
FREE MARKET IDEOLOGY: AN ANALYSIS

Harish T, SRM School of Law, SRMIST, Chennai

Sailesh Kumar N, SRM School of Law, SRMIST Chennai

ABSTRACT

Free market ideology is an economic and political concept that upholds the belief that, markets perform optimally when the role of the government is kept to minimum. Under this type of system prices of goods and services are determined not by the state but by the supply and demand. The government does little to interfere with businesses and individuals that have the freedom to produce, trade as well as invest. The advocates of this school of thought say that unrestricted market enhances efficiency, innovation, and growth of the economy. Nevertheless, the idea of the fully free market has been discussed all the time. Most researchers and policy makers believe that there should be a certain amount of regulation to avoid unfair practice, monopolies and exploitation of the consumers. Competition statutes, labour legislation, consumer legislation and environmental statutes tend to put restrictions on naked market freedom. Thus in the new economy, there is an effort to balance free market ideology and governmental intervention. This research paper examines the concept of free-market ideology in relation to law. It looks at the historical formation of the concept, how the law has influenced the process of formulating market freedom, and the difficulties encountered in the operation of the free market policy policies in contemporary societies. The crucial legal cases and statutes affecting the regulation of markets are also considered in the paper. Analysing them, the study will seek to comprehend the dynamics, as it is in the modern economic systems, between law and free market ideology. The research ends up by concluding that event though free markets might foster economic growth and competition, the law has a role to play in promoting fairness, safeguarding the interest of the people, and economic stability.

Keywords: Free Market, Economic Liberalism, Market Regulation, Competition Law, Economic Policy, Capitalism, Government Regulation

List of Abbreviations

Abbreviation	Full Form
GDP	Gross Domestic Product
FDI	Article
WTO	World Trade Organization
IMF	International Monetary Fund
OECD	Organisation for Economic Co-operation and Development
MRTP	Monopolies and Restrictive Trade Practices
CCI	Competition Commission of India
TRIPS	Trade Related Aspects of Intellectual Property Rights

LIST OF CASE LAWS

1. Locomotive Co. Ltd. and Tata Engineering and Locomotive Co. Ltd. and State of Bihar.
2. Excel Crop Care Ltd. Competition Commission of India (2017).
3. India Competition Commission, v. Bharti Airtel Ltd. (2018)
4. United States v. Microsoft Corporation (2001)
5. United States of America v. Standard Oil Co. of New Jersey. United States (1911)

LIST OF STATUTES

1. The Competition Act, 2002 (India)
2. Monopolies and restrictive Trade practices Act 1969.
3. The Consumer Protection Act, 2019
4. The Companies Act, 2013
5. In the instance of the Foreign Exchange management Act, 1999.
6. Essential Commodities Act, 1955.

INTRODUCTION

The ideology of a free market is one of the strongest economic concepts of the modern world. It lends credence to the fact that markets must be left with the least amount of interference of the state. According to the idea, individuals and enterprises should have the capacity to promote, buy, produce, and invest without any unwarranted restraints. The prices and levels of production of the market depend on the supply and demand. I would be able to track the roots of the free market way of thinking to the classical schools of thought such as Adam Smith. Smith in his masterpiece work on the wealth of nations believed that when all individuals are given a chance to pursue their economic desires, the economy would in total achieve after what he referred to as the invisible hand of the market. The modern capitalistic systems were based on this idea. In the real world, however, not many of the nations are ruled by a properly free market.¹ A legislation and regulations is usually introduced by the governments to protect consumer, workers and the surroundings. The markets without the law may lead to monopolies, unfair competition as well as economic inequality. In the year 1991, economic reforms in India were introduced and these were a big twist towards the emancipation of the markets. There was the influence of free market ideology on the policies adopted such as deregulation, privatisation and encouragement of foreign investments. Other bodies such as Competition Commission of India were at the same time put in place to offer equitable competition within the market. This paper will be an analysis of the concept of free market ideology and its relationship with the law. It examines the influence of the systems of law to the behaviour of the market and the way in which freedom in the economy is not harmful to the population. The power of the free market ideology is evident in most domestic and global economic policies in the current global economic conditions. Nations are taking a more welcoming approach to personal investments, open trade, and competitive market in a bid to attain economic growth. The international bodies like the World Trade Organization (WTO) and the International Monetary Fund (IMF) also propagate policies that favour market liberalisation and economic openness.² These changes have solidified the significance of the principles of free market in the development of the global economic relations.

¹ Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations*, Methuen & Co. , London (1776).

