

# THE ELEVENTH LESSON

(Victor Ledenyov, a student at the University of Kharkov, Ukraine, completed the HGI correspondence course in Fundamental Economics, ten lessons based on Progress and Poverty. He proposed an eleventh lesson and posed a set of questions which especially express the concerns of East Europeans on the transition from a command economy to a market economy. Here are the questions, with answers by Fred Foldvary, condensed.)

**1. Does a pure free-market economy have any defects and imperfections?**

The answer depends on what these terms mean. If one means absolute utopian perfection, this is an impossibility. But if the terms refer to major defects such as unemployment, poverty, pollution, and depressions, the answer is no, a pure market economy has no such defects. When labor has access to natural resources, there is employment and prosperity for all.

**2. Can the government remedy the defects of the market?**

No. The role of government is to provide a rule of law recognizing property boundaries, enforcing contracts, collecting land rent, and prohibiting force and fraud. Any further acts imposed on the market will make outcomes worse.

**3. Can government regulation and planning substitute for the market process? Should the government run any enterprises?**

The military needs to be a government operation, not because the market cannot provide it, but because we don't want private armies, which can become dangerous. All other activities can be operated by the market process.

**4. Can the government guarantee social justice if it is an imperfect institution?**

There are no guarantees in politics, but we can safeguard liberty most completely by recognizing human rights in the Constitution. The main clause would be: 1, All

acts which do not harm others shall not be restricted;  
2, There shall be no taxes on peaceful and honest act\$;  
3, Land rent is recognized as common property. Government shall be decentralized as much as possible.

**5. Does a free economy result in a just distribution of wealth?**

Yes. A just distribution involves how income is obtained, not whether incomes are unequal. When land rent is common property and labor is individual property, we have a just distribution of wealth.

**6. Does the market process result in fair outcomes?**

An example could be automation which reduces employment. But automation in fact does not reduce employment, since it increases total productivity. Labor is shifted to other products, including making the robots and meeting new desires.

**7. Is it fair that only landowners pay taxes?**

In a free economy, no one pays any taxes. The land rent is properly owned by local, national and global communities, so these communities are receiving funds that belong to them. Those holding titles to land only own the rights of use and exchange, not the rent.

**8. Who should have the power to decide: a) what to produce; b) how to produce it; c) for whom to produce?**

The government sets the rates for pollution charges. Otherwise, all economic decisions should be made voluntarily by the market process. Private enterprise will efficiently determine how to produce. Consumers determine the products they wish to buy.

**9. How does the market mechanism determine prices, wages, the volume of production, etc.?**

There is no market "mechanism." The market is an individual human process, not a set of forces or mechanical devices. Human beings bid for products in the market, and prices are set where supply and demand are equal. The

general wage level is determined by productivity at the margin of production, where rent is zero.

**10. May consumers determine what types of commodities to produce, or must demand be adjusted to supply?**

Entrepreneurs are those who organize the factors of production and find markets for goods. They and consumers jointly determine what products are produced. But consumers are sovereign, so they have a free choice whether to buy or not.

**11. How does a market economy deal with the needs of the poor?**

Poverty in the sense of large numbers unable to provide for their own needs is impossible in a free market. So long as labor has access to natural resources, wealth can be produced.

**12. Who has the responsibility for solving economic problems in a free-market economy?**

In a market economy, all sane adults have the responsibility for their own well-being.

**13. Is the distribution of goods by government a social good?**

Other than some collective goods, the provision of goods by government is a social bad. It breeds corruption and is not needed in a free economy, since all adults have an opportunity to work.

**14. What level of poverty is acceptable in a market economy?**

None. There will always be income inequalities, but poverty is not the group with the lowest income but the inability of some people to provide for their basic needs. No amount of poverty is justified, since there are resources enough for all.

**15. Are direct money payments more effective than giving commodities to the poor?**

Money is better than commodity aid such as food, since food coupons tend to be sold for money in the black

market, breeding corruption. Best of all is the avoidance of such programs, with free markets.

**16. Can a free market result in economic equality?**

It depends on the type of equality. An equality of incomes? No, but there will not be inequality due to privileges, which result in extreme wealth in some cases.

**17. Will monopolies direct a market economy?**

In part, yes. There needs to be a monopoly of government at the highest level, to provide for uniform law. But private firms will have a difficult time establishing monopolies in products, since others will be free to enter the market.

**18. What are the limits of production in a market economy in terms of resources, technology and other factors?**

One limit is the desire to protect natural environments, including wildlife. Some areas should be set aside as free from development. Which goods are produced depend on the decisions of consumers and entrepreneurs.

**19. Do democracy and market economies depend on one another, or can there be one without the other?**

Superficially, they can exist separately. At a deeper level, democracy and free markets are dependent on one another. A dictatorship with a market economy can change the policy at any time toward intervention. Genuine democracy requires economic freedom.

**20. Can the market restrain bad effects, such as pollution, or promote non-market good effects?**

Significant bad external effects such as pollution do not happen in a market economy, since the market consists of voluntary acts. Pollution fees are not outside the market but part of the market. The government should not subsidize good effects. Let people do good from the goodness of their own hearts.