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Raven, J. (1995). *The New Wealth of Nations: A New Enquiry into the Nature and Origins of the Wealth of Nations and the Societal Learning Arrangements Needed for a Sustainable Society*. Unionville, New York: Royal Fireworks Press; Sudbury, Suffolk: Bloomfield Books. (Chapters 1 [which summarises the whole book], 4 ["Some Observations on Money"], and 17 [Summary of Parts I to III and overview of Part IV: The Way Forward] are available at [www.npsnet.com/cdd/nwn.htm](http://www.npsnet.com/cdd/nwn.htm) ).

## Chapter 6

### The Marketplace and Classic Economic Indicators

#### *Problems with Market Theory and Market Processes*

We have seen that the foundation on which market theory is based is nebulous in the extreme, and that two of its basic building blocks - costs and prices - are not mainly determined by market forces but by public servants and politicians.

Thurow has, in his book *Dangerous Currents: The State of Economics*<sup>6.1</sup>, shown that many of the "laws" of economics are nothing of the kind. At best they apply only to particular kinds of *politico-economic systems*. Thus the effects of savings, interest rates, levels of taxation, etc. are mainly determined by the socio-economic *systems* in which such economic actions are embedded and not by economic processes *per se*. In some societies (such as Japan and Germany) firms borrow most of their capital from investment banks which take a long-term perspective and offer stable, low rates of interest. (In Japan 95% of capital comes from such sources; in Germany 60%.) The banks have a direct say in what the firms concerned do. In America, finance for development comes primarily from equity, and direct investors are precluded from sitting on the boards of companies. This makes for short time horizons, a need to fund the developments required for tomorrow out of today's income, and high prices. Arrangements in the UK lead to still shorter time horizons and an exaggerated concern with short-term profits.

Turning to other factors, Thurow shows that, contrary to common belief, there is, across countries, *no* correlation between rates of inflation and long-term economic success. Economic success can co-exist with both high and low inflation. Indeed, since the Second World War, Japan has had one of the highest rates of inflation, but this has detracted neither from its economic performance nor from the propensity of its population to save. Contrary to expectation, government policies designed to fight inflation undermine development because they create recession.

Thurow provides a stream of examples of how things do not work out as economic theory would predict and numerous demonstrations that it is *the social context in which economic activities and decisions are embedded that primarily* determines what happens. The widely accepted belief that economic forces fundamentally determine social action is thus flatly contradicted.

In fact, market theory has *many* serious weaknesses, of which the following are perhaps the most important.

1. *Market processes do not confer the claimed improvements in productivity and social organisation.* Market theory failed to work from the beginning: It did not induce farmers to increase their productivity. Nor did the wages offered to the migrant labour created by forcing subsistence farmers off the land attract them to work in factories. Instead, government legislation had to be introduced to confiscate and fence off common lands, to induce famine, to impose taxes on subsistence farmers - taxes which were, of course, unpayable since subsistence farming by definition did not form part of the monetarised system - and then burn down their dwellings for failing to pay them, drive crofters into the sea, and force homeless people to work by making begging illegal and herding them into workhouses and whipping them. Gunboats had to be used to force China to trade in the market. Grossman and Adams<sup>6,2</sup> show that the growth of giant corporations in America had little to do with market processes. Instead, it was achieved by political manipulation. The laws of incorporation gave corporations great advantages over private businesses. These were not just directly financial. They also legally protected the Corporations from prosecution for behaviour which would not have been tolerated in private business. The overt justification was that the wider community would benefit. Indeed, in the early days, several corporations were taken to court for failing to fulfil their public interest responsibilities. However, the corporations used their position and immunity from investigation to “buy” judges and politicians in order to obtain contracts, legislation, and judgments which would not have been accessible to others. Wealth held in common by the community was destroyed by legislative fiat to facilitate corporate growth. Corporations could do what they liked with “their” property, regardless of any wider repercussions. They were exempted from responsibility for the injuries inflicted on workers or other members of the community. Legislation was introduced to *define* the common good as the profitability of corporations. Citizens were *deprived* of the right to enquire into and seek to influence the “internal” affairs of corporations - on the grounds that this would interfere with their productivity and thus the common interest.

