საქართველოს მეცნიერებათა ეროვნული აკადემიის მოამბე, 175, №1, 2007
BULLETIN OF THE GEORGIAN NATIONAL ACADEMY OF SCIENCES, 175, №1, 2007

Economics

Does the Market Exclude Equality?

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ABSTRACT. The market, as the economic foundation of capitalism, is often recognized as the basis of inequality. In fact the free market model implicitly posits complete equality of opportunity for the agents participating in it. In order to minimize inequalities due to externalities, the government interferes in the market because the market is incapable of solving this problem on its own. The theory of public choice explains why the visible hand of the state is incapable of accomplishing reduction of market inequality. Economic policies in support of market equality are therefore based on libertarianism. Optimal economic policies should therefore combine elements of libertarianism and liberalism, provided that the former dominates. *© 2007 Bull. Georg. Natl. Acad. Sci.*

Key words: *equality, free-market model, pseudoreal-Market Model, real-Market Model, Public-Choice Theory, Economic Policy.*

The cornerstone of social policy is to achieve equality, or at least to approximate it. However, there is no widely accepted definition of equality. Several aspects of equality are distinguished: equality before God, equality of opportunity, and equality of outcome [1, Ch. 5]. The term "inequality," which reflects a widespread public perception of the actual state of affairs in regard to equality, is more often used. Socially, inequality is taken to mean conditions in which people do not have the same access to public goods, money, prestige, and power.

The term "equal" does not mean "the same," aside from some exceptional cases.

Absolute equality is fundamentally impossible because people differ from each other in their physical characteristics, opportunities, and mental capabilities, that is, by nature [2, Ch. 3]. At the same time, as individuals they are equal before God, in that each is his own master insofar as he does not infringe upon the analogous rights of others [1: 129-131]. Posing the question this way leads to a definition of equality of opportunity [1: 131-134] in which no one has the right to arbitrarily prevent others from using their opportunities to achieve their goals. And these opportunities should be determined exclusively by their capabilities, regardless of origin, nationality, race, religion, gender, and so forth. In practice, equality before God and equality of opportunity are protected by policies that defend the principle of equality before the law [1, p.132], when each member of society has access to participation in democratic institutions, which makes a social world possible [2, Ch. 3].

At the theoretical level, contemporary economists understand equality as equality of opportunity [3: 179], in spite of the fact that for ordinary people equality is primarily about equality of income and property. So it should not be surprising that for the typical citizen reform entails redistribution of wealth and income [2, Ch. 16]. The danger is that such reforms and their associated rhetoric can ultimately destroy the economy. Measures to promote equality are typically followed by some people squandering their share, while others get rich, so that the problem of restoring equality returns to the agenda. People with an improvident attitude toward their property in such circumstances have no incentive to change their behavior, and those who are frugal and industrious will not want to preserve these qualities [2, Ch. 16]. International experience shows that, in the end there is no way, not even terror, to establish equality of results in society. This has created an atmosphere of hopelessness, a belief that life is unfair, that it is not in the government's power to correct inequality, and that there will always be inequality.

The market, as the economic foundation of capitalism, is often recognized as the basis of inequality among people [1: 146-148]. Not only were Karl Marx and his (conscious and unconscious) successors (communists) convinced of this, it is a verity of the contemporary Western economic worldview.

We therefore need to analyze whether the market mechanism really is antithetical to the idea of equality, or just to the principle of equality of outcome.

Free-Market Model

Generally there are two types of markets in economic theory: free and real. The free-market model is only an abstraction.

The basic elements of a free market are:

1. Unimpeded access to and departure from the market for buyers and sellers, which is equivalent to having an unlimited number of participants in competition;

2. Mobility of all types of resources (labor, material, financial);

3. Perfect market information (on supply and demand, prices, etc.) for each competitor;

4. Uniformity of similar products (no trademarks or variance in quality of goods);

5. Inability of any competitor to influence the decisions made by other market participants.

The basic principle in this system is laissez faire ("let it be"), as a result of which the efficiency of interrelations among businesses and consumers, and the dynamics of private and public interests, are governed, in Adam Smith's terminology, by the "invisible hand." These criteria allow us to analyze the equality of market agents and whether they interact with each other on equal terms.

According to the first criterion, all buyers and sellers are *equal* in access to the market and departure from it, since each of them can do so unimpeded. Consequently, in free-market conditions, all buyers and sellers are equal from the point of view of being in the market.

Mobility of all types of resources *equalizes* free-market agents from the point of view of market-dictated change in their type of business.

Perfect market information for each competitor is no less important from the point of view of their *equality*, since this precludes the possibility of erroneous actions on their part due to incomplete information.

Uniformity of products of the same kind puts all businessmen on *equal* footing in selling their own products, and all consumers on an equal footing in making purchases.

