

## FREE-MARKET FAILURES

**Automobile Safety:** The auto industry fought for decades to prevent mandatory seat-belts, air-bags and other critical safety features. Why? Because adding such life-saving devices cut into profits.

**Auto Mechanics:** It's almost a certainty: the final bill will exceed the original estimate. Even worse: mechanics who make unnecessary repairs.

**The Battle of the Taxi-Cabs:** You want the lowest fare possible, but your cabbie wants the highest. As a result, the shortest distance between two points is often a crooked line.

**The Cable Industry:** After deregulation in 1984, cable prices soared, quality of programming plummeted, and service providers began selling their channels in indivisible blocs to prevent subscribers from voting with their dollars. From 1986 to 1990, the cost of basic service rose 56 percent -- twice the rate of inflation.

**The Corporate Special Interest System:** So who's bribing our Congress? In 1992, corporations formed 67 percent of all PACs, and they donated 79 percent of all contributions to political parties. This poses a dilemma to believers in the invisible hand: how do you condemn today's government without condemning the free market that controls it? A better alternative: democracy.

**Corporate Welfare:** Private enterprise is quite adept at feeding at the public trough, despite its professed antagonism for government. One of the most famous examples is the Wool and Mohair Lobby, which receives \$100 million a year for a product the Pentagon no longer needs. Estimates of corporate welfare run from \$85 billion to \$800 billion a year.

**The Cuyahoga River:** This Ohio river was so polluted by industrial waste that it caught fire *three times*. Government stepped in and ordered a \$1.5 billion cleanup. Today, the river is clean.

**The Drug Industry:** According to Dr. George Silver, a professor at the Yale University School of Medicine, about 22 percent of the 6 billion doses of antibiotic medicine each year are overprescribed, resulting in 2,000 to 10,000 unnecessary deaths annually.

**The Exploding Ford Pinto:** Ford knew for years that it would cost only \$11 per Pinto to correct defective gas tanks that exploded upon impact. The company decided it was cheaper to let its customers burn and pay out damages to victims or their families instead. ([More](#))

**The Exxon-Valdez Oil Spill:** The oil industry has long fought to defeat laws requiring double-hulled oil tankers. And what few oil-spill cleanup measures existed at Prince William Sound were ones that legislators had mandated. These measures failed miserably when the single-hulled *Exxon Valdez* ran aground and spilled 11 million gallons of oil into Alaska's most scenic waters.

**Global Warming:** Despite the fact that the National Academy of Sciences is "90 percent sure" that global warming is occurring, the fossil fuel industry is resisting all change. It has even formed the "Global Climate Coalition," a public relations group that attempts to convince the public that global warming is a myth.

**Insurance Companies:** This industry is famous for battling its own customers in court to avoid paying awards. It has shut out patients with pre-existing conditions, allowing them to die to preserve profits. It has reduced hospital stays for mothers giving birth to 24 hours ("drive-by deliveries") to cut coverage costs.

**Jack-in-the-Box:** In 1993, E. coli poisoning from undercooked hamburgers killed three Seattle children and

sickened hundreds of others. It is estimated that foodborne illness affects anywhere from 6.5 million up to 81 million people a year. About 9,000 die from E. coli and salmonella alone. Yet the food industry has heavily lobbied Congress to deregulate and relax federal food inspection standards.

**Love Canal:** Between 1942 and 1954, the Hooker Chemical and Plastics Corporation dumped 22,000 tons of 248 assorted chemicals in and around Love Canal. Despite claims to the contrary, Hooker neither adequately disposed of the chemicals nor fully warned property buyers of the risks. After a sharp rise in cancer rates and birth deformities, President Carter declared Love Canal a federal disaster area and over 1,000 households were permanently evacuated from their homes. ([More](#))

**McDonald's:** For years, London Greenpeace distributed a brochure criticizing McDonald's role in rainforest destruction, labor exploitation, animal abuses, unhealthy food and child manipulation. McDonald's first infiltrated the group with spies, then attempted to censor the protesters by suing them in court for libel. The case became the longest in British libel history when the defendants put up a surprisingly strong defense. The case received international attention and became a major public relations disaster for McDonald's when their own witnesses actually confirmed the brochure's criticisms. (See [McSpotlight](#))

**The Media (Part 1):** The primary goal of the media is to make money, not educate. Thus, news programs attempt to attract viewers by titillating them with controversy, scandal, sensationalism, sex, violence and demagoguery. The trend towards "punch" journalism has reduced the average sound bite from 42 seconds in 1968 to 8 seconds in 1992.

**The Media (Part 2):** The media is being increasingly monopolized by corporate owners, and they depend on corporations for their advertising dollars. Not surprisingly, the media is virtually uncritical of corporate America. In 1989, the three major networks devoted only 2.3 percent of the news to worker's issues -- like workplace safety, child care and income disparity -- despite the fact that workers constitute the largest share of their audience.