These processes are still at work today. As authors like Chomsky<sup>6,3</sup> have documented, taxes are still introduced to force subsistence farmers off the land. Press-gangs are still used to recruit miners and factory workers in Africa and elsewhere. Wholesale military slaughter is still employed in places like East Timor to create conditions suitable for capitalist profitability. And clandestine armed intervention is still used to murder peasants and promote favourable politicians in the countries of South America (“to create conditions in which the market can work and democracy can flourish”). Economic persecution and the forces of “law and order” are still used to promote policies favourable to the TNCs in Eastern Europe. Corporations still use “the public will benefit from the jobs and profits” argument to obstruct enquiries into their internal affairs, despite clear evidence of actions which run counter to the long-term public interest.

Clearly, the market does not automatically commend itself to those it is said to benefit! It does not give people the influence it is said to confer. Nor do the individuals and societies on whom it is imposed benefit as the theory would lead one to expect. Instead, it is those who, openly or clandestinely, do the imposing who benefit.

2. *The marketplace underestimates the importance of - indeed denies the existence of and renders invisible - (and therefore fails to take steps to satisfy) real needs which cannot be*

*transformed into demands capable of being backed by money.* There are several groups of such needs:

- a) Needs the means of satisfying which have been commoditised but which many people do not have the money to purchase. This means that those concerned have little opportunity to influence the quality of the provision they get. Yet the illusion that they *could* have an influence if only they had bothered themselves to earn the necessary money remains. The observation that the poor are unable to satisfy their needs is used, not to discredit the system, but to blame the poor for not having worked hard enough. Money is even needed to avoid dubious “benefits” of “welfare” which, despite its overt claim to provide people with the wherewithall to satisfy basic needs, frequently denies them the opportunity to satisfy much more basic needs - such as the need for self-esteem - by treating them in contemptuous, demeaning, degrading, and de-humanising ways.
- b) Provisions which, though markedly influenced by commercial decisions, cannot be influenced by consumers. Such provisions include the livability of city centres and quality of working life. People can do little to influence commercial developments by varying their discretionary spending. Yet the quality of commercial developments has a dramatic effect on their lives. Quality of provision in many of these areas is actually forced down by market processes. Thus our health and quality of life are markedly impacted by such things as the quality of our living and working arrangements, but the quality of these is destroyed by employers’ concern to reduce the costs of factory, office, and commercial buildings and the costs of the goods and services they offer. The quality of our lives as a whole depends very much on the quality of our *working* lives. Yet we cannot purchase high quality working lives - because this would mean being able to purchase such things as opportunity to make a contribution to society, the opportunity to exercise discretion and judgment, and the opportunity to feel that our actions have made a difference to the quality of life of our customers or clients<sup>6.4</sup>. In a similar vein, the sustainability of our society and the need for personal and national security of a kind which makes survival, the accumulation of wealth, and planning for the future, possible are all dramatically undermined by commercial forces which tend to foster the manufacture and sale of weapons and armaments, the creation of conflicts which will promote such sales, and, within societies, the manufacture of differentials which result in crime.
- c) As Lane<sup>6.5</sup> has shown from a review of the extensive literature, the quality of our lives is dependent on a cluster of provisions and activities, nearly all of which elude the market. One set of these, already discussed, has to do with the quality of working life. Thereafter come such things as quality of family life, the quality of friendship networks, and the ability to avoid undue stress and unsatisfactory interpersonal relationships. The latter include the distress involved in encounters with high-handed and non-responsive authorities at work and in the public service. Also associated with high quality of life is freedom of association, thought, and expression.

It follows that, contrary to popular belief, the Market is incapable of organising activity which will satisfy either the most common or the most important needs in society. It can handle only the goods and services which, in reality, contribute *least* to the quality of our lives and the survival of society. In the course of seeking to profit from the satisfaction of these relatively trivial needs, market providers actually destroy the provisions and processes which most importantly determine the quality of our lives both now and in the future.

3. *Among the needs with which it can engage, the marketplace caters particularly badly for those which arise in situations of distress* - such as when serious accidents or illnesses occur, when people lose their income, employment, or property, or when legal disputes arise. One reason for this is that people cannot have the information they need to prepare for such eventualities because they do not know which ones will arise: One has no way of knowing what kind of illness or legal dispute one is likely to encounter and there is therefore no way of accumulating in advance the information which will be needed when the emergency arises. Under these circumstances, one is inevitably dependent on advice from others who have a financial stake in the outcome. The costs are extremely variable and may be very high. Another reason for poor provision in this area is that it is not in the commercial interests of insurance companies to insure those who are at high risk - i.e. those who are *most* likely to need help (especially those on a low income or suffering from chronic illness). Yet the needs which arise from fire, crime, accident, illness, conflict, and unemployment are among the most important in our society. It follows that - even in relation to commoditised provision - the operation of the marketplace is weakest in precisely those areas in which it is most important to have good provision.

