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Sustainability thoughts 112: How can the hidden unequal nature of the liberal market model be detailed step by step?

By

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Abstract

In the theoretical world it can be said that markets interact with people providing them good and services and responding to the nature of their demands under equality, a perfect theoretical interaction under equality. And if people are divided into groups these markets interact with them under equal treatment and under equal sharing of benefits and costs. A perfect world under equal footing. But we know that in reality the world is an unequal place, which means that we live under inequalities in market-people interactions, inequalities in market-group treatment, and inequalities in market-group sharing of benefits and costs. Yet, it is not easy to see how these inequalities are embedded in the structure of the liberal economy model in which we live. And this raises the question, how can the hidden unequal nature of the liberal market model be detailed step by step? The main goal of this paper is to provide an answer to this question.

Key words

Liberal market, sustainability, equality, inequality, trickledown, trickle up, pro-rich growth, pro-poor growth, balanced growth, unbalanced growth,

Introduction

a) Markets under equality

In the theoretical world it can be said that markets(M) interact with people(P) providing them good and services and responding to the nature of their demands under equality, a perfect theoretical interaction under equality, which can be indicated as in Figure 1 below.

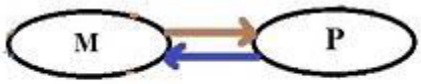

Figure 1 Markets under equality

Figure 1 above describes the perfect world, where markets(M) have equal access to people(P); and people(P) have equal access to markets(M) as indicated by the continuous arrows between M and P.

b) Extended markets under group treatment equality

Imaging that people(P) are divided into two groups, the rich(R) and the poor(D), then the market-people model in Figure 1 above can be expanded as indicated in Figure 2 below:

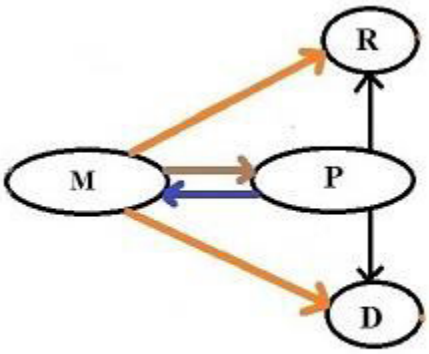

Figure 2 Markets under group treatment equality

Figure 2 above describes the perfect world, where markets(M) have equal access to the rich(R) and the poor(D); and the rich(R) and the poor(D) have equal access to markets(M); and therefore, the market(M) will treat them equally as indicated by the continuous orange arrows from M to R and from M to D.

c) Extended markets under group growth equality

As both the rich(R) and the poor(D) have equal access to benefit from market growth, then the market(M) in Figure 2 above can be extended as it provides benefits from pro-rich growth to the rich(R) and benefits from pro-poor growth to the poor(D) in a balanced fashion, as detailed in Figure 3 below:

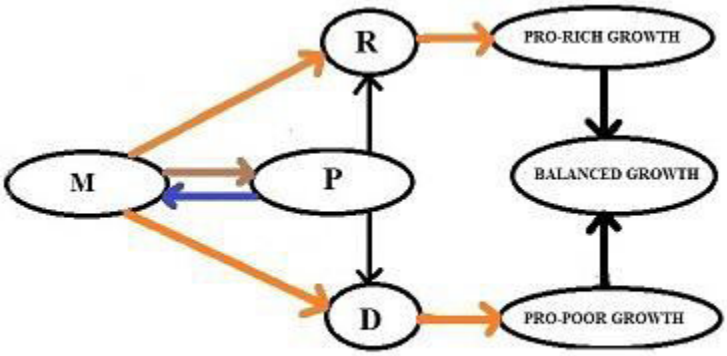

Figure 3 Markets under group growth equality

Figure 3 above tells us that when the rich(R) and the poor(D) have equal access to the market(M) and its growth it leads to balanced development, where there is no need for trickledowns or trickle ups in help as everyone shares in the growth equally. That is a true perfect market in Figure 3 above, a market where there are no sustainability gaps and where there is full market responsibility and inclusion. The need to invest internationally to promote a policy that balances pro-rich and pro-poor growth or that promotes balanced development has been stressed(Muñoz 2010) as trickledowns reach the poor directly only under equality or balanced conditions as under inequality the embudo effect is the one at work, not the trickledown effect(Muñoz 2009).

