From: 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 (pp.80-89)*. Unionville, New York: Royal Fireworks Press; Sudbury, Suffolk: Bloomfield Books.
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).

Chapter 8

Our Misplaced Faith In Market Processes

If there is so much wrong with the market process, why do so many believe in market mechanisms?

Before attempting to answer this question, it is useful to recall the need to beware of over-estimating the extent of public support for market mechanisms and privatisation: At the height of the popularity of the Thatcher Government in the UK, more than half the population wanted the public services, and especially the health services, to be extended *even if it meant an increase in taxes*[8.1].

Faith in the market mechanism is stronger than the material reviewed thus far in this book suggests there should be. On what is this support based? The following phenomena seem to be at least partially responsible:

1. The belief that private sector goods and services are of higher quality, offer better value for money, and are more suited to individual needs than those offered by the public service.
2. The belief that our standard of living is largely attributable to our adoption of the market mechanism.
3. The belief that market processes lead to efficiency and innovation.
4. The systematic discrediting of public management by such bodies as the IMF.
5. The belief that market economies offer freedom and opportunity.
6. The belief that economic development comes from people pursuing their own *financial* interests.
7. The way in which market processes create work and thus conceal the need to find alternative ways of running society.
8. The way market mythology legitimises the social order.

In the pages which follow we will consider the validity of these beliefs and processes one at a time.

(1) *The belief that private sector goods and services are of higher quality, offer better value for money, and are more suited to individual needs than those offered by the public service.* High quality *is* available to higher income groups, but at a very high cost: as we have seen,

two thirds of the cost of goods and services provided through the market goes on distribution and advertising - i.e. on the market mechanism itself. This means that the needs of most members of society cannot be met through private provision. Also overlooked is the way in which costs are kept down by exploitation of cheap labour both at home and in the Third World and the piling up of costs for the future.

(2) *The belief that our standard of living is largely attributable to our adoption of the market mechanism*. This belief is largely unfounded. Our standard of living is based on:

i. One sided trade with "Less Developed Countries", produced, not only, as we saw in Chapter 2, by the intervention of the TNCs and the IMF, but also by such things as high-handed political and military intervention - such as the US government's intervention on behalf of IBM to close the Brazilian computer industry and the CIA's and associated military intervention in much of South America. What would collapse if market processes were allowed to take their course would not be, as market theory would have us believe, the economies of the LDCs, but: (a) Western banks, (b) Western manufacturers of armaments (who would not only lose many of their customers but also all the R&D that goes with the development of armaments), and (c) mini-Stalins all over the world.
ii. "Externalising" many of the costs of production. Thus we have externalised the costs of cleaning up the air, land, and sea we have polluted to future generations. Many of the true costs of transportation and the nuclear industry have been externalised in this way.
iii. Massive government intervention in the workings of Western markets. In the case of agriculture, these have, as indicated in Chapter 3, involved a huge network of research, development and advisory services in addition to massive and pervasive direct and financial intervention in every nook and cranny of the system. As far as industrial development is concerned, the relevant policies are best illustrated by the MITI-backed activities of Japan on the one hand and the huge American "defence" (and space) research and development programmes on the other. (The US military funded virtually all the basic R&D and programmes of minaturisation which were later taken into the marketplace by "entrepreneurs" - who were in turn supported by internationally orchestrated campaigns to achieve sales and conquer markets.)

(3) *The belief that market processes lead to efficiency and innovation*. In fact, as we have seen, competitiveness is mainly dependent on what public servants do - and market mechanisms are extremely expensive, *in*efficient, and do not result in activities which relate to our most important needs. Innovation comes mainly from scientists working on defence contracts or in government agricultural R&D laboratories.

The actual inefficiency of the market mechanism has been discussed. The ability of the market to induce innovation will be discussed more fully below. Here it is sufficient to note, first, that, in a competitive environment, individual firms cannot afford to undertake the R&D which would be required to generate new ways of thinking or to evolve new products. Conversely, if they are in a near-monopoly position, they have little incentive to do so.

Innovation rarely pays off - it is, by definition, a risky and expensive business and, if it is successful, it is easy for others to copy the basic idea and make marginal improvements to the product to avoid patent restrictions, thereby reaping the benefits. Roberts[8.2] and McClelland[8.3] have shown that most innovation fails and that those innovations that are financially successful incorporate the labours of hundreds of innovators who are dependent on government funds, go bankrupt for their efforts, get scant financial reward for their contribution, or are long since dead. It is hard, therefore, to maintain that their crucial efforts were induced by the thought of unusual financial gain. In fact, Rogers[8.4] and Roberts[8.5] have shown, most innovation in modern society comes from government research laboratories and firms which carry out R&D for government on a cost-plus basis.

