

Free Market Fundamentals

Property and ownership imply the right to trade with others. Market is a word people use to describe the conditions of trade. Conditions under which people are allowed to trade with each other without interference are known as a free market.

All exchanges between people in a free market are win-win. People only voluntarily trade when they value what they receive more than what they give. The market value of a good or service is determined by what people freely exchange for it.

When people are allowed to cooperate to satisfy their needs and wants, division of labor naturally results. People tend to specialize in producing things that other people want because satisfying the desires of others is the best way to satisfy your own desires. This encourages people to serve and cooperate with each other as best they can.

Capital and Enterprise

People sometimes use the words “capitalism” and “free market” interchangeably. This is because capitalism means that you can own things (“capital”), which means that you can decide how to use or trade them. Then again, some people also use these words to describe markets that are not really free and to promote cronyism and government interference in markets. Don’t let the labels confuse you.

In any case, complex products and services require investment in tools and materials. Investment requires saving. Entrepreneurs organize capital and effort to provide products and services. In order to do this, entrepreneurs must anticipate conditions and plan operations that will attract partners to cooperate with them for mutual benefit.

Risk and Regulation

“It constantly amazes me that defenders of the free market are expected to offer certainty and perfection while government has only to make promises and express good intentions.”

- Lawrence W. Reed

Free markets do not provide certainty; they simply provide opportunity. There is no guarantee that buyers will be willing to pay what sellers ask. There is no guarantee that every desire of buyers will be available for purchase when they desire it and at a price they can afford. However, competition for win-win agreements and the laws of supply and demand steer markets over time to the benefit of all.

Some claim that government interference is necessary to correct what they call “market failure”. They blame the very idea of trade itself for reality not aligning with their personal preferences. However, scarcity and risk cannot be wished away or eliminated by government edict. Those who advocate government interference in markets are quick to point out the externalities associated with markets, but quick to ignore the externalities generated by government interference. Negative externalities are best dealt with by clearly delineating property ownership, and demands for more trust, transparency, and efficiency are market opportunities in themselves.

Government interference is always win-lose, as it benefits some people, but always at the expense of others. Government interference is inherently wasteful, inefficient, and corrupt (“government failure”, you might say). It distorts markets and introduces shortages, black markets, high prices, low quality, and moral hazards. Government interference is not “regulation” at all; it is special treatment for and protection of special interest groups.

The Fairness of Laissez-Faire

Laissez-faire (pronounced “lay-zay fair”) is a French term for non-interference in free markets. The free market is the toughest and fairest regulator in the world. It cannot be bribed or emotionally manipulated. It has no delusions of grandeur. Even people with shady intentions fear a negative reputation in the market and loss of profit that comes with it. Not only will customers demand alternatives, but bad products and services represent higher risk to lenders, investors, insurers, suppliers, etc. The market is not a safe place for businesses that don’t respect customers.

Letting people peacefully cooperate and trade with each other is not just the fair thing to do, it is the most effective way for people everywhere to cooperate in satisfying their needs and wants.