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# Laissez-faire, the “Freer Global Market Economy”, the investment banks and the policy makers...



By [Harris A. Samaras](#)

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The recent global crisis has clearly proven that we do live in a global economy! A global economy that is interconnected to such extent, that movements in exchange rates, interest rates, stock prices and prices of goods are influenced in most of the globe; a global economy characterized by a “freer” movement of goods and services, ideas and capital and a “freer” application of direct investments and financial transactions. A fair christening of this new era would be “Freer Market Global Economy”.

Nobody in his/her good senses can doubt the tremendous benefits of global integration, i.e. the benefits of the international division of labor and economies of scale, the rapid spread of innovations from one country to another, the freedom of choice associated with the international movement of goods, capital, and people, and the freedom of thought associated with the international movement of ideas.

The fans of the laissez-faire doctrine, (i.e. free markets are self-sustaining and market excesses will correct themselves, provided that governments or regulators do not intervene in the marketplace), should feel very justified or shouldn't they?

Is the current global crisis a failure of the laissez-faire doctrine? Can our “Freer Market Global Economy” be sustained only by state “subsidy” – by deliberate and persistent efforts of governments to correct and contain the system's deficiencies? What is really the cause of these deficiencies? Is it really the free market economic philosophy that caused the crisis? Do we want the free market economic system to survive?

The laissez-faire economic philosophy supports little or no state intervention on economic issues, which implies free markets, minimal taxes, minimal regulations, private ownership of property and free circulation of labor. It supports certain kinds of negative liberty as opposed to positive liberties, such as wealth redistribution, given by the state. This

laissez-faire opposition to wealth distribution is based on the belief that it takes capital from the most productive sectors of the economy and gives it to the less productive sectors, and is enforcing economic egalitarianism, which reduces productivity and the incentive to work.

**Laissez-faire further argues that any temporary equality of outcome gained by redistribution would quickly collapse without coercion because people have different levels of motivation and native abilities, and would make different choices based on their differing values.**

Laissez-faire also argues that material inequality is a necessary outcome of the freedom to choose one's own actions without imposing on others. It favors a state that is neutral between the various competing interest groups that vie for privileges and political power in a country for any government intervention such as regulation, protectionism, creating legal monopolies, competition laws, or taxes, interfere with this judgment being reflected accurately in the price and the maximization of economic utility...

So is this new low in the financial crisis a failure of the laissez-faire? Definitely not!

Is it a pattern of dishonesty on the part of financial institutions? Or is it the incompetence on the part of policymakers? And, should the financial institutions demand state intervention? Are they really too important to be allowed to fail?

The big question seems to be focusing on systemic risk: To what extent does the collapse of an institution imperil the financial system as a whole? Is there really sufficient systemic risk to warrant a government rescue of mortgage giants Fannie Mae and Freddie Mac? And if there is why there was not sufficient systemic risk seen in rescuing Lehman?



One is for certain: **As the financial institutions were laying huge bets with each other over loans and assets – complex transactions were designed to move risk and disguise the sliding value of assets – the policymakers were not capable to do their job!!!**

Yes, investment bankers devoted successfully their talents to getting around standards and regulations designed to ensure the efficiency of the economy and the safety of the banking system but isn't this what they have been doing since their existence?

Is the global economic system increasingly uncontrolled because of the lack of appropriate regulations? The inability of policymakers to enforce current regulations by imposing stricter more complex ones may create a chaotic, slow-reacting, bureaucratic, multilevel regulation system which will be at the expense of movement of capital and everything positive that comes out from it!

**In an effort to cure a problem caused by the mere inefficiency of policymakers to enforce current law, we are on our way to create another overregulated system that will turn out to be the “cancer” of the global economy!** Additionally, wouldn't higher capitalization requirements tighten the supply of credit? Would increased legislation restore investor and consumer confidence? Would increased legislation ensure adequate global liquidity and stability?

Let's go back to the laissez-faire and the “Freer Market Global Economy”. Some claim that the “Freer Market Global System” of today is the cause of uneven distribution of benefits, the instability of the financial system, the threat of global monopolies and oligopolies, the ambiguous role of the state, and the question of values and social cohesion. But how can these be correct?

**Yes**, capital is in a much better position than labor, because capital is more mobile. Moreover, financial capital is better situated in the global system than industrial capital;

once a plant has been built, moving it is difficult. But does labor take the same risks?

**Yes**, financial markets are inherently unstable, and international financial markets are more so, and international capital movements are notorious for their boom-bust pattern. Well so what? Isn't this the nature of humankind? Isn't this a reflection of who and what we are? Are we all the same? Haven't international capital markets become much more institutional in character and don't they demonstrate much more resilience than half a century ago? And isn't every boom followed by a certain bust? Isn't this nature? Our nature! **If policymakers were only able to monitor what they were suppose to monitor neither companies, nor stocks, bonds nor would properties be overvalued!**

**Yes**, the goal of competitors is to prevail, not to preserve competition in the market. Thus, and yes to a certain extent, the natural tendency for monopolies and oligopolies to arise needs to be constrained by regulations. But these regulations should not suffocate those individuals or entities that do excel and perform! We should then all conform to Nihilism or better, Existential Nihilism.

**Yes**, one of the roles of the state is to undue illegal concentration of power, preserving stability in financial markets and maintaining economic stability, striving to ensure equality of opportunity, and providing a social safety net thus looking after the welfare of its citizens. And yes, capital escapes taxation much more easily than labor can and yes capital will tend to avoid countries where employment is heavily taxed or heavily protected. But what would we today be if capital, ideas and knowhow had not been free to travel beyond a country's boundary? What will really become of us when increased legislation “managed” by the same incompetent policymakers restrict exactly these, capital, ideas and knowhow and along with them, the greater need for rewarding international cooperation and interaction? The answer is simple, we will suffocate!



Maybe Solon, the ancient Greek, Athenian statesman and lawmaker – a main contributor to the establishment of the Athenian democracy that the free world of today is more or less based on – could enlighten us further on this issue: **“It is the responsibility of the State to provide the ways and means for its people to think not think for them”**, he stated, and I comment no further.

**Yes**, every society needs some common values to hold it together. And yes, market values on their own cannot serve that purpose, because they reflect only what one market participant is willing to pay another in an exchange. And undoubtedly, yes, society needs institutions to serve such social goals as political freedom and social justice. But as there are such institutions in individual countries, why couldn't more of them exist in the global society? Indeed, the development of a global society has lagged behind the growth of a global economy. But isn't our “Freer Market Global Economy” only at infant stages?

We live in a global society that contains different customs, traditions, and religions; infested by complexes of, race, color, class, inferiority and superiority; where although in general terms and/or print, the rule of law, respect for human rights, minorities, and minority opinions exist, it remains inherently imperfect. Exactly as we humans are, imperfect!

What shall be done? Let the laissez-faire be! We came this far because we more or less borrowed the constitution and the concept of democracy that those ancient Greeks developed, and the laissez-faire ideology. These led us to the “Freer Global Market Economy” that we today enjoy.

**Making this “Freer Global Market Economy” less free by imposing more restrictions and more procedures is a suicide! It is wiser to focus on what caused the current global economic crisis, i.e. the incapability of the policymakers to enforce sufficient existing law, and not ignore it by feeding the “cancer” with additional legislation that will**

**automatically suffocate the free movement of capital and thus create new forms of “cancer”. Let's correct our deficiencies instead of creating more!**

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