The image of "efficient America" is dependent on concealing the extent of government intervention, failing to count the true cost of the vast amount of energy consumed, and failing to count the cost of imported materials and labour. The US consumes some one third of all the world's energy - and does so at rock-bottom prices. It is this, rather than its economic system, which lies at the heart of its apparent efficiency and prosperity.

The apparent competitiveness of Japanese products is heavily dependent on below-cost imports from LDCs, on a swathe of public-service generated activities to manipulate apparent prices, and on a huge international industrial espionage enterprise. Japan has externalised the costs of scientific research and basic development and loaded them onto other countries. Instead of engaging in this high-risk activity itself, it has systematically collated and sifted the results of work going on elsewhere. These observations seem to confirm our conclusion that competitiveness is largely dependent on there being some way of externalising the costs of innovation.

In the short-term, of course, the introduction of competition can benefit consumers. But, over a longer period of time, quality deteriorates and markets become dominated by a few giant firms which proceed to carve them up between themselves and, wherever possible, acquire, or find other ways of controlling, the organisations responsible for everything from raw material production to the distribution of the finished product. These large firms make endless deals to their own advantage with governments worldwide as well as finding ways of evading the tax liabilities and regulations of many of those governments. The modern world-economy thus bears little relationship to the kind of economy - in which they are were thousands of small firms - known to, and envisaged by, Adam Smith.

(4) *The systematic discrediting of management, or planning, by the IMF*. The IMF has systematically discredited the notion, not just of public management, but of management in general by promoting the idea that the invisible hand of the market will, of itself, make the necessary arrangements. However, as we have seen, it has concealed the significance of public management in Europe and Japan and management by the TNCs.

(5) *The belief that market economies offer freedom and opportunity*. Put at its most positive, the historical and current sociological function of market theory is to subtly undermine faith in the legitimacy of whatever social order happens to be in place. It undermines the view that nobles, political parties, religious and political priests, bureaucrats, and kings have a right to push people around and assign "the rich man to his castle and the poor man to his gate" as the hymn "All Things Bright and Beautiful" used to have it (before the relevant verse was deleted as its conflict with the ideology of personal responsibility for position and status became apparent). As is abundantly obvious in Eastern Europe and central Africa, what market ideology does provide is a set of beliefs which legitimise the suppression of the poor and powerless on the one hand and the desire of the power-hungry to challenge, and subsequently usurp the authority of, the powerful on the other. It legitimises genocide on the one hand and *coups d'etat* on the other - just as Christianity, other religions, and Marxism did in the past.

Precisely because it is primarily about legitimising power, market theory, like other faiths, gets used to justify actions which are the opposite of those indicated by its basic tenets. For example, it is used to justify military and other forms of intervention designed to sustain both the dysfunctional activities of the Western banks (which would collapse if their continued existence was left to the market mechanism alone), and to justify a demand for continued below-cost exports from the LDCs (which would cease if market forces were left to themselves).

But market theory does more than legitimise the right of the dominators to dominate and the power-hungry to challenge those in authority: It also encourages those who want to do new things to just go ahead and do them *without having to get the approval of authority*. Of course, most of them find that they do have to negotiate with authority at some point. Nevertheless there is a very real sense in which market mythology creates scope for personal action and reduces mind control. This points to one of the most important needs of today. Since the innovations we most need are in the public domain, the most important problem we face is how to create climates of innovation within the public sector. Taking the relatively limited, but nevertheless real, climate of innovation created by embracing market mythology as a standard, i.e. recognising that it is not a panacea, how can we create alternatives which do a little better? We make the point because there is a tendency to judge suggested innovations against criteria of perfection rather than against the best available alternative.

(6) *The belief that economic development comes from people pursuing their own financial interests*. As the work of McClelland and others has shown, economic development actually comes from a pervasive cultural value for technical innovation accompanied by a commitment to finding new things to do and new ways of doing things, from the effective pursuit of new ideas and innovation, and from a combination of these concerns with a commitment to the public interest. Ironically, it is often associated with a personal disinterest in many of the things which other people want - such as leisure, opportunities to engage in friendly interaction with others, or power - and even with opulence or economic well being itself. The latter finds expression in contentment with a frugal life style - as in Calvinism and Japan.

