military versions allowed a substantial price reduction of the commercial version. *Source: Wikipedia (public domain).*



Fig.5.4: Boeing B-47 Stratojet and Boeing B-707. The 707 was basically a commercial version of the Stratojet bomber; there was also a tanker version, the KC-135 Stratotanker. The B-47 was the first 4-engine jet in the world. It made its first flight in December 1947 about 7 years before the first flight of the 707. The latter benefited from its military precursor in terms of technical improvement and cost reduction. *Source: Wikipedia (public domain).*

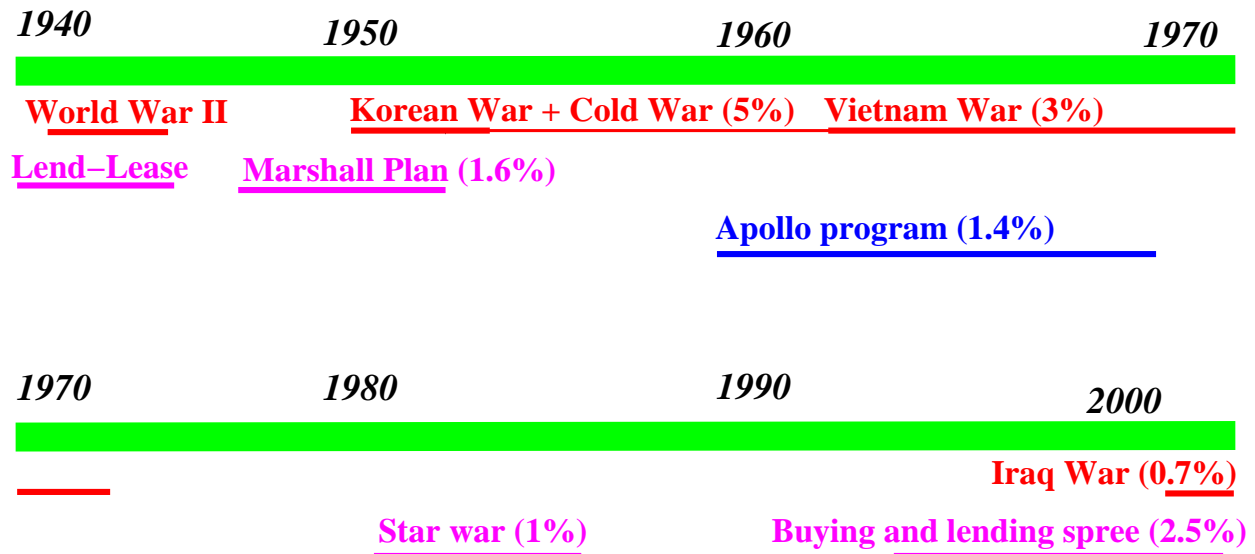


Fig.5.5 A British Airways Concorde airliner flying in formation with “Red Arrows” from the Royal Air Force Aerobatic Team. The show took place at the Golden Jubilee of the Queen in June 2002. In contrast to the Boeing 377 and 707 the Concorde did not follow the design of a military aircraft but its development was subsidised by the British and French governments. *Source: Wikipedia, entry “Concorde” (public domain).*



5.5 Lockheed C-5 Galaxy military transport aircraft and Boeing 747 airliner. Wingspan (W), length (L) and height (H) of the two aircraft are as follows: W: 68m, 60m L:75m, 70m H: 19m, 19m. They made their first flight in June 1968 and February 1969 respectively. One of the main differences in their conception is their wing design: high-wing for the C-5 vs. low-wing for the 747. *Source: Wikipedia, entries “Lockheed C-5” and Boeing 747 (public domain).*

Keynesian stimulation in the United States by subsidising private companies



Figures such as (1.6%) give the annual percentage of GDP spent for the corresponding program

- The expenditure of the US Federal Government has been about 20% of GDP over the past 50 years; Reaganomics did not change that. Such a federal budget gives ample means of economic intervention. For the sake of comparison, in 2007 that ratio was 11% in Germany, a country with a similar federal organization.
- Powerful federal institutions (such as the Treasury, Import–Export Bank, Fannie Mae) give the Federal Government the possibility to help US Corporations in many ways.
- The main idea of Reaganomics, Thatcherism and neoliberalism is to reduce government spending and stop its interference with market forces. Government spending has remained unchanged, we have seen, has there been a change in its interference? Answer is: YES

Fig.5.6 Wars provide recurrent opportunities for governments to subsidy private companies.

There is at least one field from which the US government has withdrawn which is the organization and regulation of the relations between workers and unions on one hand and management on the other hand.

The New Deal had given many rights to unions but in the decades after the Taft–Hartley Act of 1947 the clocks were progressively turned back.

What effects would one expect from that withdrawal?

Employers have always been well organized in a number of associations, such as the Chambers of Commerce or the National Association of Manufacturers (NAM). If unions are not allowed to organize in a similar way, they will obviously be at a disadvantage.

Thus:

- **if sympathy strikes are prohibited,**
- **if employers are authorized to recruit temporary workers during strikes,**
- **if bankruptcies can be used as a last resort means to overrule the unions, then, of course, one would expect the weight of unions to dwindle.**

Is this expectation confirmed by actual observation? Answer is: YES as will be seen in what follows.

Fig.5.7 Government role in regulating the relations between employers and labor. Employers can fire employees whereas the opposite is not possible. Thus, the balance of power is naturally tilted. If in addition, the government sides with the employers by cancelling most of the regulation introduced by the New Deal, then employees will be subdued and their unions crashed and suppressed.

Table 5.1 The Mont Pélérin Society

The [Mont Pélérin Society](#) was the main organization for promoting neoliberal ideas among economists. It was founded in 1947 by Friedrich Hayeck.

Of the 23 economists who served as president of this society between 1947 and 2004, 5 became Nobel prize winners shortly after the end of their terms as president as can be seen from the following table.

Presidents of the Mont Pélérin Society who won Nobel Prizes

Name	Term as president	Nobel prize
F. Hayek	1947 – 1961	1974
M. Friedman	1970 – 1972	1976
G. Stigler	1976 – 1978	1982
J. Buchanan	1984 – 1986	1986
G. Becker	1990 – 1992	1992

Notes:

- The French economist Maurice Allais (Nobel prize in 1988) attended the first meeting of the Mont Pélérin Society and was one of its founding fathers but he did not serve as president.
- Three other prominent members of the Mont Pélérin Society were Ronald Coase, Vernon Smith and Erik Lundberg. Coase and Vernon became Nobel laureates in 1991 and 2002 respectively. Lundberg was a Swedish economist who held the following positions: (i) President of the Swedish Bank (ii) Member of the Nobel Committee for Prize in Economic Science from 1969 to 1979 (iii) Chairman of this committee from 1975 to 1979.