NEOLIBERAL MARKETS DELIVER FOR THE RICH

This is a cross-post with some modifications from Naked Capitalism.

It is a truth universally acknowledged by all good citizens that markets are the only way to organize a society. The implication is that the role of government is to support and protect the operations of markets, and little else. I've been looking at this in a series of posts here; you can find them on my author page. It turns out that the claims about markets reach back to neoclassical analysis by William Stanley Jevons, and mirrored by other neoclassical writers. In his book *The Theory of Political Economy*, available online here, Jevons claims to prove that markets maximize utility for all participants. Economists generally, and especially neoliberal economists, take that proof at face value and have exalted it into a principle for the organization of society. The proof doesn't stand up to close examination.

Jevons restricts his efforts to what we would identify as a perfectly competitive market. He defines utility using the definition of Jeremy Bentham:

> "By utility is meant that property in any object, whereby it tends to produce benefit, advantage, pleasure, good, or happiness (all this, in the present case, comes to the same thing), or (what comes again to the same thing) to prevent the happening of mischief, pain, evil, or unhappiness to the party whose interest is considered."
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> This perfectly expresses the meaning of the word in Economics, provided that the will or inclination of the person immediately concerned is taken as the sole criterion, *for the time*, of what is or is not useful. III. 2,3, my emphasis.

He uses these definitions to prove that in a perfect market with no constraints people will trade in commodities until any further trades would reduce their personal total utility. That is all there is to the proof for the superiority of markets.

Now whatever the case may have been in the second half of the 19th Century when Jevons wrote, it’s ludicrous to suggest that all markets are competitive. It’s doubtful that many markets for specific goods and services would meet Jevons’ definition.

I examine the definition of utility in this post, following Philip Mirowski. It turns out that the math produces nonsense results. This is known to economists, but ignored. Samuelson and Nordhaus in their basic economics textbook, Economics (2005 ed.) just tell their readers that utility is a “scientific construct”, not something subject to measurement or observation. They don’t seem to see the oddity of using a term in general use for a completely different purpose. They seem equally indifferent to the oddity of the basic assumption that each of us would know what would improve our total utility if we had an infinitesimal increase of money. Despite the best efforts of decades of economists, the proof for the theory of the superiority of markets hasn’t been improved.

Jevons thought that the only valid proofs were mathematical, but there are other ways to derive correct answers. For example, there is little math in Keynes’ General Theory, and it has held up quite well, better than the infallibility of markets. Perhaps there is something behind Jevons’ argument that would support his claim that markets are superior to other ways of allocating resources.

In this post I look at several definitions of markets. The thing that leaps out is that they are all based on point transactions: each takes place at a specific time and place, and has nothing in common with the next transaction at the same place, or at some other place or at some other instant. If two people are buying something at the same time in different places, there is no connection. The information in any specific transaction only involves the parties to the transaction. Their motives, the benefits they seek, and the satisfactions or lack of satisfactions, are known only to them. Nothing about the last transaction tells anyone or anything about the future.

And Jevons doesn’t claim anything to the contrary. Here’s how he describes his result:

> But so far as is consistent with the inequality of wealth in every community, all commodities are distributed by exchange so as to produce the maximum of benefit. Every person whose wish for a certain thing exceeds his wish for other things, acquires what he wants provided he can make a sufficient sacrifice in other respects. IV.98

Jevons concludes that markets facilitate the distribution of commodities (which he defines to include services) from moment to moment. He makes no claims about the future. And he specifically acknowledges that the answers he gets from his markets will give benefit the richest most, and the poorer you are, the worse your outcome. In Jevons’ conception, money rules, and the rich get what they want. None of the other definitions offers any other outcome.

There is always someone with a system for beating the stock market. Some are technical analysts, who talk of resistance levels, support levels and such; here’s an interesting example discussing oil prices. But there isn’t any reason to think this is more than throwing darts. So, believe if you want to. The plain fact is that no analysis predicts the future, and neither do markets.

The proponents of market theory tell us that out of this disconnected series of point transactions, we get the perfect allocation of resources for any situation. Problems with air pollution? Drought? Peak oil? Health care? Answer: Markets.

How is that supposed to happen? Even for Jevons markets are the wrong answer. He would agree that the rich get clean air, water, oil and health care, and the rest of us don’t. Let’s put this to the test. California is experiencing a horrible drought. In response, business interests are busy sucking up the ground water and using it for agriculture and for fracking. If nothing changes we can expect an Easter Island outcome, and it won’t matter which is the main cause, as Gaius Publius explains at Digby. Do you really want decisions about the future of California made by markets in water, as this guy at Forbes wants from his home in Portugal or his armchair theorists in the comment section?

We already have a method for organizing ourselves other than the market. It’s called government. The theory was was that the majority of voters would run government, but the “marketplace of ideas” has been overwhelmed by huge piles of money devoted to obfuscation and lies and clutter that makes it impossible to think rationally, and power is controlled by the people we want government to control. But when it comes to planning for a future, government is the only way non-rich people can play a part in deciding whether or how to prevent the disasters staring us in the face, including water vultures.