Tomorrow's Affairs
Analysis of today
Assessment of tomorrow

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# Away from the free market means away from democracy

Opening a deposit account at a bank was a big deal back in the 1970s. It was difficult for banks to attract people‘s savings with negative real interest rates.

The monetary policies of the time were designed not to offer real interest rates for deposits, exerting some sort of pressure on money, so to speak.

McKinnon and Shaw were not wrong when they said that as long as negative real interest rates persist, savings would not be accumulated sufficiently.

Eventually, by the end of the 1970s, every developed or developing country in the world switched to a positive real interest rate policy, and money began to flow into banks from under the mattresses.

As a result, the amount of money growing with the deposit multiplier and the credit multiplier triggered inflation.

The inflation gap between developed and developing countries, which used to be quite low, increased to an average of 70 percent.

> Having tasted inflationary growth, developing countries have over time become the source of not only economic, but also political and diplomatic instability

As growth-focused governments ignored the side effects of inflation, some of these governments were overthrown around the world due to the sharp depreciation of their national currencies against the strong ones.

However, their policy remained unchanged. Having tasted inflationary growth, developing countries have over time become the source of not only economic, but also political and diplomatic instability.

Some parameters were considered “taboo“ until the 2000s, and no matter which government was at the helm, none attempted to change them.

Central bank lending to governments was prohibited, interest rates were set free to fluctuate according to market trends, intervention in exchange rates was abandoned after a series of bitter experiences, and restrictive decisions concerning capital movements were avoided.

As a liquid money market also meant financial stability, countries used it as propaganda material. Even the autocratic regimes enjoyed an abundant inflow of funds thanks to free capital movements.

Soon enough, new approaches, granting same rights to domestic and foreign investors and allowing profit transfer, were born.

Besides, foreign capital had to be allowed to enter the countries that needed it for privatisation. Governments in many countries used the free market mechanism to finance their spending.

With the help from banks, they attracted domestic and foreign savings from the capital markets, making it difficult for the private sector to access the money.

As the “Crowding-Out Effect“ caused fluctuations in growth rates, it also weakened the competitiveness of domestic capital against foreign capital.

Despite all of this, the 1990s were known as the “Golden Years“ in many countries, until the breakout of the 2008-2009 financial crisis.

> Marx does not provide any explanation as to what would be the motivation for people to do “better“

As economy officials began to think that money and capital markets being too liberal is not actually a good thing, new approaches appeared, speaking unoriginal versions of Karl Marx‘s doctrines.

I really would not like to offend Marxists and true leftists with a touch of Marxism, but let me tell you why I criticise Marx: while I admit that some of the theories in Das Kapital are useful, Marx does not provide any explanation as to what would be the motivation for people to do “better”.

Since there will be no concept of profit and social class, then how will those who do their job well get rewarded?

I do have some suggestions regarding a rewarding mechanism that does not involve money, but unfortunately, they would not be associated with the Marxist approach, since my suggestions aim to distinguish talented people from others by offering the former certain privileges or exclusive rights in recognition of their outstanding work, which basically leads to grouping of individuals.

The new paradigm, which emerged with the Federal Reserve buying not only Treasury Bonds but also private securities, made a rule that Central Banks, the strongholds of capitalism, will come to its aid whenever the capitalist system is in trouble.

In the following years, the world economy went through several minor crises as the intervention of the monetary authorities began to dwindle.

Then the pandemic came, not leaving enough time for the system to recover. Before the start of the pandemic, the intervention of governments and central banks in developing countries in the 2018-2019 period signalled that the world was about to abandon the free market economy.

## More Intervention Means Less Freedom

The world was not a bed of roses before the pandemic, but its arrival has radically changed many of our habits, taboos and beliefs.

As many governments supported their citizens and companies, monetary and fiscal policies had to become “interventionist”. With this rapid move away from the free market mechanism, a lot of economies switched to state capitalism, and digital giants have become larger than the national incomes of countries.

The growing dependence of individuals on digital solutions has inevitably strengthened relationships between governments and technology companies.

With their help, governments restricted civil rights and liberties, and began to monitor people‘s real-life and online activities. As autocracy was getting stronger, financial markets too have been affected by it.

Today, particularly the governments of countries that suffer from poor savings and poor currency value, use technology to control and intervene in capital and fund movements, interest rates, and foreign exchange trading.

Let me remind you of an economics concept known as the ”impossible trinity”, or the”trilemma”: in an economy, allowing free capital movements while simultaneously keeping foreign exchange rates under control and implementing an independent monetary policy will not yield any positive results.

For instance, in Turkey, the government stubbornly tried this method several times and failed, and then decided to restrict capital movements.

A series of complex and ever-changing policies were required to do that instead of limiting these movements in an obvious manner, which would heavily harm the country‘s reputation.

Levying high taxes on forex trading and money outflow from the country, forcing exporters to convert their export revenue into the national currency, identifying foreign currency buyers and suggesting them not to do it, and finally obliging people to get government authorisation before carrying out any capital transaction.

All of these restrictions clearly show that capital movements are no longer free in Turkey. Under such circumstances, it would be possible only for a while to keep exchange rates and interest rates away from the market realities.

> The institutions that oversee the competitive environment must work ethically, without bending the rules

The history shows us that such attempts have never ended well. Many developing countries in Latin America and other continents have tried this, but eventually failed.

As a result of such reckless actions, poverty grew further and government leaders changed. We must believe that a “competitive environment offering equal opportunities to everyone”, courtesy of liberalism, will cure the problems created by the capitalist system.

In the meantime, the institutions that oversee the competitive environment must work ethically, without bending the rules, and the governments must be able to intervene in this mechanism only for a limited period of time.

Let‘s not forget: If governments get used to controlling and regulating the markets all the time, countries will move away from democracy and freedoms.