4. *Although market mechanisms provide some variety and choice for some people, the process is (i) extremely expensive and inefficient, (ii) inequitable, and (iii) exploitative.* Approximately two thirds of the price of most goods and services traded in the marketplace goes on distribution, advertising, and marketing. It is difficult to believe that it would not be possible to invent less expensive, perhaps information-technology-based, ways of providing choice and variety, obtaining feedback, and stimulating the trial and evaluation of innovations.

The actual *inefficiency* of the market mechanism is revealed by the fact that the TNCs have set about *managing* more and more of the world: They do not leave the management of their own affairs to the invisible hand of the market. This is not to deny that they “down size” when they need to shed labour or when they want to pay those they control less for what they do or to deprive them of their pensions. Under such circumstances they still arrange to manage and control these newly created and supposedly “independent” businesses (whilst shedding responsibility for the effects of errors in their judgments concerning design or markets) just as Japanese industry relies on a network of small firms which can be squeezed or discarded at a moment’s notice. When those “small firms” are assured of substantial profits, when there is a danger that they might sell what they are producing to competitors, and especially when they are engaged in innovation which might be of interest to another TNC, large firms prefer to own them. When these firms have no alternative outlet than the TNC concerned, the TNCs prefer to squeeze prices and force them to evade social security, safety, and pollution-control legislation and shoulder the risk of a declining market. The point is, however, that, one way or another, they *manage* their suppliers instead of shopping around for the components they need in a marketplace which has supposedly been induced by competition to be innovative and efficient.

The market is *inequitable* in that, while giving a shop-window-based impression of offering choice and variety to all, many people have to go without - or at least make do with the cheapest, poorest quality, and most exploitative of the range of available goods and services.

It is *exploitative* because cost-reductions (where they occur) result from the imposition of disadvantageous terms of employment on the weakest members of the community. They do not enter freely into their contracts. Inexpensive goods and services offered on the market are

often produced in the Third World or provided by employees whose plight forces them to accept work at less than minimum wages, and without paid holidays, pensions, and satisfactory working conditions.

5. *Since the marketplace deals effectively only with - usually small - goods and services which can be purchased by individuals and not with collective provision, it often results in actions which are contrary to the public interest.* A classic example is the “tragedy of the commons” or “commons dilemma” discussed by Hardin<sup>6,6</sup>. It is in everyone’s individual interests to graze as many sheep as possible on common land. This results in over-stocking which reduces the fertility of the land and is bad for everyone. Yet it is in no one person’s interest to reduce the number of sheep he or she puts out to graze.

Far from being an academic and isolated problem, this is a pervasive happening. Capitalists are notoriously bad at acting in their own long-term interests. And many managers in the current economic climate further their short-term interests by removing the time and the staff required to secure the future in order to create “lean, mean” organisations which are efficient - but only in the short term.

Other examples abound: People use their cars despite the snarl-up of our cities and the contribution they are making to the destruction of the universe. We over-fish and pollute the seas. The health of the population could be greatly improved by urban planning policies which resulted in people living closer to work. By establishing networks of community support, and by changing food and agricultural policy in such a way as to reduce the consumption of fattening and carcinogenic foodstuffs, it would be possible to greatly enhance the health of the population. Since few of these developments could be promoted through market mechanisms, the marketplace has operated to overrule them: For example, it has actively encouraged the development of a society based on extensive car travel. It has encouraged the production of damaging foodstuffs and promoted the development of “health” - actually medical - policies which are almost entirely ameliorative rather than preventative, and based on the use of expensive drugs (including tranquilisers) which it is most profitable for the drug companies to produce - instead of the redesign of living and working arrangements (including those which lead to intolerable relationships with authorities like bosses, social workers, and teachers) to reduce stress, improved foodstuffs, and community-based health care. It has encouraged the road-based transportation of agricultural products over thousands of miles to regional processing and distribution centres, thus destroying small-scale, local production and marketing arrangements, and the environment (through all the by-products of transportation). It has encouraged the diversion of effort into car insurance, legal wrangles, and the growth of hospital systems to cater for accidents. By making a fetish of consumer sovereignty and the maximisation of personal, discretionary spending, it has degraded the quality of life in the interests of cost reduction. In this way, the public has been duped into thinking that cheap consumer goods and services, instead of improved quality of working life, is the route to happiness.