Because none of the competitors can impose their terms on other market agents, they have *equality* from the point of view of making decisions.

Thus, the free market model implicitly posits complete equality of opportunity for the agents participating in it. That is, *in free-market conditions, market equality means equality of opportunity for each agent from the point of view of being in the market, changing his type of business, access to information, production and purchase of products of the same kind, and decision making*. In short, we can say that a free market is a system of equality of opportunity. Market equality will naturally be realized in practice in conditions of market equilibrium, when all of the opportunities that this equality offers are used to the fullest extent. Since such a free market is a theoretical construct, market equality in free-market conditions is also an ideal state, to which market regulation should aspire.

Perfect "Visible Hand" and Pseudoreal-Market Model

A "*pseudoreal market*," with the "visible hand" of the state operating ideally, should be distinguished from real markets. In spite of the attractiveness of the free-market model, it is not capable of solving some very important problems, a circumstance known as market failure. The two primary market failures are externalities and public goods (as well as significant quasi-public goods).

In order to minimize inequalities due to externalities, the government interferes in the market because the market is incapable of solving this problem on its own. In this situation, the government may use two methods: administrative regulation or internalization of the externality. According to the first method, a special government agency can either completely prohibit a certain negative effect, or set an upper limit on it. The second method uses economic incentives to impose private costs on the creators of externalities. Internalization of negative externalities can take the form of special per-unit taxes, or Pigou taxes. Such taxes give the producers of negative externalities incentives to reduce them. As for internalization of positive externalities, the government can put subsidy mechanisms in place for this purpose, which provide an incentive for producers not to curtail them. By using these methods to reduce inequalities due to externalities, the government can make the inequalities less severe, although it cannot achieve full equality.

A free market is not capable of producing public goods, since the marginal costs associated with additional consumption of these goods are zero. Public goods can therefore be used without any incurring cost in doing so. Since the private sector has no direct interest in producing them, this has to be done by the public sector. Consequently, public goods are carriers of positive externalities, which contribute to inequality. Noncompetitive or nonexclusive goods (e.g., streets and highways, police and fire departments, libraries and museums) are known as quasi-public. They can be produced by the private sector, but in insufficient quantities due to the positive externalities. This forces the public sector to join in the production of quasi-public goods.

Equality is the government's basic principle in the production of public goods: These goods should be equally accessible to all members of society.

In addition to these two basic problems, the government is obliged to promote free competition by eliminating barriers to market entry, in order to promote the free dissemination of market information and unobstructed flow of capital. The government has particularly important functions here, such as creating a legal framework and social atmosphere to support the functioning of the market system and stabilize the economy (primarily by achieving low levels of inflation and high levels of employment). The government also regulates international economic relations, prevents potential conflicts between economic agents within the country, directly manages the economy in emergency situations, and devises long-term development programs. Consequently, in the conditions of a real market, Adam Smith's "invisible hand" is replaced by the "visible hand" of the state.

Externalities, inadequate supplies of public goods, and restrictions on flows of information and capital by monopoly entities prevent markets from ensuring equality of opportunity for its participants. Market equality is thereby disturbed. In this case, the state should minimize deviations from free-market principles and maximize market equality. Since in reality the visible hand of the state itself often impedes market equality, policies devoted to achieving market equality are the same kind of theoretical construct (and just as necessary) as the free-market model. To differentiate the market model described above from the real market, we will call the former a *model of a pseudoreal market* [4: 67-69], in which the visible hand of the state is not only called upon to minimize market inequality, but actually does so.

"Public Choice" Theory and Real-Market Model

The best tool for analyzing the capability and efficiency of the visible hand of the state is public-choice theory [5], which explains how a pseudoreal market differs from the real one. The underlying principle of public-choice theory is that people act the same in their role as public figures as they do as individuals. The visible hand of the state is seen as the visible action of high government and political officeholders. If the actions of this visible hand do not minimize inequality, then this is due to the people who took up the burden of performing the function of the visible hand of the state and in so doing have disgraced it.

Public-choice theory argues that public officeholders are also motivated primarily by considerations of personal gain. This implies political rent seeking which means seeking and protecting economic rent (payments for a share of some production factor exceeding its opportunity cost). Subsidies are the most graphic example of political rent. Subsidies allow someone holding public office to obtain support in elections from voters who are the recipients of these subsidies and thus to receive political rent. This despite the fact that these subsidies are intended to internalize positive externalities, which should signal their creators not to curtail these externalities. Political officeholders' restrictions on competition by imposing taxes, as well as systems of bans, quotas, and licensing on imports, are also striking examples of political rent seeking. These policies distort market prices and create political rents, thereby disturbing market equality. The most objectionable example of disturbance of market equality is economic discrimination [6], which is manifested in the fact that individuals of different race, nationality, gender, or age have different opportunities to get jobs, be promoted, receive adequate pay and raises, get an education, and so forth.

