By Johan Fourie

ECONOMY

Confusing ‘big business’ with ‘free market’

Many have a very dim view of the free market. But before blaming the system, it’s important to understand how competition can benefit the ordinary worker and consumer.

Many view the free market with scepticism. Some are downright hostile towards it, proclaiming – erroneously, given empirical historic evidence – that capitalism hurts labour, the environment, or the poor, and is largely to blame for the evils of this world.

Others grudgingly accept that capitalism is a better system than the alternatives, but look down on those in the business world as scammers and frauds.

After the Steinhoff collapse, many commentators, often those schooled in the humanities, pointed to unethical behaviour of the “markets”, “business community” or “corporate sector”. In its crudest form, they blamed it all on “free market capitalism” or, the ultimate insult, “neoliberalism”.

But that interpretation is predicated on a fundamental misunderstanding of what “the free market” actually is.

A student of mine recently recommended *Free to Choose,* a series by economist Milton Friedman, available on YouTube. Recorded in the 1980s, but as relevant today, it spells out his belief that the “free market” is preferable to the alternative of government intervention.

Milton Friedman
Nobel prize-winning economist

“One of the reasons why I’m in favour of less government, is because if you have more government, industrialists take it over.”

He debates with invited guests, many of whom don’t share his views, about the pros and cons of the market. At some stage, the moderator points out that both Friedman’s opponents, one from big business, the other from government, tend to agree that government intervention is a good idea.

Friedman says it’s perfectly rational that they agree: “The two greatest enemies of free enterprise and freedom in the world, have been on the one hand the industrialists and on the other hand most of my academic colleagues who end up in government, and for opposite reasons.”

His academic colleagues, Friedman argues, want freedom for themselves. “They want free speech, they want freedom to write, they want freedom to publish, to do research. But they don’t want freedom for any of those awful businessmen.

“The businessmen are very different. Every businessman wants freedom for somebody else. But he wants special privileges for himself. He wants a tariff from congress.”

Entrepreneurs are in the business of making money. One way to do that is to produce a good or service that is better than the competition through efficiencies, strategy or innovation. So far, so good.

Another way is to eliminate competition. This can be done by getting government to impose a tariff on imports, to issue special licenses, or to issue regulation that protects your business from superior competition.

SA, of course, has a long history of this type of government intervention. The Dutch East India Company that set up a refreshment station at the Cape was a company founded on monopoly trading rights. Paul Kruger’s ZAR government was built on a complex network of monopoly licenses with industrialists. So, too, the apartheid state.

The scale of collusion between government and big business more recently ultimately coined a new term: state capture. This is not free market capitalism; it is not the type of capitalism that creates prosperity.

Friedman made the same point in the 1980s: “It’s not proper to put the issue as industrialists versus government. On the contrary, one of the reasons why I’m in favour of less government, is because if you have more government, industrialists take it over. The two together form a coalition against the ordinary worker and the ordinary consumer. I think business is a wonderful institution, provided it must face competition in the marketplace, and it can’t get away with something except by producing a better product at a lower cost.”

Think of SA’s most concentrated sectors – telecommunications, electricity, healthcare, air travel. In each case, government is either a significant player itself, or imposes tight regulation. Much of this regulation is founded on good intentions. Licenses often require a minimum safety standard; one wouldn’t want just anyone opening a hospital or flying an airplane. But often, these well-intentioned regulations strangle competition, creating oligopolistic sectors that favour a few big businesses.

SA’s Competition Commission investigates and mitigates collusive business practices and other ways firms may abuse their market position. When a large firm acquires another, it needs to file an application to the commission for approval. This prevents one firm from dominating a market, pushing up prices and hurting consumers. But the commission can only do so much. In many cases brought before it, government is an active player in the market (think SAA), or regulates the industry through other bodies – like the telecom spectrum Icasa controls.

Ensuring free competition requires a widespread acceptance in government that any regulation that impedes competition hurts workers and consumers. The minister of energy, Jeff Radebe’s, signing of 27 power purchase agreements for mostly solar and wind projects – thus encouraging competition in the market for energy generation – is an excellent step in the right direction. Our education or health systems are not so lucky; both suffer as a result of too little competition.

The big misconception is that “the market” is often equated with “big business”. As Friedman notes, they’re not the same thing.

There is good reason for oligopolistic firms to cosy up to government: it’s a great way to get rid of competitors. But over the last decade, we have learnt the painful consequences of that system becoming entrenched.

In contrast, a society that prioritises market competition is most likely to benefit the ordinary worker and consumer, because competition fosters innovation. And innovation improves productivity, growth and living standards. That is the long road to economic freedom. ■

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