It is widely believed that without pay differentials and the incentives of the market-place people would cease to conduct the activities which are crucial for society. Nothing could be further from the truth. Mothers care for their children without calculating the cost or the "return". Most innovators and those who come up with new ways of thinking get nothing for their efforts except the excitement of having generated new ideas and found ways of making things work. Arguably, much of the economy of Eastern Europe *did* function at least as well - and in many ways better - than the West with, not merely *equality* of incomes, but an actual "inverse" differential in which factory workers were paid more than doctors. Under these circumstances mental health care was *better* than in the West and, for most people, housing was better. What is more, what *was* there was largely created by the people themselves, from relatively local resources, without sucking in food, material, and money from the Third World. The *average* quality of life was *far* better than the *average* quality of life in the Western *system* - because such a calculation of such an average must include an assessment of the quality of life of all those living in the Third World countries on which the quality of life in the West is so dependent.

(7) *The way in which market processes create work and thus conceal the need to find alternative ways of running society*. The marketplace, when combined with appropriate

policies on the part of public servants, creates endless work which conceals the need to acknowledge the need to re-organise society and gives meaning to people's lives. The jobs created are largely middle-class ones, and the "need" to get qualifications to obtain them has a major knock-on effect, creating still more jobs in "education", administration, publishing, etc. These jobs give meaning to people's lives. What is more, the market operates in such a way as to induce people to get on the treadmill - not just through advertising (the production of which itself creates more middle-class jobs) but also by making the differentials between rich and poor continually steeper.

It is easiest to illustrate the way in which the market creates jobs and enhances differentials which induce participation in the system by considering the insurance industry. Privatisation of the insurance industry amplifies differences between the treatment of the rich and the moderately rich in such a way as to strengthen the incentive to join the system for fear of being treated in the increasingly demeaning way that the poor are treated. Thus the industry creates a swathe of middle-class jobs for people generating insurance packages, selling those packages, collecting and keeping account of small sums of money, assessing entitlement, pursuing legal wrangles, assessing the profitability of companies in which it might be suitable for an insurance company to invest, monitoring their profitability, and intervening in them to maximise the return to their investors or "owners". These "owners" actually turn out to include post-office workers' pension schemes, miners, and dockers - i.e. much the same public as "own" state insurance schemes. These owners and beneficiaries get much the same benefits as before. But it costs society vastly more to provide them. Not only does privatisation of the insurance industry create middle-class jobs within the industry, it also creates jobs for a host of individual pension plan managers, researchers to conduct consumer surveys to determine which insurance company is offering the "best buy", and personal accountants and advisors to advise individuals on which plan is best for them and make appropriate tax arrangements. The privatised system transfers money from the less fortunate to the more fortunate: Those who are already unlucky enough to have been forced to change their employer in the course of their lives get miserable pensions so that the pensions of those who have already had secure employment can be maintained. And it externalises many of the costs to the LDCs (whose companies are required by their new transnational insurance company owners to become more "profitable") and to future generations (because our children will have to pay more for their goods and services so that the companies concerned can make the profits which our insurance companies will require to pay the pensions of those of our generation that are lucky enough to get them). Of course, this necessity to charge more for everything generates inflation which operates to undermine the value of the pensions, so that those who have had even a moderate deal from life get a raw deal in their old age.

Nor is this the end of the job-creation programme. The use of the market to provide pensions is one of the strongest factors driving the whole privatisation programme: Privatisation of post office workers' and miners' pension schemes created a demand for investment opportunities. This created a demand for the privatisation of other nationalised industries as well as a demand for their increased profitability and thus to pressures for down-sizing and hiving off work to small private firms in which the insurance companies would *not* invest and which could therefore be exploited and forced to exploit their employees by making the firms evade social security (including pensions) legislation. This in turn created even greater demands for "education" to get into "good" jobs and for insurance against job losses. (Readers may be interested to note that these observations imply that the path to privatisation was set in train long before the Thatcher government came to power and embarked on the privatisation of state pensions.)

(8) *The way market mythology legitimises the social order*. Market mythology combined with other mythology relating to the "importance" of the financial system (money, banking, pensions, tax-gathering and disimbursment accounting), the "educational" system, and "defence", legitimises the organisation - or coercion - of labour and the social order more generally. In this, it is equivalent, historically, to myths like the belief that one must have pyramids to bury kings, or that God requires us to build temples in which to worship him, or that massive armies are required to ensure that infidels are converted (or exterminated). Acceptance of these myths incline people to accept that it is "more important" to attend to do these things than tend their fields, look after their families, spend time with their friends, or socialise at leisure. Even if they do not accept this themselves, the myths provide those in authority with an excuse to coerce them to work at school, in insurance offices, or in the army. These activities mainly satisfy the needs of the power-hungry.