d) The perfect market world vrs the real world

What was described above is a perfect world under equal footing. But we know that in reality the world is an unequal place, which means that we live under inequality in market-people interactions, inequality in market-group treatment, and inequalities in market-group sharing of benefits and costs. Yet, it is not easy to see how these inequalities are embedded in the structure of the liberal economy model in which we live. This is because Adam Smith's assumed in his time that an unequal reality was perfect when giving us the theory of the traditional perfect market (Smith 1776) and the heart of the current liberal market. Since 1987(WCED 1987) to 2012(UNCSD 2012a; UNCSD 2012b) to now steps have been taken to close or eliminate those embedded inequalities in the traditional market model especially from the environmental externality side as well as ideas have been shared on how to use sustainability theory to internalize those inequalities(Muñoz 2020). The discussion above raises the question, how can the hidden unequal nature of the liberal market model be detailed step by step? The main goal of this paper is to provide an answer to this question.

Goals of this paper

a) to share the structure of markets as they interact with people, as they interact with groups of people, and as they enable benefit sharing by groups giving a sense of move from simplicity to complexity all under equality conditions; and b) to transform all those equality based structures into inequality based structures to see step by step how inequality is step by step embedded in the liberal economy model we live in.

Methodology

i) the terminology used in this paper is shared; ii) some operational concepts are given; iii) the structure of markets under inequality is highlighted; iv) the extended structure of markets under unequal treatment of groups is stressed; v) the extended structure of markets under unequal sharing of benefits and costs is pointed out; and vi) some food for thoughts and conclusions are provided.

Terminology

M = liberal market model **P = people**

R = the rich/supply side of the market **D = the poor/the demand side of the market**

Operational concepts

1) Equality, *the idea that all members of a system receive the same treatment.*

2) Inequality, *the idea that only some members of a system receive better treatment.*

3) The liberal market, *the pro-growth market.*

4) Sustainability, *the idea that equality leads to full responsibility.*

5) Trickledown, *the idea that pro-rich growth will one day indirectly benefit the poor.*

6) Direct trickledown, *the help that reach the poor directly.*

7) Extreme intervention based direct trickle down, *the government help that reach the poor directly during an extreme event.*

8) Trickle up, *the government help that reach the rich directly during an extreme event.*

9) Indirect trickle up, *the idea that direct trickledown will benefit pro-rich growth.*

10) Pro-rich growth, *the type of development targeted to benefits the rich.*

11) Pro-poor growth, *the type of development targeted to benefit the poor.*

12) Balanced growth, *the type of development that brings benefits to both the rich and the poor at the same time.*

13) Unbalanced growth, *the type of development that brings benefits to only the rich or to only the poor.*

14) Externality neutrality assumption illusion, the idea that relevant inequalities or market distortions can be assumed away to create perfect conditions.

Markets under inequality

In the real world it can be said that markets(M) interact with people(P) providing them good and services and responding to the nature of their demands under inequality such as unequal ability to pay or to buy or unequal wealth/income level, an imperfect real interaction under inequality, which can be stated as in Figure 4 below.

Figure 4 Markets under unequal interactions

Figure 4 above describes the imperfect world, where markets(M) have unequal access to people(P); and people(P) have unequal access to markets(M) as indicated by the broken arrows between M and P.