² Milton Friedman, *Capitalism and Freedom*, University of Chicago Press, Chicago (1962).

STATEMENT OF PROBLEMS

Although free market ideology promotes economic freedom and efficiency, it also raises several concerns. Markets that operate without proper regulation may result in monopolies, price manipulation, and exploitation of workers and consumers. In some cases, large corporations may gain excessive control over markets, which reduces competition and harms smaller businesses. Another issue is that free market policies may increase economic inequality. Wealth and resources may become concentrated in the hands of a small group of individuals or corporations. This can lead to social and economic imbalances. Therefore, the main problem addressed in this research is the challenge of balancing market freedom with legal regulation. The study examines whether free market ideology alone can ensure fairness and economic stability, or whether strong legal frameworks are necessary.

RESEARCH QUESTIONS

1. So what is the ideology of a free market and what is involved?
2. What is the history of the free market ideology?
3. How does the law take part in regulating free market economies?
4. Can the free market systems be considered to be capable of operation without the government?
5. What is the way to maintain impartiality and competition in the system of laws?

OBJECTIVES OF THE STUDY

The key goals of the research are:

To investigate the notion and values of the ideology of the free markets.

To examine the history of the free market economic thought.

In order to examine how law can be used to control market activities.

To learn the merit and demerit of free market systems.

To compare the effectiveness of the legal frameworks in safeguarding competition and the interest of the people.

RESEARCH METHODOLOGY

The study takes a doctrinal research design. The investigations are based on secondary materials that include books, journal articles, court rulings, laws, and reports issued by international organisations as the primary support. Data were gathered through the legal databases, theoretical literature and governmental publications that concerned the economic policy and competition law. The study also focuses on the key judicial judgments that affect market control. The discussion is aimed at comprehending the interaction of legal systems with the principles of free market and the application of the law to ensure stability and fairness of economic systems. Besides the analysis of the ideology contained in the doctrine, the paper also uses an analytical method to comprehend the correlation among free market ideology and the law. The study looks at the role of economic theory involving free markets in shaping the establishment of legislations and other regulatory organizations in various jurisdictions. The present study tries to establish the application of the free market policies in a modern legal framework by examining scholarly literature and policy reports. It is also the case that the research also uses comparative references where needed. The international cases of other legal systems as well as policies from the economy are looked at to understand how the various countries treat the issue of choice between market freedom and government regulation. These comparisons assist in determining the similar problems that can be experienced in both the developed and developing economies in ensuring a fair competition and economic stability. The official government publications, the reports of regulatory bodies, and the publications of international organizations are also invited as the secondary data in the course of the research. Via these materials, one is able to understand how the regulatory frameworks operate and how they can be used to regulate the issue of anti-competitive practices within the market. With this blend of the doctrinal and analytical approaches, the paper will focus on entrenching a clear understanding of the connection between law and free market ideology in the contemporary economic governance.

REVIEW OF LITERATURE

The idea of free market ideology and its effects on the contemporary economies have been discussed by a number of scholars. Adam Smith can be regarded as the pioneer of the free

market economic theory.³ He clarified the role of market forces in regulating economic activities without governments having to interfere in the processes in his work *The Wealth of Nations*. Similar ideas were supported later by Milton Friedman⁴ in his works about economic freedom. He claimed that freedom markets promote innovation, efficiency and economic growth. Friedman says that too much government intervention may lead to decreasing the productivity of the economy. Nonetheless, the concept of all-free markets has been put down by other academics. An example can be found in Joseph Stiglitz, who maintained that without governance, markets are usually not able to deliver fair results. Among the issues he pointed out includes information asymmetry and corporate power. There has also been an analysis of the linkage between regulation and market freedom by legal scholars. Consumer protection laws and competition law are commonly regarded as a prescriptive approach that involves ensuring that no one is able to abuse his/her authority and harm the interests of the people. The available literature indicates that the ideology of free market has great theoretical justifications; however, in most cases, legal regulation must be operational in its implementation. In addition to classical economists, a number of modern economists have also contributed to the analysis of the role of free market ideology in the development of economic systems. Friedrich Hayek⁵ is a strong proponent of the view that a market economy will flourish if individuals are free to make independent economic decisions. Hayek argues that government intervention in a market economy may lead to inefficiencies in the economy. Hayek's work emphasized the role of individual freedom and government non-interference in economic activities. However, some economists have also argued that a free market economy may not be a practical solution for economic development. Karl Polanyi is a prominent economist who argued that a free market economy cannot survive without government intervention. He argued that a free market economy may lead to social disruption if it does not take into account the social welfare of individuals.