**The Minimum Wage:** Business owners say market forces should determine entry-level wages, not the government. But the job market does not operate by the usual laws of supply and demand. The economy is kept at a 6 percent unemployment rate (the "natural rate of unemployment") for reasons beneficial to business. Because there are more workers than jobs, it's an employer's market, and employers can therefore force entry-level wages below the poverty level. ([More](#))

**Monopolies:** In unregulated economies, relentless competition first leads to a wave of business failures, followed by the rise of monopolies. Economists condemn monopolies for their price-gouging, low-quality products, inefficiency and abuses of power.

**New Coke:** Everyone remembers Coca-Cola's disastrous experiment with New Coke, and it's hasty return to "Coke Classic." What most people don't know is that the outraged public got another poke in the eye by a recalcitrant Coke management, in that they actually gave so-called "Coke Classic" a higher fructose content. Truly, the customer is king...

**Ozone Depletion:** It took growing scientific warnings from 1975 to 1986 before Dupont even conceded that CFCs were responsible for destroying the ozone layer. Since then, it has dragged its feet coming to a full ban on ozone-depleting chemicals.

**Path Dependency:** Economists have chronicled hundreds of examples where an accident of history put the economy on a path from which it is almost impossible to diverge, even though better paths show up. Example include the inferior QWERTY typewriter keyboard, the gasoline engine and the VHS video system. ([More](#))

**Planned Obsolescence:** Lifetime light bulbs, run-free nylons, durable heels for tennis shoes and long-life answering machines were all invented a long time ago. Businesses do not market them because they would go out of business after the initial flurry of sales. Even small-time entrepreneurs willing to make money for a short time find it difficult to break into these markets, because the majors can force them out with lawsuits, market-manipulations, artificially low prices, lobbying, etc.

**Pollution:** This is probably the most famous example of free market failure. Usually, dumping pollution is cheaper than treating it. But businesses conduct slick advertising campaigns to convince the public that they are stalwart defenders of the environment. Environmentalists call these P.R. efforts "ecopornography."

**The Prisoner's Dilemma:** This is an irony that occurs frequently in life. Two individuals are faced with the opportunity to cooperate to achieve a good result. However, following their own self-interest with impeccable logic, they shun cooperation and come to a worse result. A strong refutation to the invisible hand. For details, see [More](#).

**Recessions and Depressions:** Recessions have been a recurring feature of the American economy for centuries, even during the era of *laissez-faire*, when government left the economy almost entirely alone. In the 19<sup>th</sup> and early 20<sup>th</sup> centuries, eight American recessions worsened into depressions. (For the cure to this free-market malady, see "Government Success Stories.")

**The San Francisco Bay Bridge:** This is a well-known failure of the invisible hand. Commuters, following their own individual best interests, contribute to a traffic jam that is far worse than if they followed a group-based solution. The details can be found in [More](#).

**Savings and Loan Bail-Out:** After the Savings & Loan industry was deregulated in 1982, fraud and abuse quickly ran rampant. After 650 S&Ls went under, taxpayers discovered they were left holding a \$500 billion bill.

**Silicon Breast Implants:** Dow Corning and other corporations knew that silicon breast implants were leaky when they marketed them. In 1994, these manufacturers agreed to pay \$4.75 billion to 60,000 stricken women - although that sum may rise pending further court action.

**The Superfund:** After the Love Canal disaster, Congress created the Superfund program to clean up the nation's thousands of toxic dump sites. The polluters responsible are supposed to defray the costs, but corporations sue in court to minimize their liability. Between 1986 and 1989, insurers spent \$1.3 billion on Superfund clean-up and litigation -- with \$1.2 billion of that going to their lawyers alone!

**Three-Mile Island:** Improperly trained crews were mostly to blame for the partial meltdown of one of the reactors, which released radiation into the air and water before it was contained. Gordon MacLeod, the Pennsylvania Secretary of Health, was fired after voicing his concern that both the industry's and the state's nuclear accident response plans were grossly inadequate.

**The Tobacco Industry:** Despite the fact that tobacco kills 420,000 people a year directly, and another 50,000 by second-hand smoke, tobacco companies still spike their cigarettes with nicotine to make them more addictive. Advertising campaigns specifically target teenagers to replace older, dying smokers.

**The Toy Industry:** American toys are generally manufactured in China, whose workforce includes slave labor. Many of these prisoners are political dissidents under a regime that slaughtered hundreds of democratic protesters at Tianenmen Square. Toy manufacturers think their profits are more important than sanctioning China for its abusive human rights record.

**Unnecessary Surgery:** Many studies have determined that about 2 to 3 million unnecessary operations are performed each year, resulting in 12,000 to 16,000 deaths. These figures are determined by comparing the surgery rates of doctors who have a profit incentive in recommending surgery to those who do not.

Next Section: [The Invisible Hand](#)

Return to [Government/Market Homepage](#)