Modern market mythology and the other myths we have mentioned are sociologically extremely subtle in that they justify the creation of huge amounts of work and the consumption of inordinate quantities of energy in the name of the very thing - efficiency and life satisfaction - of which they are the antithesis. Further, the mythology creates and legitimises inequality which induces participation in the useless work created by the system. In actual fact, our quality of life remains mainly dependent on relationships with family, friends, and neighbours and on the liveability of the community in which we live - on the absence of queues, gross disorganisation, and inequities in the distribution of basic foodstuffs and transportation, on freedom to express one's thoughts (cf. USSR, China) and on not being arbitrarily pushed around by bureaucrats, lords, or military officers, and on being treated in non-demeaning way by welfare agencies. It depends only slightly on access to health care, never mind cars, plush carpets, or even conditions of employment[8.6].

*****

Lane[8.7] and Benton[8.8] have argued that support for market over political mechanisms for running society stems from more deep-seated causes than those discussed above. In the first place, "it is the genius of the market to stimulate wants without at the same time stimulating a sense of deserving more than one gets". But, more fundamentally, people are induced to accept not only major, otherwise inexplicable, differences in income but also such things as personal destitution arising from loss of a job by the belief, first, that market processes follow natural laws and, second, that the income differentials both arise from these processes and have functionality in it. These beliefs assuage the feelings of injustice, anger, and anomie that would otherwise arise. Benton goes further than Lane in drawing attention to the parallels between the way in which modern economic theory enables people to continue to believe that a capricious world is somehow ordered, understandable, and in some way just and the way traditional religious beliefs performed similar functions. The parallelism also helps to explain why the theories of economics, like religious faiths, persist despite abundant evidence that things are not the way they are claimed to be.

Support for this new religion varies across cultures. Thus Inkeles[8.9] has shown that a much higher proportion of the populations of the UK and Germany than of the US both think they do not get the income their work merits and believe that others get an unfair share.

Lane's data reveal overwhelming support for market mechanisms in the US: There, 82% said that such mechanisms were "fair and wise", 65% said that they gave everyone a fair chance, and 63% that they were "fair and efficient". In contrast 70% believed that "the government is pretty much run by a few big interests looking out for themselves" and 73% that "you cannot trust the government to do what is right most of the time". One can trust a market to behave impersonally, one cannot trust a public servant to do so. Surveys cited by Lane also document what we have asserted, namely that people tend to exclude collective goods when thinking about their standard of living. Likewise they underestimate the contribution which the quality of their *working* lives makes to their quality of life.

Lane also shows that people prefer market payments to transfer ("welfare, social security") payments. This stems in part from the demeaning inquisitions that are involved in obtaining one's rights under welfare legislation, from the association between state handouts and charity, and from a feeling that one *should* be able to contribute to society and be rewarded for so doing. Jobs confer self-esteem - and most people believe that most jobs are provided by the market. (The difference between the status of market-produced non-work and really useful work created through Job Creation programmes in our own society is obvious from a moment's reflection.)

There is an important asymmetry in beliefs about the market. While the market is felt to be fair in what it does, it is not blamed for what it does not do. Thus the fact that it does not provide employment for the unemployed is not regarded as evidence of its unfairness: Politicians are to blame for that. In survey after survey more than 50% of Americans asserted that "public officials do not care much about what people like me think". Only 40% think that the procedures used to allocate federal and state benefits are fair. The ultimate ironies are, first, that public servants are regarded as drains on the economy while market mechanisms are thought to be agents of productivity, and, second, because most people believe in the basic justice and fairness of *the system* they tend to blame the victims of the system - and not the managers of the system - for their plight.

Other asymetries which operate in favour of support for market mechanisms include:

1. People do not know whether others who are similarly placed financially pay the same taxes as themselves and often believe that they do not. Negotiating special favours with the taxman is regarded as unethical. It follows that an impersonal market mechanism is much better than a personal declaration and taxman decision process for collecting and dispersing money. And, indeed, in most people's minds, the market does have exactly the opposite profile: not only do most people believe that others pay what they pay for goods and services, they also feel that, if they do not, far from having made an unethical deal with the taxman, they are model consumers because they have shopped around or made deals with market traders!
2. Payments to government are compulsory and individuals have no influence on how the money is spent. In contrast, market payments are voluntary and the purchaser can have considerable influence on what those who receive it do with it.
3. Benefits coming from, and contributions to, government are delayed, obscure, and often immoral.
4. The market leads people to accept the contradictory beliefs that while, on the one hand, if they become unemployed it is their own fault, if, on the other, an employer has to make an employee redundant then that was inevitable.
5. People cannot really know what their contribution to society is worth until they see what they get paid for it ... so they reason backwards and conclude that their contributions are worth what they get. The market must be fair!