BACKGROUND HISTORY

The evolution of free market ideology could be dated back to eighteenth century when there was the classical economic thought. Adam Smith, David Ricardo,⁶ and John Stuart Mill⁷

³ Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations*, Methuen & Co., London (1776).

⁴ Milton Friedman, *Capitalism and Freedom*, University of Chicago Press, Chicago (1962).

⁵ Friedrich A. Hayek, *The Road to Serfdom*, University of Chicago Press, Chicago (1944).

⁶ David Ricardo, *On the Principles of Political Economy and Taxation*, John Murray, London (1817).

⁷ John Stuart Mill, *Principles of Political Economy*, Longmans, Green and Co., London (1848).

were among the economists who advanced the concept of a free market, without the government dominating it. In the nineteenth century, the policies that promoted trade and industrialization were embraced in most of the Western nations. Nevertheless, the economic crises of the twentieth century, and particularly, the great depression of the 1930s, prompted governments to present more powerful regulatory tools. Following after the Second World War, numerous countries adhered to mixed economies systems, in which both the market reaction and governmental policies were significant. The ideology of free markets was revived once more in the late twentieth century due to the economic liberalisation policies. The economic reforms in 1991 in India were also a milestone towards market oriented policies. Government lowered trade barriers and stimulated domestic investment and liberalized the economy to world markets. The idea of free market ideology has gained more importance in the late twentieth century, especially in the context of global economic reforms. Most countries have shifted their economic systems from highly controlled economies to economic systems that support economic liberalisation, privatisation, and economic deregulation. These economic reforms have been initiated in most countries, especially in the context of global economic systems. The major objective of these economic reforms was to promote economic growth and efficiency, and to increase economic participation in the global economy. Economic reforms have been initiated in most developing countries, including India, to resolve economic crises and to enhance economic productivity. Indian economic reforms has initiated in 1991 can be considered an important example of economic liberalisation. The government initiated economic reforms in the country by relaxing industrial licensing, promoting foreign investment, and encouraging private sector participation in different sectors. This can be considered an important move towards a free market economy. However, idea of this free market ideology has never been practiced. Most governments have maintained economic regulations to safeguard the interests of the public. Most countries have adopted a mixed approach in economic systems, considering the importance of market freedom and economic regulations.

ROLE OF GOVERNMENT IN A FREE MARKET ECONOMY

While the free market ideology suggests that the government must not interfere with the market, the role of the government cannot be completely excluded in the present-day economic system. The government is also important in establishing the legal system within

which the market operates. If the market is not regulated with proper laws and regulations, the market activities might result in the prevalence of unfair trade practices, exploitation, etc. Therefore, the role of the government is important even in the free market system. One of the important roles played by the government is to ensure fair competition within the market. The government establishes the competition laws within the market with the intention of ensuring that no single entity dominates the market. The Competition Commission of India is the regulatory agency that monitors the market activities and punishes the companies that try to dominate the market. Another important role played by the government is the protection of the rights of the consumers within the market. The consumers are often subject to various risks while dealing with the market. The government establishes the Consumer Protection Act with the intention of ensuring that the businesses maintain proper ethics while dealing with the consumers. The government also plays an important role in ensuring the maintenance of the market's stability. The government often tries to maintain the market's stability during the crisis. The government establishes the policies related to the economy with the intention of ensuring the proper growth of the market. In addition, the government is also important in the provision of the public goods that the market might not provide. The government is important in the provision of the public infrastructure, education, etc. Therefore, while the free market system is important in the promotion of the freedom of the market, the government is important in the maintenance of the market's stability.

ADVANTAGES OF FREE MARKET IDEOLOGY

Free market ideology is largely supported because it helps to promote efficiency in the economy. In the free market economy, businesses compete with each other to attract consumers. As businesses compete with each other, they try to offer the best quality products and services to consumers. They also try to maintain low prices. As businesses try to outperform their competitors, the economy benefits because the quality of products and services is high. Another advantage of the free market economy is innovation. Businesses compete with each other to outperform their competitors. As businesses compete with each other, they try to innovate by producing new products. Innovation is important in the economy because it helps to grow the economy. Many innovations in the economy come from the free market economy. Businesses try to innovate to outperform their competitors. As businesses innovate, the economy grows. Another reason the free

market ideology is important is the freedom it provides to individuals. Free market ideology provides freedom to individuals to conduct business activities. Individuals can invest their resources in any business activity they want. They can also choose the business they want to engage in. As individuals are free to conduct business activities, the economy grows. As individuals can freely conduct business activities, the economy grows. In the free market economy, resources are allocated efficiently. Prices in the economy determine the supply and demand for products. As businesses operate in the economy, they try to meet the demand for products. As businesses operate to meet the demand for products, the economy grows. As businesses operate to meet the demand for products, the economy grows. As the economy grows, individuals can freely conduct business activities. Even though the advantages discussed above are important, the free market economy is not perfect. As the free market economy is not perfect, the government still needs to set laws to regulate the economy.

