

POLITICS

A Fair Market is Not a Free Market

by Roy Den Hollander

The way the rich make money today in Russia parallels in some respects the way the rich made money in America in the late nineteenth century. Both use enterprises to maximize their profits through unfair commercial practices. Monopoly enterprises, for example, dominate the major industries in Russia today. In America by 1890 the American Sugar Refining Company controlled 98% of its market, Standard Oil - 80% of its market, American Tobacco - 93%, Aluminum Company of America - 90%. Similar monopolies existed in other major industries.

Russian monopolies, like the former American monopolies, raise their prices to the sky because no other enterprises exist to compete with them and because the Russian government, like the former American government, fails to break up the monopolies into competing enterprises. American monopolies accumulated vast fortunes by selling their products at inflated prices, paying their workers (which included children as young as nine years old) low wages, producing poor quality and often dangerous products and even using violence against their workers and potential competitors. Americans call this period in history the "robber baron" or "free market" era.

Many of the problems that existed during America's free market era now exist in Russia: high prices, low wages, shoddy goods and a few people growing very rich while most of the population grows poorer. The solution is not a free market but a fair market. And a fair market will not happen by allowing businessmen to do whatever they wish or relying solely on abstract theoretical models of market forces.

A fair market requires a set of business regulations. The regulations cannot be so restrictive that they stifle innovation, hard work and the opportunity to acquire material wellbeing, but they should not be so lenient as to allow an unbridled pursuit of profits that results in vast concentrations of wealth in the hands of the few, destruction of the environment, mass poverty and a life of hopelessness for much of the population. Business regulation can be described as a circle that permits businessmen to freely pursue their interests in

any way they deem fit within the circle, but prohibits them from crossing the circle into unfair commercial activities that harm other businessmen, consumers and workers.

Under the Soviet Union's former command economy, the circle of business regulation limited business activity too much. In America's wild west, free market economy of the nineteenth century, the circle of business regulation did not limit business activity enough. The insufficiency of regulation permitted a relatively few families in America to amass great wealth through the enterprises they controlled. Such wealth enabled a relatively small class to exercise great economic, political and social power over America. Since the nineteenth century, there has been an intermittent tug-of-war between the wealthy class and the masses over the enactment of business regulations. The wealthy class desired little or no regulation in order to maximize their enterprises' profits; the masses wanted additional regulations to distribute the wealth more fairly and protect their material wellbeing.

The result of the struggle over the past one hundred years has been the enactment of some effective regulations, many of which are not adequately enforced.

America, today, is no longer a free market, but it is also not a fair market.

One percent of American families own approximately 34 percent of all the wealth in the United States, the middle class, which comprises about 40 percent of America's families, owns a little over 10 percent of the wealth and the poorest 40 percent owns virtually nothing; in 1989 the average income for the top one percent of households was U.S.\$560,000, for the bottom 20%, it was U.S.\$8,400; since 1979, the number of people earning wages below the poverty level grew from 12 percent to 18 percent of the work force; over 400 people die each day from occupational related causes; and America now ranks 56th among all the world's nations in immunizations and ranks behind Cuba in infant mortality.

The historical flaw in America differs only in degree with the flaw in Russia before the August coup and the potential danger for Russia since the coup - so many have too little because so few have too much. Today Russia moves through a transition with many of its

former rulers and managers trying to maintain their positions of influence and privilege by acquiring great wealth. They seek to create through a free market a small group of wealthy families that will rule Russia as a shadow government, just as a relatively small number of wealthy families now run America.

Russian wealthy businessmen will eventually, if they have not already, ally themselves with American businesses to export vast amounts of Russian raw materials at bargain basement prices. In return America will export manufactured goods and agriculture products that will be purchased with the hard currency gained from the raw materials and loans from the International Monetary Fund or World Bank. As a result, Russia may find itself in a position similar to Latin America, which function as a cheap source of raw materials for America, a key export market for American goods and a continent over which western banks and governments wield tremendous economic power through the credits they have extended. Russia's wealthy businessmen will eventually acquire enough economic power to control the government, and by then it will be too late to establish business regulations that ensure a fair rather than free market.

Regulations, such as an upper limit on the net worth of any family and a windfall profits tax, would aid the establishment of a fair market. A net worth limit of one million or two million U.S. dollars per family should provide more than enough incentive for persons, now owning virtually nothing, to take risks, use their ingenuity and work long hours for the material rewards of success. A windfall profits tax on American enterprises in Russia that applies to profits above perhaps the 12 percent level should give American corporations enough incentive to invest, since the average profit margin in the United States is around 7%.

Many other regulations can be enacted that will assure Russia sustained economic growth, return reasonable profits to foreign investors and assure that all Russians have a fair chance to share in the wealth of the new society that is being created. The trick, however, is to enact the regulations now before Russians nouveau businessmen become so rich and powerful they can prevent the government from acting on the people's behalf.