

# No such thing as a free market [AU] <sup>[1]</sup>

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## AVAILABILITY

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## EXCERPTS

One of the things you're supposed to learn in economics is to avoid extremes. It's never all or nothing. Everything has advantages and disadvantages. And any way you jump has an opportunity cost because there are lots of things you'd like to do with your limited means. So life is about trade-offs between rival objectives and you should optimise rather than maximise.

That's what economics teaches, but it's not always what economists do. A big part of the reason for the global financial crisis - which reached its apogee almost a year ago - was the dominance of an extreme view that the market system could work well with minimal government supervision.

Although we in Australia seem to have escaped the worst consequences of the crisis, we suffered the same intellectual delusion, which was manifest in other, thankfully less important areas. Just as the Americans and Europeans need to learn a lesson, we do, too.

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The problem comes when markets are seen as a "system" possessed of almost magical powers to never run off the rails and always deliver satisfactory outcomes without government interference.

There's no such thing as a "free market" - all markets are regulated by governments to a greater or lesser extent. It's just that, over the past 30 years, the intellectual fashion swung heavily in the direction of minimising regulation. We dismantled a lot of the safety rails. And we had regulators who doubted the wisdom of regulation.

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Australia has had its share of excessive faith in markets. One manifestation has been the drive to turn over to market forces aspects of life that were formerly outside the market's sphere. The commercialisation of sport is an obvious example.

But a more telling one was the decision to turn childcare into a market by extending government subsidies to for-profit providers.

What a disaster that proved to be.

The authorities watched with mute approval while ABC Learning found ways to exploit the system and establish itself as the dominant player, before overreaching itself and collapsing in a heap at great inconvenience to parents and staff, embarrassment to governments and expense to taxpayers.

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We seem to have encountered a spate of examples of dubious and dishonest behaviour by business people. The notion that "market forces" would do more to punish such behaviour than encourage it is now seen to be laughably naive.

It's much closer to the truth that it's always been the power of norms of socially acceptable behaviour that have done most to protect us from exploitation in the absence of vigorous law enforcement. But such behavioural norms may have broken down in the face of all our celebration of commercial success and the exorbitant sums the leaders of industry are awarding themselves.

The first step in turning things around is to revert to vigorous enforcement in the hope that, in time, this will lead to the re-establishment of an ethic of commercial decency.

- reprinted from The Age

**Region:** Australia and New Zealand <sup>[2]</sup>

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