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Implications of the Market Model

The market-based economic model, or “market model,” is a concept which resonates with much of modern society in almost every major location globally. Even China, which has a strong political institution, utilizes basic concepts of market economics. Daniel Yergin and Joseph Stanislaw discuss concrete examples of the market model in *The Commanding Heights*, whereas Raymond C Miller discusses the theory of market model in *International Political Economy: Contrasting world views*. The reasoning behind popularity of the market model can be summed up in the mistakes of Arthur Lewis. “One he said, was the underestimation of the power of international trade to propel growth. The other, he continued, was being too slow to learn that ‘market prices are more powerful incentives than ministerial speeches’” (Yergin and Stanislaw, 73). As Miller states on page 29 of his text, markets produce three main consequences in an ideal situation: “(1) the full utilization of all resources and products, (2) a tendency to eliminate profits, and (3) the optimum allocation of resources. The purpose of my argument will be to show that real examples of this differed from theory, and as such the purest form of a market model assumes that every actor begins on equal footing. Indeed, the truth is that the world has never experienced a true market model.

Beginning with the idea of economic prosperity after World War Two (WWII); many support the claim that economic growth is based on Miller’s principles of a market model. To sum up these “Seven Premises of the Market Model,” as seen on page 18 of

International Political Economy, decision-making occurred post WWII after rational individuals became free to make choices on their own. The rational decision making process occurred based on calculations that were in their basic economic interest. Theoretically, every item of value was supposedly defined, although it is argued that not every item had the correct price.

As a side note, are some goods or services actually established at the correct price when they might be considered by most to be priceless? A few examples of this could be education, the right to human life, shelter from an impoverished state, and other ideas based around basic human rights.

Material gain became the main goal of all major actors. This allowed for an increase in mobility, which in turned allowed for a highly competitive system. Referring to the initial idea of international trade which is a very powerful force; it is more powerful than a speech. Government is then reduced to the role of the monitor, arbiter, and caretaker. The system could, theoretically, be dissolved by governing entities at any time; however this is not in the best interest of it and, in fact the market model defines this as highly irrational. Said briefly, lack of government support for the market model is a step in the opposite direction according to many open market economists.

The major problem with applying the theory of a market model to reality is a large one. Not every actor began on equal footing. As Yergin and Stanislaw depict, post-war Europe was left decimated, whereas both the United States and the Soviet Union were not. To use a metaphor, the glove of the theory does not quite fit the hand, or in this case invisible hand, of the current market model. The glove is perhaps slightly too large and the goal of applying the market model is too ambitious to meet. The idea of a market model is ideal although not completely possible. Since each actor was not equal, and could never be equal at the start, the market model could not actually be created in its purest essence. Certain actors' success was due to ease of access to capital, and others were doomed to fail due to circumstance. This is, of course, similar to the reality that different economic classes are real because of prior determinations that existed before the market model began. The world is not a Monopoly game; every player does not start with equal wealth and each time someone passes 'go' the amount changes.

Keynes's theory of supporting government was used, nevertheless. Many major western governments supported their economy. Due to the discrepancy between theory and reality; however, the economy did not thrive and other methods were pursued to strengthen it. Thatcherism and Reganism were instead used but did not prove to be effective. This is due to the fact these more conservative practices did not support economic growth from a government standpoint. As a result, 'Third-Way' economics has allowed for a compromise between the two, although currently the more centered economic policy has not gained traction.

In reality, the market model has some truths that hold, but it does not factor in political ramifications that relate to the Commanding Heights. In Britain, the government created policy initially that developed towards supporting strategic sectors. The goal was to increase the employment rate, where “20 percent of the nation’s workforce ended up employed in the newly nationalized industries” (Yergin and Stanislaw, 8). This policy maneuver was similar in France, although the French seemed to lack the entrepreneurial mindset to fully engage the economy. The government geared itself for a highly centralized state. As proclaimed by Charles de Gaulle, “The state must hold the Levers of command” (Yergin and Stanislaw, 10). Nationalism served many purposes, one of which enlisted the help of Communist-controlled union. This sense of “French-Pride” allowed France to achieve economic prosperity that could compete globally. Germany also had employed economic reforms. These were drastically different than its neighboring countries. Called a “social market economy,” price controls were overturned, the Basic Law was established to allow for reunification, and the Wirtschaftswunder or economic miracle was created.

The greatest economic differences between France and England, and Germany were in their economic policy maneuvers of the Commanding Heights. France and England took direct control of the Commanding Heights. In start contrast, Germany took limited control of the Commanding Heights, and focused on the surrounding industries to support and grow the economy faster. Meanwhile, Italy had little involvement from a governmental perspective. Only the economic elites were involved. This allowed for growth and progress, although much of the Italian government is highly unorganized to date.

Real examples of the market model differed from actual events. To restate a major fact, the market model assumes that every actor begins on equal footing. In actuality, the market model differs from truth. Ever player in the economic system, even though based on the market model, does not begin on equal footing. If in fact every actor was equal, then Europe and perhaps the entire world would have grown exactly the same. It should be left for another discussion whether this is positive or negative, although the market model should only be used as a guide. The market model discounts political actors, such as political parties, charismatic leaders, sporadic innovation, etc. If the market model can not be relied on fully, its theory may mislead actors to believe that they will have success or failure when the opposite could be true.