6. In the market, the pursuit of self-interest is seen as probably contributing to the common good. It is controlled by competition. In the public sector, the pursuit of self-interest is seen as likely to conflict with the common good - and there is no adequate mechanism to constrain it.

In the US surveys, twice as many believed that "if business is allowed to make as much as it can, everyone profits in the long run" as believed "the workers get less". The making of profits is believed to be just because it is thought they are turned into R&D and re-invested for the future. Thus there seems to be harmony of interest: Both owners and employees gain. The injustice in the difference in the gains is overlooked. If government intervenes in the interests of justice that is perceived as undermining the interests of *both* employers and workers.

The asymetry in beliefs about market vs. public management has been described by Lindblom[8.10] as a "fiendishly clever" device which imprisons us in a market society. Further examples abound. For instance, whereas people believe that the high salaries of businessmen in the long run benefit them, they do not believe the same about the high salaries of politicians. Worse still, they note that the high salaries of politicians and public servants, but not those of businessmen, come out of their own pockets.

In a similar vein, as we have noted, the market is perceived as an extremely fruitful device for creating wealth whereas public servants' contributions to that process are perceived as a drain.

Despite the way in which these beliefs and asymetries suggest that the mythologies of market economics are unassailable, there is, in fact, considerable cross-cultural variation in the level of support for them. This raises the question of why faith in market processes is so much more pervasive in the US than in other countries.

Possible explanations include the fact that more people in the UK seem to understand that inequalities and changes which are presented as being an effect of market processes are really produced by information-based decisions of accountants and others. This awareness is perhaps both a product of, and contributes to the perpetuation of, class antagonisms. Many more people in the UK appear to be aware of attempts on the part of capitalists to dupe the population - and, may, indeed, have had the experience of having been duped. On the other hand it is entirely possible that American public servants accepting the inevitability of the belief system we have reviewed, *do* behave in a more self-interested and less public-spirited way than the British public servants.

Benton's work suggests a deeper explanation, however. There may be in the US a more pervasive need to accept and reiterate faiths which have been endorsed by authorities - and this hypothesis is reinforced by the level of support for other religious faiths.

An Emerging Question

We have shown that faith in market processes is based on some persuasive but unfounded beliefs, many of them based on subtle myths, and some very important, but rarely discussed, social processes. Market mechanisms not only create work. If people accept the teachings of market economics, they not only find themselves with ready explanations of otherwise hard to accept inequities and potentially psychologically devastating experiences. They are not only able to explain these happenings as a product of impersonal forces and neither the capriciousness of nature nor the immorality or ineptitude of human decision-takers, they are also able to interpret these events as part of a *functional* process which *helps* them, both as individuals and as members of a society, to function more effectively.

It emerges that economics is to be understood as a religion and economists as its priests. Economists do not, as they often claim, practice a science whose subject matter has to do with the efficient allocation of scarce resources. No longer do we need a conventional religion to legitimise and explain the wealth of the rich man in his castle and the destitution of the poor man at his door and to alleviate our jealousy of the former and our tendency to do nothing for the latter. Both deserve what they get and their condition is functional in society. And translating the injuctions of economic theory into practice also creates the opium - the work - that is required to prevent idle hands doing the devil's work.

How much of this mythology has been deliberately fabricated and how much of what we observe is a by-product of the operation of unexamined systems processes? Certainly, much of what exists is generated by the operation of unexamined systems processes. It has not been created by Machiavellian people. Politicians, for example, see that privatisation reduces unemployment and budget deficits. This leads them to sell more assets, and to seize of economic mythology to legitimise what they "have" to do. They see that local management of schools cuts current costs as a result of the sale of assets and stifles the criticism of both parents and students. Yet the possibility remains that a group of sharp persons foresaw at least some of these processes and their outcomes and cultivated the requisite mythology. Indeed, this is not beyond the limits of credulity: It is exactly what Roman Emperors did when they seized Christianity as their chosen faith. We will return to the question of how many of our major beliefs result from the operation of hidden systems processes and how many were deliberately engineered by those who would profit from them after we have examined the intent, justification, and effects of the privatisation campaign.

Notes

8.1 *The Economist*, October 8th, 1983
8.2 Roberts, A.E., 1984
8.3 McClelland, 1961
8.4 Rogers, 1962/1983
8.5 Roberts, A.E., 1984
8.6 Inkeles, 1990; Rose, 1980
8.7 Lane, 1979, 1986, 1991
8.8 Benton, 1986, 1990
8.9 Inkeles, 1990
8.10 Lindblom, 1982