Another difficulty with market solutions to societal problems is that they engage with the symptoms of the problem rather than the problem itself. For example, what most people are buying when they invest in education is not an improvement in their own or their children’s competence, but a passport for admission to a protected occupation. The result is that the privatisation of education - as illustrated by the privately funded cram schools which occupy half the waking life of Japanese children - leads to the attainment of economically valuable, but educationally meaningless, credentials. It does not in any way engage with the problems

of the educational system, i.e. it does not lead to schools which nurture personally, let alone socially, useful competencies.

6. *Many services, such as education, benefit everyone in society, but do so indirectly. Yet market processes can only reflect the concerns and priorities of those directly involved.* The point may be illustrated from an example. Society can only make use of modern technology and information-based techniques of social management if most people can read. A failure to educate the children of the poor is therefore not only unjust, its long-term effect on society as a whole is negative. While this may be viewed as merely yet another example of people's inability to act in their own long-term, economic self-interest, consideration of other examples reveal that it is virtually impossible to orchestrate activities which are in the long-term, social interest using market processes. In other words it is impossible to orchestrate *moral* activity using market processes. Put like that the observation seems trite. But it is a fundamental and pervasive problem with reliance on the market. To take another example, failure to develop the competencies required for effective societal management among the future leaders and managers of our society has a profound impact on everyone. Yet the general public cannot use the market process to induce them to develop and utilise the necessary competencies. Another service which benefits everyone and not just its immediate recipients is health care. *Everyone* is worse off if society has many sick people who are unable to contribute to its diversity and the quality of life of its members - quite apart from the fact that whatever disease they have may diffuse through the rest of society. It follows from these observations that, contrary to what market theory would have us believe, it often pays society to fund activities which it would not be in any *individual's* personal interest to purchase. Market mechanisms not only fail to address these issues, the benefits an individual can most easily purchase may be anti-social, such as the "cheap" disposal of waste which then inflicts disease, acid rain, or radioactivity on others (and later on oneself).

7. *Consumers actually need many other things besides money to exercise their sovereignty of choice.* For example, many people purchasing consumer goods lack the time and energy required to visit anything other than local shops. People lack the knowledge to argue with salesmen or resist the claims of advertisers. The problem becomes worse in the case of purchases like drugs. They lack information on the long-term, personal or social consequences of making alternative purchases. In the case of housing, they do not have the legal knowledge and collateral necessary to receive their rights, even if they know what these are. Market theory, in treating money as the main source of power, has obscured the importance of other sources of power like time and knowledge.

8. *Since most employers are now large organisations, whether public or private, those responsible for purchasing on their behalf are unlikely to have a direct financial stake in making a cost-effective decision.* Purchasing agents are therefore relatively insensitive to costs, prices, and quality. To distort purchasing decisions still further, firms often offer gifts - or bribes - which go to the purchasing agent. These "gifts" vary from the wine glasses offered by petrol companies, through "cashback" to the "purchasers" of company cars, to the substantial "backhanders" offered for military contracts. The result is that the criteria which influence the decisions of purchasers become divorced from those of the true customer or client.

9. *Most purchases are bundles of provisions.* When we speak of a purchase we usually envisage a single item like a washing machine. However, even most individual purchases are complex packages of provisions such as a health insurance scheme or an educational

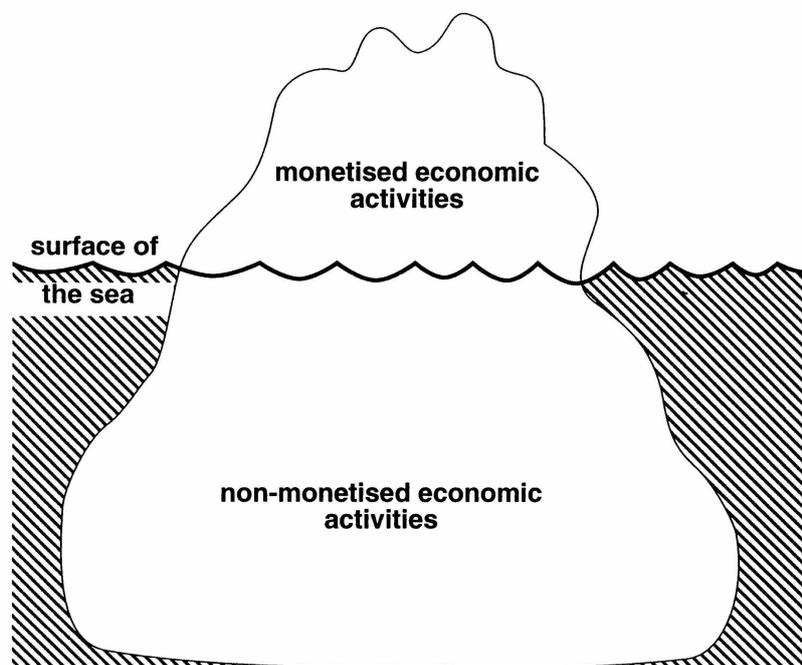
programme. It is difficult for individuals to influence any particular aspect of these provisions using market mechanisms: They may be able to take their business elsewhere, but they are likely to find that the alternative contains different undesirable elements. The marketplace does not provide sufficient variety for customers to be able to satisfy their idiosyncratic needs and generate clear feedback to producers. People with non-standard needs are likely to have great difficulty.

