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WHY THE FREE MARKET ALWAYS FAILS

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A market is free when there is no restriction on production and no restriction on movement of products to market. The engine of the market is called the price mechanism. This increases, or decreases the supply to market impersonally and with accuracy. It is fair because it gives no-one an advantage over another.

The first star I met when I got to Los Angeles was Peter Falk. This was long before Columbo. He was better golfer than I (but then everyone is). He had just received an Emmy for "The Price of Tomatoes". In the teleplay, he was a truck driver who had to get to the San Diego market by 3 am or he would be too late for the market. All he would be left with would be a lot of rotten tomatoes. (Of course, everything conspired to slow him - a pregnant woman had to be taken to hospital, and so on.)

The show taught an important economic lesson with regard to the market. It can be pretty unyielding, and pretty precise. You have to be there quickly. You should get there first if you want to make the most money. The producer who arrives second may find the market supplied and the price low. The third to arrive may be stuck with a load of rotten tomatoes.

Everyone learns early how the market works. It's a demonstration of freedom. Indeed, in California the teaching of freedom is considered to be so important, it's been made compulsory in the schools.

The price mechanism is easy enough to understand. Southern California is booming. Lots of people come to the area - and of course they need widgets. (Widgets is a word that stands for anything else. So, here it might mean clothes, furniture, food, and so on.)

The consequent big demand for widgets raises their price. So, to satisfy the demand - and take advantage of the higher price - the widget factories put on two, then three shifts. The wimple factories change to making widgets. Widgets are imported from

Nevada and Arizona. If the demand still isn't satisfied, perhaps some cheap widgets are imported from Japan.

By now, you might get the impression that we are knee deep in widgets. In any event, as the demand is met by all this production, the price of widgets drops. As it drops, imports from Japan are turned off, as are those from the other states. The Southern California price is no longer high enough to make the sales worthwhile.

Well, the price mechanism takes a lot of description, but it happens effortlessly and quickly, which is why we like the free market so much. No command economy guru can match the speed and accuracy of a free market.

Everybody knows how the free market works, but to be sure, let's do it once more. Southern California is booming. Lots of people come to the area - and of course they need land, for a home, for a factory, for a store. They can't do much without land.

So, there is a big demand and the price of land rises. So, to satisfy the demand - and take advantage of the higher price - the land factories put on two, then three shifts. The wimple factories change to making land. Land is imported from Nevada and

Arizona. If the demand still isn't satisfied, perhaps some cheap land is imported from Japan - and eventually he price drops. That's the price mechanism.

But hold it, you say. There are no land factories. You can't import land from somewhere else. The price doesn't drop. And you would be right.

The difference is that unlike products that are effectively controlled by the price mechanism, the "land market" is actually a collectible market. Collectibles are worth collecting, because they are difficult or impossible to reproduce. Impossible is better.

The price mechanism doesn't work with collectibles. The reason why a van Gogh is worth $65 million - in open auction - then $70 million, $80 million, $100 million (who knows?) a short time later when the Getty museum took it over, is because there will be no more van Gogh masterpieces.

The high price might be considered appropriate for a brilliant painting. Who else could lay on canvas the intense brightness of a summer in Provence? Well, a lot of painters can, which is why experts are called in to find somehow a tiny difference that cries out "forgery".

For the 99% of us who would see no difference, the forgery doesn't matter. For the person who has just laid out $100 million for an original - it's vital. Vital, even if he puts the original in the deepest darkest vault - while a copy is hung in the living room.

So, a van Gogh gets its price, not for brilliance, but for uniqueness - confirmed by experts.

Who may not altogether be so expert. There are at least six authenticated original paintings of the "Mona Lisa".

On the other hand there can be a large body of work from an artist - some obviously considered a lot better than others - but all of which are likely to be very collectable.

Picasso, as his life was coming to an close, was well aware of this He began stroking the canvas like there was no tomorrow - because there wasn't. He churned them out faster than McDonalds spews out Big Macs. He knew that even though they weren't a bunch of "Guernicas", they would make great collectibles. So he produced plenty enough to keep his family well supplied for a decade or two with baguettes and fromage.

So, we get to the problem. Georgists are apt to say that Rent is the return to natural resources. They are wrong. Rent is not the return to natural resources. It is the return that attaches to a specific bit of natural resources. So, in the public schools of California, we've made a change to this traditional defined concept.