CHALLENGES AND CRITICISM OF FREE MARKET IDEOLOGY

While the free market ideology has many advantages, there are also many disadvantages associated with the free market system, as stated by many researchers. First, the free market system is often criticized on the basis that the free market system can create inequalities between people in the economy. The free market system is not regulated; therefore, the wealth and power in the economy can be concentrated in the hands of a few large companies. Another criticism of the free market system is the issue of monopoly in the free market system. In the free market system, many companies try to dominate the market by eliminating the competition of small companies. When the companies start to dominate the market, the people who buy the products from these companies suffer because the prices of the products are high. The free market system also does not provide the basic needs required by the people. The free market system does not provide the basic needs such as healthcare facilities, education facilities, and infrastructure facilities to the people in the economy. The government is required to ensure that the basic needs are provided to the people in the economy. The free market system also faces many challenges regarding the environment.

MAIN CONTENT

The principles of the free market ideology entail the assumption that people and companies should make economical decisions instead of the government. In this kind of system, the

forces of the market like supply and demand control the prices, aspects of production levels and the distribution of resources. Efficiency is found to be one of the primary benefits of free markets. The businesses are urged to enhance productivity and minimise costs to be able to compete effectively. Firm competition is usually associated with the production of quality products and prices that are low and more affordable to the consumers. Innovation is also promoted by free markets. Companies engage in research and development in order to develop new products and technologies which can appeal to customers. This is a process that leads to economic development and technology advancement. Nevertheless, total free markets can be problematic as well. Unregulated, big business will have a monopoly and wipe out smaller players. This will minimize competition and can result into an increase in consumer prices. The competition law can be useful in dealing with such problems. The Competition Act, 2002⁸ in India is an act that is set to eradicate anti competitive agreements, misuse of dominant position and unreasonable mergers. These rules are enforced by Competition Commission of India which aims at ensuring fair competition. Existential laws also play a role in market economies to provide consumer protection. These regulatory legislations guarantee that customers are well informed of products and services and are not deceived by any form of unfair trade practices. Another aspect in which the government should intervene is in the regulation of the environment. Companies can disregard the environmental costs so as to maximise profits. The laws contribute to the case, which makes the economic development not to be detrimental to the natural resources and health of the people. Thus, although free market ideology is based on economic freedom, the modern law is aware of the necessity of a balanced regulation. The other notable concern in the free market ideology is the contribution of globalisation in the availability of more markets. Due to the increasing international trade and investment, the markets are no longer restricted by the national boundaries. Companies are currently conducting operations in diverse nations which has led to the heightened competition and has given rise to new economic possibilities.⁹

CONCLUSION

The ideology of free market has been significant in the construction of the modern economies. The possibility of self-regulating markets based on the theory of supply and

⁸ The Competition Act, 2002 (India).

⁹ Competition Commission of India v. Bharti Airtel Ltd., (2018) 10 SCC 744.

demand has impacted most economic policies in the global arena. Free markets tend to lead to efficiency, innovations and economic growth. In practice, however, the experience would indicate that unregulated markets providing no controls whatever can give anarchy that produces grave issues. Monopolies, unfair competition, consumer exploitation, and environmental destruction might exist as there is no legal control. This is why most economies in the modern world tend to maintain a balanced system approach. Governments leave markets free but also come up with legislation that safeguards the interest of the people. Such legal measures include competition law, consumer protection law and the environmental regulations. Lastly, the free market ideology is still a relevant concept of economics but it cannot be effectively implemented unless under well-developed legislation. Law is also essential in safeguarding that freedom of markets should not be detrimental of fairness, equity and social welfare.

REFERENCES

A work on *The Wealth of Nations* by Adam Smith. Milton Friedman, *Capitalism and Freedom*.

Joseph E. Stiglitz, *Globalization and Its Discontents*. Competition Act, 2002.

Consumer Protection Act, 2019. Competition Commission of India Reports.

Economic and legal Journal articles on market regulation and the economic policy.