*The Inadequacy of Economic Measures as Indices of Contribution to Wealth Creation*

Having outlined some of the limitations of the marketplace as a societal management mechanism we may now examine the adequacy of monetary values as indices of the value of different types of contribution to the process of creating wealth and enhancing the quality of life.

Many extremely important activities, without which society could not function, lie outside the formal, monetarised, economy. These include the citizenship<sup>6,7</sup> and voluntary-organisation (including environmental conservation) activities to which many people freely contribute. They include the provision (mostly by women) of food, health care, child-rearing, house-cleaning, laundering, and transportation within families. They include house and car maintenance, DIY, and gardening activities. They include the vast array of interpersonal contributions made by family members and friends. They include love and affection, counselling, emotional support in times of difficulty, and most mental-health care. It has been estimated that these non-monetised, economic activities amount to about two thirds of the activity occurring in “developed” economies - see Diagram 6.1 - and still more in less developed economies.

**Diagram 6.1 The Economic Iceberg**



Bringing such activities into the formal, monetised, sector creates serious anomalies. Women going out to work and purchasing convenience foods and child-minding services may be taken as an example. Given current accounting practice, both the woman's income and the cost of the services she has purchased then show up in the national accounts as positive contributions to GNP (which is often thought of as a reasonable index of national wealth or quality of life). At most, it should be the difference between the two which counts. In practice, the cost of child care of equivalent quality to that which most mothers provide "free of charge" greatly exceeds anything which it is remotely possible for most working mothers to earn. The calculation of the disbenefits of mothers working becomes additionally complicated because most formal-economy-based childcare is heavily subsidised by governments so that mothers pay only a nominal cost. Worse still, the cost to the community of future crime, remedial education, and treatment of mental illness arising from inadequate child care is typically enormous. (The result of a cost-benefit calculation is, in this instance, heavily in favour of the state paying parents or parent-surrogates a large fee to care for their own children as part of a family policy<sup>6,8</sup>.)

Similar absurdities arise in reverse because many activities which are currently part of the formal economy would be *better* (not simply most cost-effectively) provided through demonetised arrangements. One example is that it has been shown that people, especially old people, can, through mutual care and support, obtain much better care than can be obtained from formal nursing and social services. It is important to note that the effect goes both ways. Under mutual support arrangements, the *most important* needs of the recipient - such as for companionship and respect - get met. Such needs cannot be commoditised or isolated for packaged and costable "treatment". But the care-givers also benefit because they are able to undertake more satisfying work: their services confer more visible benefits on those assisted and also enable them to enjoy exercising discretion and companionship. The quality of life of all is improved by demonetising the activity. Yet this would show up in the national accounts as a decline in wealth, thus suggesting that the quality of life had gone down.

What these few examples do is highlight gross deficiencies in economists' traditional indices of people's contributions to wealth creation. When more examples are added, they show that the indices which are most widely relied upon to guide policy have little meaning or value.

### *The Inadequacy of GNP as an Index of Quality of Life*

Our next observation is that Gross National Product (GNP) is a misleading index of a country's wealth, quality of life, or well-being. It does not incorporate measures of the things that most importantly make for high quality of life because these lie outside the formal, monetised, economy. We have already seen that, while American GNP suggests that the USA is one of the wealthiest and most efficient countries, offering the highest quality of life, in the world, it is, in fact, the least efficient, least sustainable, most dependent on external resources, and among the most fractured of societies. Its apparent efficiency is dependent on under-priced fuel and imports and the creation of intolerable burdens for the future. Contrary to the impression given, those living in the USA itself have a relatively low quality of life. More seriously, the *average* quality of life of those living in the *entire international system* on which the quality of life of Americans is dependent is appalling.