Land is now the name we give to a natural resource with an address. Land is - as we teach it - a location. And rent attaches itself to a location. I should make clear that an 'address' doesn't necessarily mean '25 Day Street, Tujunga'. It could be 2 miles east of latitude 154, longitude 118. It could be the North 40 - or California. As you can imagine, the more precise the address of the location, the more useful it is likely to be and the more Rent is likely to attach to it.

I can state without any fear of being contradicted - there is only one location at each location. And the better locations are not all that plentiful. When we want to use a location, we know why we want it, and often, it's the only one that will do. A profit might be made on a corner, whereas in the middle of the block, the same people and same capital may be unable to save the enterprise from bankruptcy.

Perhaps, in a colder city like Copenhagen, you might want to be on the side of the street that the sun mostly shines. In Phoenix, you would definitely prefer the shady side of the street. You might pay more for a home site near the elementary school. Or, you might pay more for a home site that is well away from the elementary school.

People know the value of a particular location. They might not immediately be able to put it in dollars, or pounds, or kroner - but they know the advantages and disadvantages that attach to a location. They know its Rent.

Which leads us to our redefinition of the concept of Rent. We don't relate Rent to the margin - which nowadays is a fiction. We say Rent is the sum of the advantages, less disadvantages, that attach to a location.

I defined a free market with two conditions. There must be no restriction on production, and no restriction on supply. There is no free market in Picasso's paintings. Not only is there a complete restriction on production, for Picasso has gone, but there is a restriction on supply as the paintings are in the hands of people not entirely willing to sell.

Although they won't sell the demand continues and prices rise. But, there is little supply and as the demand for this limited supply heats up, the price of Picassos rises. But, here's the rub. People with Picassos, seeing the prices rising, don't sell. The price mechanism confronted with this weak response, raises prices still further, trying to draw supplies to market in order to bring prices back to the equilibrium known as 'market clearing'.

Well, this fails and prices continue to rise - the resolution of Picasso owners firms and they hold on for a yet higher price. I suppose the engineer would call this positive feedback.

In a free market, whether prices rise or fall, the supply of goods changes to bring the market back to 'market clearing'. This is negative feedback. With Picassos and other collectibles, the feedback is positive - increasing prices push prices still higher.

None of this matters to the economy, nor to our well-being. In fact, Churchill said - speaking to this very point - "Pictures don't get in anybody's way".

It does matter with land, which is vital to our well-being. Land is a collectible. When the price mechanism goes to work on land, it finds that there is both a restriction on production, and a restriction on supply. More locations cannot be produced. We can't meet a demand for central city land by bringing some in from the desert. Land is a true collectible - and of course it is collected.

There are plenty of 'natural resources'. But, as I said, we don't want them. We want and need a specific piece. And to get that specific piece we are prepared to pay. Just as we might be prepared to pay for a Picasso. If we have to pay a smidgen more to get the particular site we need - we will. Trouble is it is likely to become a pretty big smidgen. Soon, although you want it, although you need it, you have to think about it. While you are thinking, the price goes up further. So, you take it - but life is more difficult. You've had to pay $5 for a location which returns you only $4. You will have to take a smaller profit - which usually means you cut your Wages.

As I mentioned earlier, first producer to respond to rising prices in a free market gets the best price. Those who arrive late may be left with a load of rotten tomatoes. This rush to market to serve consumers is why the laboured endeavours of the central planner are so ineffective by comparison. The market has concluded its transactions while the bureaucrat is still collecting data.

When people laud the free market, they are praising the efficiency of the price control mechanism in bringing people quickly to market in response to rising prices.

There is no doubt that allowing the free market to allocate is the best choice for a free people. However, the free market doesn't work with collectibles. In fact, the collectible market works exactly opposite to the free market.

A free market's response to rising prices is to stimulate selling immediately to take advantage of higher prices before they drop - which they will as sellers satisfy the demand.

The first to arrive to a free market gets the best return. However, in the collectible market, the last to market gets the best return. The watchword for the collector is to be slow, to be reluctant to sell. Every collector has sold a piece, only to see its price go higher and higher.

"If only I had held on", is the plaintive cry.

So, when a collector sees a similar good to his own sold for a good price, his thought is not to sell his own - but to hold on for he is sure it will go higher. The collectors try to avoid selling because they are sure they will get more later.

A market that consists of a lot of traders all trying to be last to sell, is a market that doesn't work. The Land market is a collectible market - with all the characteristics of the collectible market. The free market can't do a thing with it.

So, that's why the free market always fails. It fails because a major Factor in the economy, Land, is not controlled by the engine of the market - the price mechanism.

Now, Georgists know how to bring land in from the cold - to make it a fully fledged part of the market process - but that's another story.