In order to seek political rents, when public officeholders introduce policies on the basis of such prejudices, they are legitimizing discrimination. The recipient of political rents, for example, in a racist government, is the favored segment of the population.

Among the ways of obtaining political rents, lobbying (when, based on propaganda for a certain policy, people in power put into practice measures that favor the interests of their backers and/or voters), and logrolling (when legislators trade votes in order to reach particular outcomes) merit particular attention. Consequently, realization of the government's official goals leads to both predicted and unforeseen consequences.

The theory of public choice explains why the visible hand of the state is incapable, in many cases, of accomplishing its basic purpose: reduction of market inequality.

In conditions of the real market, market mechanisms are key to overcoming market inequality. Market equality can be established only on the basis of market democracy. So the key function of the visible hand should be to weaken as much as possible the forces obstructing the free market, via the establishment of democratic institutions. This is a rather difficult task, involving not only economic problems but also national, historical, cultural, and social issues.

Conclusion: Economic Policy for Market Equality

Economic policy is very important for achieving market equality. Economic policy is based on particular schools of political philosophy, among which we can distinguish utilitarianism, liberalism, and libertarianism. All three schools rule out the principle of income equality, although according to the first two economic policy should aim to bring incomes to an optimal level.

As a political philosophy, utilitarianism stems from the principle that the state should try to maximize total social utility, where utility is understood as a person's level of happiness or satisfaction, and is expressed in units of welfare. The assumption of diminishing marginal utility means that taking one dollar away from a rich person reduces his utility by less than giving it to a poor person raises the latter's utility. Consequently, such income redistribution can raise total social utility. The greatest difficulty in this scheme lies in finding the optimal limit of redistribution, beyond which a person loses the incentive to create wealth, causing the whole society to suffer.

According to the underlying principle of liberalism, the state should pursue a policy of fairness. But since defining fair distribution is impossible, the practical implementation of a liberal economic policy generally reflects an emphasis on maximizing the welfare of the poorest members of society (the minimax criterion). By contrast, utilitarian economic policies seek to maximize the average utility of members of society.

Libertarianism as a political philosophy is based on the principle that the state's primary duty is to punish criminals and assist in the implementation of voluntary agreements, but *not* to redistribute income. The goal of a libertarian economic policy is to protect human rights and provide equality of opportunity. *Economic policies in support of market equality are therefore based on libertarianism*.

The advantages of libertarian economic policies are apparent in the case of discrimination. A libertarian economic policy argues that the best way to overcome discrimination is through a competitive market, because in this case, in order to make more profit businesses will hire those who will work most cheaply. This will ultimately raise their pay, thereby eliminating the discrimination.

One may ask, does a libertarian economic policy rule out social protection of the population? It is true that in conditions of a competitive market the poor have far more limited opportunities than the rich. At the same time, free competition in no way precludes the realization of social and cultural goals, either in the form of private charitable activities or via special government assistance. The main thing here is for the government to focus on equality of opportunity rather than on income redistribution, while at the same time providing the public good of social stability.

Optimal economic policies should therefore combine elements of libertarianism and liberalism, provided that the former dominates. Libertarian economic policies will help reforms move toward the ideal of market equality, while liberal economic policies supplementing them will allow society to avoid social tension and possible social explosions.

Only in such circumstances can members of the middle class have the opportunity, through maximum application of their intellectual and physical capabilities, to gradually make a decent life for themselves. To do this, the government needs to intensify its fight against corruption, legalize shadow businesses, and accelerate the creation of democratic institutions. This will gradually move society closer to the ideal of market equality – equality of opportunity.

ეკონომიკა

გამორიცხავს კი ბაზარი თანასწორობას?

ვლადიმერ პაპავა

აკადემიის წევრი, სტრატეგიისა და საერთაშორისო ურთიერთობათა კვლევის საქართველოს ფონდი

ადამიანებს შორის თანასწორობის რამდენიმე ასპექტს განარჩევენ: თანასწორობა ღმერთის წინაშე, შესაძლებლობათა თანასწორობა და შედეგების თანასწორობა.

შესაძლებლობათა თანასწორობის თანახმად, ადამიანს არა აქვს უფლება სხვას შეუშალოს ხელი სასურველი მიზნების მისაღწევად საკუთარ შესაძლებლობათა გამოყენებაში. თანასწორობის იდეა თანამედროვე ეკონომისტების მიერ საკითხის თეორიული შესწავლის დროს, როგორც წესი, შესაძლებლობათა თანასწორობამდე დაიყვანება. მიუხედავად ამისა, რიგითი ადამიანებისათვის თანასწორობა, უწინარეს ყოვლისა, შემოსავლებისა და საკუთრების თანასწორობაა.