Extended markets under group treatment inequality

The imperfect world above can be seen more clearly when the people(P) are divided into two groups, those who have access to markets or who can participate in the market, the rich(R); and those who do not have access to markets or who cannot participate in the market, the poor(D), then the unequal market-people model in Figure 4 above can be expanded as indicated in Figure 5 below:

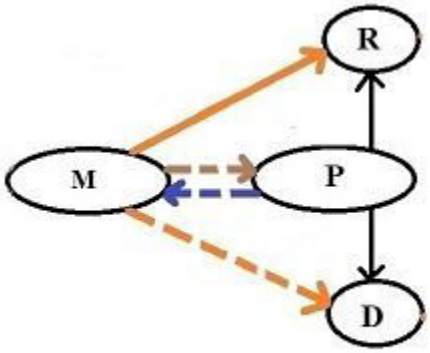

Figure 5 Markets under group treatment inequality

Figure 5 above shows the imperfect world, where markets(M) have access to the rich(R) as indicated by the continuous arrow from M to R, but not the poor(D) as indicated by the broken arrow from M to D; and therefore, the rich(R) and the poor(D) have unequal access to markets(M). In other words, Figure 5 above tells us that the market(M) will treat the rich(R) and the poor(D) unequally.

Extended markets under group growth inequality

Unequal treatment means that the rich(R) and the poor(D) have unequal access to benefits from market growth as the market(M) provides direct benefits to the rich(R) through pro-rich growth; and it provides no direct benefits to the poor(D), creating on unbalanced situation as detailed in Figure 6 below:

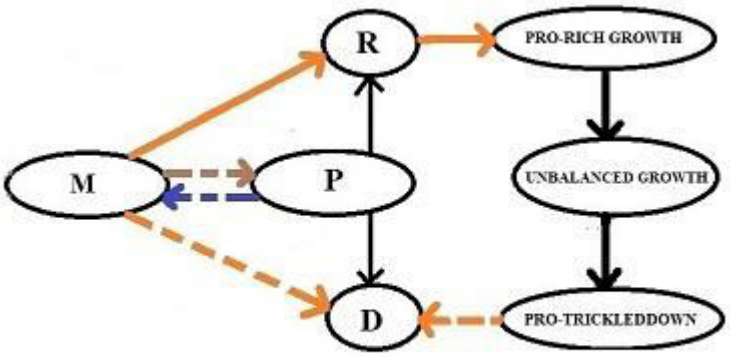

Figure 6 Markets under group growth inequality

Figure 6 above indicates that when the rich(R) and the poor(D) have unequal access to the market(M) and its growth it leads to unbalanced development, where there is a need for trickledowns assumptions that never reach the poor(D) as trickledowns do not work under inequality conditions voluntarily as indicated in the introduction. The broken arrow in Figure 6 above from M to D means there is no direct trickledown in the liberal market; and the broken

arrow from Pro-trickledown to D means indirect trickledowns do not work under inequality. That is a true imperfect market in Figure 6 above, a market where there are sustainability gaps and where there is no full market responsibility and inclusion.

Implications

1) A market like the one in Figure 6 above can only be a perfect market by assumption, like assuming that poor externality neutrality exist and assuming that trickledowns work like magic under inequalities; 2) Assuming precisely that was what Adam Smith did in 1776 when he gave us the perfect traditional market theory; 3) The structure in Figure 6 above is the structure of the current liberal economy model, which means that inequality is embedded in its structure; and 4) The assumptions made by Adam Smith are behind the embedded inequality in the liberal market model, a situation that currently the global academic community is trying to fix even by welcoming government intervention such as in the case of environmental management markets or when entertaining the idea of paradigm shift such as the shift to green markets.

Food for thoughts

i) Are there specific situations in which the rich/supply side of the liberal market will be okay with direct trickledowns? I think yes, what do you think?; and ii) Are sustainability markets full equality based markets? I think yes, what do you think?

Conclusions

i) the structure of markets under unequal interaction with individuals was shared; ii) the structure of markets under unequal access to different groups was pointed out; iii) the structure of markets under unequal sharing of economic benefits was stressed; and iv) it was highlighted that the only way an unequal market can be a perfect market is by assumption only as Adam Smith did with the perfect traditional market theory.

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