

# MARKET FUNDAMENTALISM

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Many people believe that when rapid economic growth and other good things happen in the global marketplace, it is because of the effective functioning of the free market. When bad things happen, such as steadily widening gaps between rich and poor, it is because of market failures, aberrations, and the foolishness of those who interfere with the workings of the free market. Robert Paarlberg's recent essay on "The Global Food Fight" and C. Ford Runge and Benjamin Senauer's piece on "A Removable Feast" (in *Foreign Affairs*, May/June 2000) fit the mold nicely. Their analyses are driven more by prior beliefs, by faith, than by serious assessment of what is going on in the real world. They display ideology or theology, not science.

The international trading system is not managed directly by a supranational government, but it is greatly influenced by nations with enormous economic power, such as the United States, Japan, and Germany, sometimes directly, and sometimes through international agencies. Their heavy influence makes the global trading system an unfree market.

Adjustments such as reducing tariffs and other barriers to trade will not create a system in which the trading partners are of approximately equal power, drawing more or less equal benefit from engagement in a neutral market. Great disparities will remain, and the global market will continue to be sharply tilted in favor of the powerful.

To describe the global marketplace we need to look not to the imaginings of neoclassical economics but to the realities of the world political economy, as lived. It is a *political* economy, heavily influenced by power. The single most important feature of the global economy is the large and steadily increasing gap between rich and poor. Gaps widen steadily because the players have very different levels of power. When they trade, the more powerful have greater influence in determining the terms of trade.

It is reasonable to assume that in every transaction, both trading parties benefit. We know that because each party could have turned down the deal. But the important thing from the point of view of political economy is that the

benefits are not distributed equally. The stronger party gets a larger share of the benefits. This means that in the real world trading leads inexorably to a steadily widening gap between the strong and the weak. It does not lead to a happy convergence somewhere in the middle range.

Both the rich and the poor benefit, but the rich benefit more rapidly. Now add in the effects of inflation, which is almost always higher in poor countries than in rich countries. Even though both parties may appear to benefit in the short term, with inflation doing its work, often the poor do in fact get poorer while the rich get richer.

The market does not benefit everyone equally; it is strongly biased in favor of the rich. What the poor need is not simply trade, but trade on favorable terms. When their bargaining power is meager, they get unfavorable terms. They are price takers, not price makers. Thus, poor countries committed to exporting basic commodities regularly suffer because they receive low prices for their products, but they must pay high prices for their imports, including the factors needed for producing their exports. Similarly, farmers in poor countries regularly get paid less for their products than producers in rich countries get for the same products.

The skew resulting from power differentials is most clearly evident in the price of labor. If we had a free market globally, people everywhere would get equal pay for equal work, and there would be free migration of workers. Instead, we have a system that appears to be determined to maintain great wage differentials, since the willingness of the poor to work cheap is of very direct benefit to the rich.

The realities of the global political economy do not fit the preconceived model of idealized free markets, so reality tends to be dismissed as a temporary aberration resulting from failure to conform to free market principles. However, power differences will not disappear as a result of quasi-religious incantations in praise of free markets. There is not a level playing field in world markets, and we should not pretend there is one.