პრაქტიკულად აღიარებულია, რომ ადამიანებს შორის უთანასწორობა ბაზრიდან, როგორც კაპიტალისტური სისტემის ეკონომიკური საფუძვლიდან, გამომდინარეობს. ამ დებულების უტყუარობაში არა მარტო კარლ მარქსი და მისი (შეგნებული, თუ შეუგნებელი) მიმდევრები — კომუნისტები იყვნენ დარწმუნებულნი, არამედ ეს დებულება, შეიძლება ითქვას, თანამედროვე დასავლური ეკონომიკური მსოფლმხედველობის მიერაც ჭეშმარიტების რანგში არის აყვანილი.

თავისუფალი ბაზარი მასში მონაწილე აგენტების შესაძლებლობათა სრული თანასწორობის მოდელია, ანუ საბაზრო თანასწორობა თავისუფალი ბაზრის პირობებში მისი ყოველი აგენტის ბაზარზე ყოფნის, ბიზნესის სახეობის შეცვლის, სრული საბაზრო ინფორმაციის ხელმისაწვდომობის, ერთი და იმავე სახეობის პროდუქციის წარმოებისა და შეძენის, და გადაწყვეტილებათა მიღების თანასწორ შესაძლებლობებს ნიშნავს. მოკლედ შეიძლება ითქვას, რომ თავისუფალი ბაზარი შესაძლებლობათა თანასწორობის სისტემაა.

სახელმწიფოს "ხილული ხელის" აგრეგირებული ფუნქცია თავისუფალი ბაზრის პრინციპებიდან გადახვევის მაქსიმალური შემცირებაა, რითაც საბაზრო თანასწორობა მაქსიმალურად უნდა იქნეს უზრუნველყოფილი. ეს უკანასკნელი პრობლემა, თავის მხრივ, არ გამორიცხავს, რომ სინამდვილეში სახელმწიფოს "ხილული ხელი" თვად იყოს მანკიერი, თვად აფერხებდეს საბაზრო თანასწორობის დამკვიდრებას.

ფსევდორეალური ბაზრის მოდელში მიღებულია დაშვება, რომ სახელმწიფოს "ხილული ხელი" არა მარტო მოწოდებულია, არამედ სინამდვილეში ატარებს ქმედით ზომებს საბაზრო უთანასწორობის მინიმიზაციისათვის.

სახელმწიფოს "ხილული ხელის" ქმედითუნარიანობისა და ეფექტიანობის ანალიზის საუკეთესო საშუალებას "საზოგადოებრივი არჩევანის" თეორია იძლევა, რომლის საფუძველზეც გასაგები ხდება ის ძირითადი მიზეზი, რომლის გამოც ფსევდორეალური ბაზარი რეალურისაგან განსხვავდება.

რეალური ბაზრის პირობებში საბაზრო უთანასწორობის დაძლევის ერთადერთი გზა თვად საბაზრო მექანიზმში ძევს; საბაზრო თანასწორობის დამყარება მხოლოდ საბაზრო დემოკრატიის გზითაა შესაძლებელი; აქედან გამომდინარე, სახელმწიფოს "ხილული ხელის" განმსაზღვრელი ფუნქცია სახელმწიფოში დემოკრატიული ინსტიტუტების დამკვიდრების გზით თავისუფალი ბაზრის შემაფერხებელი ყველა ძალის მაქსიმალური შესუსტება უნდა იყოს, რაც, თავის მხრივ, ძალზედ რთული ამოცანაა, რადგანაც იგი არა მარტო ეკონომიკურ პრობლემებთან, არამედ იმ ეროვნულ, ისტორიულ, კულტურულ, სოციალურ ფასეულობებთანაც არის დაკავშირებული, რითაც ესა თუ ის ქვეყანა ცხოვრობს.

საბაზრო თანასწორობის მისაღწევად დიდი მნიშვნელობა ენიჭება იმას, თუ როგორი ეკონომიკური პოლიტიკა იქნება არჩეული და ცხოვრებაში გატარებული სახელმწიფოს "ხილული ხელის" მიერ. თავის მხრივ, ეკონომიკური პოლიტიკა ემყარება პოლიტიკური ფილოსოფიის ამა თუ იმ მიმართულებას, რომელთა

შორის უტილიტარიზმს, ლიბერალიზმსა და ლიბერტარიანიზმს განარჩევენ. საყურადღებოა, რომ საბაზრო თანასწორობის ეკონომიკური პოლიტიკა სწორედ ლიბერტარიანიზმს ეფუძნება. იმისათვის, რომ მოსახლეობა წინ არ აღუდგეს ეკონომიკურ რეფორმებს, აუცილებელია ისეთი ეკონომიკური პოლიტიკის გატარება, რომელიც დაეფუძნება ლიბერტარიანიზმისა და ლიბერალიზმის გარკვეულ სინთეზს პირველის პრიმატის პირობებში.

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Received January, 2007