It is often argued that those living in wealthier societies have higher quality of life - however it was attained - than those living in poorer societies. And it seems almost self-evident that those with higher incomes within societies will, in general, lead more satisfying lives than

those with lower incomes. However, even Adam Smith disputed these assumptions, claiming that they were convenient myths which motivated economic activity. More recently, Robert Lane has shown that they are false.

Lane starts by summarising the data which led Easterlin<sup>6.9</sup> to the conclusion that there is less of a difference between the average quality of life of those living in poorer and wealthier societies than there is between those with higher and lower incomes within a society. He then reviews the work of Inkeles and Diamond<sup>6.10</sup> who summarise eight studies, each based on a large number of measures. Inkeles and Diamond came to the conclusion that serious poverty does indeed lower levels of happiness and subjective well being. However, by introducing still more studies, Lane then shows that, while the bulk of the studies do indeed reveal a *relationship*, the *explanation* of that relationship is not the obvious one. Money does not, in fact, enable people to purchase a high quality of life. What happens is that people who have the most satisfying jobs (and for this reason the highest quality of life) tend to be *paid* more. So, people cannot buy happiness and low incomes *per se* do not lead to unhappiness. (Try as he might, Lane could find no evidence to support Smith's contention that people who do jobs which involve stress and physical disbenefits are compensated in financial terms.) There is therefore no reason to believe that we could not greatly improve our average quality of life whilst reducing our consumption of resources and the rate at which we pollute and destroy the planet.

Many limitations of GNP as an index of societal well being have been brought together, as follows, by Block<sup>6.11</sup>.

1. GNP includes no indices of the value of leisure time or the quality of the environment.
2. GNP provides only a snapshot index giving no information about dynamics or probable longer term trends or outcomes.
3. The boundary between consumption and investment is arbitrary. Thus while house purchases count as investments, consumer durables count as "consumption". Research and development is a "business expense", considered to be completely consumed in production, whereas buildings and machinery are treated as investments. Computer software is an expense; hardware an investment. When GNP is calculated, investments are counted as additions to total output, but other expenditures, including research and development, are assumed to make only an indirect contribution.
4. It is plausible to estimate the total output of a manufacturing industry, but the estimate is more problematic in the case of service industries because of the difficulty in finding appropriate ways of measuring output.
5. The quality of goods can change independently of their cost.

Block notes that traditional economics is based on the "widget", an unvarying, standardised, unit of production, purchased in a single, final, transaction. However, in a post-industrial society, there is a shift in the nature of *what* is produced. There is no obvious way to measure output, which may take the form of an ongoing relation between producer and consumer. (We will later discuss the significance of the absence of measures of health, education, etc. in more detail.)

Useful though Block's article is, however, it does not sufficiently engage with the issues we have been most concerned with here: GNP's failure to index the efficiency, quality of life, and sustainability of a society.

## *Summary*

In this chapter we have seen that market theory and market processes do not, and cannot, yield the benefits which are often claimed. The market process engages with only a very small fraction of the determinants of quality of life - and the least important fraction at that. Likewise money incomes do not, and cannot, serve even moderately well to index the value of people's contribution to the quality of life in society. And we have seen that GNP does not, and cannot, provide even a moderately satisfactory index of the quality of life in a society, let alone the probability that it will be able to sustain that quality of life for a significant period into the future. It follows that we have been seriously misled by market apologists.

## *Notes*

- 6.1 Thurow, 1983
- 6.2 Grossman and Adams, 1993
- 6.3 Chomsky, 1991, 1993; Ekins, 1992
- 6.4 Jencks, Perman and Rainwater, 1988; Yankelovich and Immerwhar, 1983
- 6.5 Lane, 1991. Studies reviewed include: Andrews and Withey, 1976; Campbell, 1981; Campbell, Converse and Rogers, 1976; Freedman, 1980.
- 6.6 Hardin, 1968
- 6.7 We will later see that citizen contribution to the management of society is among the most important contributions people can possibly make.
- 6.8 Raven, 1980; Scarr, 1988; Shipman, 1971; van der Eyken, 1979
- 6.9 Easterlin, 1973
- 6.10 Inkeles and Diamond, 1980
- 6.11 Block, 1985