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## **Free Enterprise: Governments: Beware of protectionist involvement in market affairs**

By Savannah Morning News  
Created 2008-11-15 00:30

This weekend's gathering of G-20 leaders has an unenviable task ahead of it. The Group of Twenty ([www.g20.org](http://www.g20.org) [1]) is a get-together of finance ministers and central bankers from industrialized and major emerging nations that was established in 1999.

On the one hand, it needs to restore belief in the strength of the global economy. On the other hand, it will imply that the regulatory system is obsolete by suggesting ways to overhaul it - or in some areas create oversight for the first time - with respect to worldwide flows of capital.

This balancing act foreshadows the likely tenor of the discussions in the coming months, especially after the new administration takes office. Those debates will be, as they have been ever since Karl Marx offered his critique of the capitalist system, about the proper extent of the government's involvement in market affairs.

Thursday's testimony before Congress by five of the wealthiest hedge-fund managers (all billionaires) was yet another signal that the pendulum has swung away from laissez-faire policies of deregulation and noninterference in the economy.

George Soros, author of "The New Paradigm for Financial Markets: The Credit Crisis of 2008 and What it Means," joined his fellow hedge-fund managers in supporting additional regulation. However, this longtime sage of the market also warned that neither individual governments nor inter-governmental organizations are blameless regarding the asset bubble that led to the current crisis.

Consequently, he warns that "we must beware of going overboard with regulation." Furthermore, he pointed out once more what serious students of economics and politics have acknowledged for a long time, namely, "regulations are liable to be even more deficient than the market mechanism itself. That is because regulators are not only human, but also bureaucratic and susceptible to political influences."

Soros is right, and so was, despite having the lowest approval ratings of any president in recorded history, President Bush when he gave an impassioned defense of the free-enterprise system Thursday. Preserving free markets and maintaining the free flow of goods and services around the globe in the face of protectionist impulses will be one of the most challenging tasks in 2009.

Friday's announcement by the President's Working Group on Financial Markets that it will strengthen the

oversight of complicated financial instruments, such as credit-default swaps and derivatives, is a step in the right direction. Establishing a clearing-house, which records and reports these types of transactions for the entire world to analyze, will go a long way toward injecting required transparency.

Those are the kind of changes to the regulatory system that are needed. They provide clarity and reduce the likelihood of systemic risks. At the same time, the ability of the market to experiment with growth-inducing innovations is not (and must not be) taken away.

The participants of the G-20 meetings should keep in mind that the free-market system, with all its failures and weaknesses, has done more to alleviate poverty than any other system of organizing the economy. Grand visions of a new financial world order need to take a backseat to fine-tuned and well-thought-out adjustments to our regulatory systems.

After all, those leaders have just received a once in a century lesson in the dangers of hubris. They should take that lesson to heart when plotting the next steps.

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