

## Critique of Market Theory and Practice: Conclusion

Adam Smith and Friedrich Hayek proposed the market mechanism as an organic societal learning and management system which incorporated almost endless evaluation and feedback loops and which could therefore coordinate widely dispersed and mutually interacting bits of incomplete information.

As Hayek<sup>12.1</sup> put it:

"The peculiar character of the problem of rational economic order is determined precisely by the fact that the knowledge of which we must make use never exists in concentrated or integrated form but solely in the dispersed bits of incomplete and frequently contradictory knowledge which all the separate individuals possess.

Practically every individual has some advantage over all others because he possesses unique information of which beneficial use might be made, but of which use can only be made if the decisions depending on it are left to him or are made with his active cooperation.

If we can agree that the economic problem of society is mainly one of rapid adaption to changes in the particular circumstances of time and place, it would seem to follow that the ultimate decisions must be left to the people who are familiar with those circumstances, who know directly of the relevant changes and of the resources immediately available to meet them. We cannot expect that this problem will be solved by first communicating all this knowledge to a central board which, after integrating all knowledge, issues its orders. We must solve it by some form of decentralisation".

It is clear from this quotation that the economic marketplace was envisaged as a means of coordinating and empowering dispersed information, weighting it according to its merit, and making it possible for multiple contradictory developments to emerge and be sifted through what was essentially a Darwinian evolutionary process.

The economic market place has no intrinsic merit apart from this.

What we have seen so far in this book is that the economic marketplace neither does, nor could, perform the functions Smith and Hayek assigned to it. It never did - and never could - engage with the problems of greatest concern for society. For this reason, among others, we have created a society which bears little resemblance to that envisaged by Smith and Hayek. In the first place, it is a heavily managed economy. Costs and prices are mainly determined by public servants. Which costs are to be paid by producers and individual customers and which spread over the whole community is determined by public servants. Economic 'realities' depend almost entirely on such decisions. The most important costs are externalised to be dealt with by the future. The most important contributions to quality of life get scant recognition. 'Customers' are not individuals expressing personal preferences but agents purchasing on behalf of corporate clients. Money is a much more nebulous quantity than most of us even suspected. And so on and so on.

Under these circumstances, we are faced squarely with the need to find an alternative solution to the problem which Smith and Hayek so clearly identified - and which became known as the

'wise men' problem. Part III of this book will explore the problems involved in trying to solve it via our existing public management system - i.e. using our current forms of bureaucracy and democracy. Part IV will sketch a way forward.

Some of the material we have reviewed seemed to suggest that the sociological function of market mythology and the market mechanism is almost the opposite of what is most widely claimed. Instead of providing a way of determining goals and orchestrating the efficient allocation of labour, the main function of the market mechanism seems to be to create work for idle hands. At the same time, market mythology emerges as a device which facilitates the exploitation of the poor and the Third World.

It eventually seemed clear that the discipline of economics is, at heart, some kind of word game which has little connection to reality - that the terms in which its discourse is conducted have few counterparts in the external world. From the point of view of finding and introducing a way forward, the question of whether, behind those who proselytise for economics, there lurks a group, like the emperors of the late Roman empire<sup>12.2</sup>, who have cynically harnessed the belief system of Smith and Hayek to advance and maintain their own position, became ever more intrusive. We uncovered more evidence to support this position than most of us would like to acknowledge.

## Notes

12.1 Hayek, 1948

12.2 Romer, 1988