

The New Capitalists: A Structural Change from the Stock Market Economy to the Free market Economy

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The objective of this paper is to analyze structural modifications that are required to change from a stock market economy to a real free market economy. A stock market is a market where the stocks and bonds are traded through intermediaries such as brokerage houses, share analysts, and investment managers. Most company shareholders neither know the company they have bought the shares of, nor care about the activities, and the management of these companies. They shy from active involvement in steering corporate boards. It has made much more economic sense to be passive and not active since the benefits of active involvement are low, whereas the costs are high. The recent slump in the share prices and dividends, and the scandals that surround a large number of companies and CEOs, and the Wall Street investment banks accused of conflicts of interest and shady practices, not to mention gigantic holes in corporate pension funds have put pressure on share holders to get involved. The question is how? To assure shareholder involvement I propose replacing a stock market with free market places. In this free market place the sellers are the firms themselves that put their stocks for sale. A stock is treated as a complex commodity, since company stock is a derivative of the company's product(s). Buyers can directly talk to the companies they are interested in and buy stocks that are most suited to their situation, without intermediaries. Each firm competes to attract buyers. Thus competition and choice which are the market processes that bring long-term broadly based benefits to the public are preserved.

The measure of effectiveness of the free market system is the amount of work that is generated by the matching of buyers and sellers. Each matching of a buyer with a seller is considered as a mechanism that puts the seller into the production motion. Thus each matching creates a movement on the part of the seller, with the buyer as the point of reference. The kinetic energy created, and the work done can be measured through Lagrange's equations applied to the motion of a single particle. Here, the kinetic energy is measured by the speed with which displacement occurs along the production line. Work is measured as a function of mass and generalized forces. A mass is taken to be the Nash solution, given the two utility functions of the buyer, and the seller. Generalized forces are elements like demand for the product, market competition, and government regulatory policy.

When a buyer is matched with several sellers, a mechanical system is formed. To find the equations of motion, it suffices to just generalize the equations of motion for a single particle. A collection of several mechanical systems constitutes a machine. As long as this machine is in equilibrium, the free market will perform efficiently. The general equilibrium is the sum of individual equilibriums. This condition requires that each mechanical system should be in equilibrium in order for the machine to work efficiently.