MANKIW'S PRINCIPLES OF ECONOMICS PART 6: MARKETS ARE USUALLY A GOOD WAY TO ORGANIZE ECONOMIC ACTIVITY

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Mankiw's sixth principle of economics is: Markets are Usually a Good Way to Organize Economic Activity. There are six paragraphs of explanation. About half say that central planning as in Communist Russia doesn't work, culminating with this:

> Central planners failed because they tried to run the economy with one hand tied behind their back – the invisible hand of the marketplace. Page 11.

Mankiw says that in a market economy, the decisions of a central planner are replaced by decisions of millions of market participants. Firms decide what and how much to make, and households decide where to work and what to buy. It is wonderful how this system is so successful at "organizing economic activity to promote overall economic well-being." The magic is prices.

> As a result of the decisions that buyers and sellers make, market prices reflect both the value of a good to society and the cost to society of making the good.

But, when government interferes with the market and prevents prices from adjusting to supply and demand, disaster awaits. Thus, taxes "adversely affect the allocation of resources, for they distort prices and thus the decisions of households and firms."

Mankiw doesn't define the terms market, or marketplace. That fits perfectly with Mirowski's Second Commandment of Neoliberalism: Thou Shalt Erase Distinctions. Here is his discussion in full:

> What sort of "market" do neoliberals want to foster and protect? It may seem incredible, but historically, both the neoclassical tradition in economics and the neoliberals have both been extremely vague when it comes to analytical specification of the exact structure and character of something they both refer to as the "market" Both seem overly preoccupied with what it purportedly *does*, while remaining cavalier about what it actually *is*. For the neoliberals, this allows the avoidance of a possible deep contradiction between their constructivist tendencies and their uninflected appeal to a monolithic market that has existed throughout all history and indifferently across the globe; for how can something be "made" when it is eternal and unchanging? This is solved by increasingly erasing any distinctions among the state, society, and the market, and simultaneously insisting their political project is aimed at reformation of society by subordinating it to the market. Emphasis in original.

While neoliberals do not define market, they assert that it is perfect, as Mirowski's Third Commandment says: Thou Shalt Worship "Spontaneous Order". Neoliberals assert that markets are emergent phenomena, and are inevitable and perfect. The theory of Natural Law is thus updated for the 21st Century with a metaphor from biology.

Just as Mirowski says, it is difficult to see what Mankiw means by market. There is nothing to be learned from his statement that the market economy consists of the decisions of millions of firms and households, not least because it ignores the decisions of hundreds of thousands of governmental units, controlling the spending of about 1/3 of the GDP. And it's difficult to understand how the many thousands of rules that govern many thousands of markets can be translated into formal language, let alone into mathematical terms. Mankiw relies on a sort of collective understanding to provide sufficient clues that the average reader will know what he means, which is part of the problem. If the textbook doesn't define things so that everyone is talking about the same thing, it is dangerous because people assume others agree with them when they don't. The lack of a definition is a signal of sloppy thinking.

Mankiw gives us mushy statements like markets promote overall economic well-being. The only people who can participate in markets are those with money. The level of participation is directly related to how much money one has. The fact is that markets cater to people with lots of money, those who can buy whatever they want. When resources or goods are actually scarce, markets allocate them to those with money. When there is plenty, markets can serve those with less money. But markets will never do anything for poor people.

I'm stunned by the nonchalant statement that households decide where to work. I'm equally stunned by the idea that taxes distort markets because they affect spending decisions. It goes with his forgetting to mention government as a market participant. If we didn't have taxes, that would distort markets too, because people would have to buy protection and roads and a lot more.

If, as Manikw claims, markets measure the value of goods to society, then the values of goods to society are determined by the rich. Markets do not include all the costs of production and therefore that part of Mankiw's statement is false, assuming it meant anything measurable.

This entire statement of principle is useless as a guide to anything specific. Again, I realize this is just an introduction, but students treat it as accurate. It's easy to remember and it will stick with people long after they leave school.

I've written several posts on the nature of markets as used in introductory economics courses, including this one and the linked posts, and more at Firedoglake, including this one. If you go to this link and search for Bernard Harcourt, or for masaccio markets, you can find much more. For anyone not aware of it, FDL is no more, and all my posts can be found at Shadowproof.com., but you have to search. Here's my definition of market:

> A market is the set of social arrangements under which people buy and sell specific goods and services at a specific point in time.
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> Social arrangements means all of the things that constrain and organize human action, including laws, regulations, social expectations, conventions, and standards, whether created or enforced by governments, institutions or local traditions.

With that definition, Mankiw's Principle No. 6 becomes more or less true, though meaningless. My definition carries no pretense of fairness or social justice. It doesn't suggest that the market is perfect at any point in time; instead it suggests that markets can and should be the subject of social action to insure social goals. Maybe that's a good reason for neoliberals and their friend Mankiw to avoid providing their own definition. After all, as Adam Smith tells us:

> Consumption is the sole end and purpose of all production; and the interest of the producer ought to be attended to, only so far as it may be necessary for promoting that of the consumer. The Wealth Of Nations, Book IV Chapter VIII, v. ii, p. 660, para. 49.