

### Free Market Failure

Many economic theories assume that people are rational actors and that a free market will properly price everything. The problem is that the free market does not properly price extreme events nor does it properly price damage to the common good or long-term risks. A different assumption is that people are emotional and that markets are actually chaotic.

Many places have run with a “business friendly” environment which means that the government has not enforced long-term planning on businesses operating in the common area. The notion is that the “marketplace” will properly discipline businesses that do wrong. Unfortunately, history shows that the payback cycle can be far too long to discipline the businesses.

Without some external agency forcing companies to pay, it is always more profitable in the short run to ignore the risks of hurricanes, floods, earthquakes, ice storms, nuclear meltdowns, pollute the common areas with nuclear waste, acid rain, fine ash particulates, and pollute the ground water with mine waste, unsealed oil wells, heavy metal runoff, and animal waste. The costs can be delayed by decades so that other people pay the price, not the companies involved.

Using an assumption of emotional people and chaotic marketplace may offer a better understanding. Some chaotic systems operate around “attractor” points. If we plot the system

on a graph, it looks like a cloud around those points. When the system bounces around one of those points, that can be approximated by a rational model. However, the system can suddenly switch to another attractor point. Often, this is because of some “perturbation” to the system. Sometimes, the system will bounce wildly during such a shift before settling down to a “new normal”.

We can see how major events in history have caused such changes in our lives. In the last year, the pandemic has greatly affected many industries including hospitality, arts organizations, and the airlines. No sane person would call these effects “rational actions” for a “perfect pricing”. It was a panic reaction with long-term reverberations.

Similarly, the market for electricity trading in Texas had a recent wild swing. The recent storms and cold snap radically impacted nearly everybody in Texas with rolling blackouts for hours. The spot price for electricity went from \$50 to \$9,000 per kwh.

Thinking of people as emotional beings who under react most times but overreact other times, the responses to events can be better understood. People do not want to be surprised by events. People do not want to be surprised by preventable failures of services they rely on. When there is such a major “perturbation”, there is often a political fallout. We will never go back to how things were before the pandemic. Texas will make some changes to their electrical system because of this storm.

### Chaotic Action May Have Wild Swings

### Stakeholders

“Maximize the return to the shareholders!” has been the mantra of a number of companies. Under it, they have laid off workers and sent the work overseas, cut benefits, and more. But is this the only way to operate? An alternative view is the “Stakeholder rights” view which says that customers, employees, and the wider community all have a stake in how the company is run. This debate has implications for many of the social media companies such as Facebook.

Which one is correct? Actually, both are but for different stages of an organization’s life. When a company is first started and is struggling to survive, then focusing on maximizing the return is appropriate. When a company affects nearly everyone, then the stakeholder’s rights become important for the continued survival of the company. A monopoly in America must work for the good of all.

Why is there any debate? It is because of the wide variation how people think. There are those who have a focus on making money and some in “survival mode.” And there are also those who focus on helping other as much as possible. There are those who consider it best when they spend all their energy on others. Because of this wide diversity of thought and motivations, we have those companies that scratch and claw their way to any dime they can get and we also have organizations that totally give up the profit motivation and only serve others. We need both to have a functioning and stable society.

The challenge is when a new company grows so fast that they don’t recognize that they are expected by the general public to no longer be in the “scratch and claw” mode. They will do well to recognize the changed expectation.

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### Risky World

South African Revenue Services has a web site that uses Adobe Flash (which is being discontinued for security reasons and people were notified three years ago). Instead of using that time to rewrite their web site to not use Flash, they issued a new browser with reduced capacity that would allow people to use Flash to file their taxes – but only on Windows. People on other operating systems are out of luck for filing their taxes.

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