IN MEMORIAM:

On the Death of the "Market Mechanism"

Robert H. Nelson

May 1996
1. Introduction

The concept of the market mechanism emerged in the 1940s as a central feature in the thinking of the economics profession in the United States. With improved knowledge of the scientific laws of the market, economists argued that society could use the instrument of the market to achieve a wide range of social goals with maximal efficiency and effectiveness. For example, many economists have argued that the reduction of poverty is best accomplished by manipulating the labor market through the "negative income tax" or other technical devices. Health care, other economists have more recently argued, should be provided through various forms of "managed competition," based on market incentives.

The concept of the market mechanism has also been applied widely to ecological matters. Economists have proposed that, if a given reduction in pollution emissions is the goal, this reduction is efficiently achieved by allocating rights to pollute and then allowing market trading in these rights (Dales; Pearce, et al.,1989). A carbon tax is often advocated as an effective way of using market forces to achieve a desired reduction in carbon dioxide emissions for global warming purposes (OECD, 1992). Other economists have argued that conservation of water supplies -- and thus avoidance of the need to build environmentally harmful dams and other water facilities -- is efficiently achieved by creating a system of water rights and then allowing market trading in these rights (Anderson). Many other types of environmental objectives could in principle be achieved by setting a target and then using the market mechanism to realize this goal (Tietenberg, 1993; Zylicz, 1991).
Economists have typically also argued that the market mechanism, like other tools of professional economics, is a value-neutral device. Its efficiency and effectiveness rest on technical grounds alone, economists assert, that are independent of any particular cultural or broader value circumstances. However, as this paper will argue, the economic case for the market mechanism is actually grounded in the existence of a particular set of social values. If these values were, in fact, commonly rejected in society, markets would lose the efficiency advantages that mainstream economics claims for them. To be sure, the values on which market efficiency depends have in fact been broadly accepted in American life. That is why the market mechanism has been as widely proposed and in a number of cases -- sometimes involving the environment -- used successfully.

To be specific, the particular value-system that has supported the functioning of the market mechanism in the United States has been the belief in economic progress. The market is an engine of great social dislocation as well as economic advance. American society has been willing to tolerate the major dislocations because it has believed that they were the necessary "price of progress." Much could be sacrificed in the name of progress because the objective was not merely a comfortable level of material existence; belief in progress has been a secular religion offering nothing less than the prospect of heaven on earth (Nelson, 1991). In short, if the workings of the market mechanism have often resulted in widespread individual loss, this could all be discounted in the service of a higher religious cause.

The problem for the market mechanism today is that these core values are fading in American life, a consequence of a contemporary crisis of belief in the redeeming powers of economic progress (Nisbet, 1980). It is simply no longer possible for most people to believe that progress will solve all the
problems of mankind, spiritual as well as material. As the value-foundation for the market mechanism is undercut, this does not mean, to be sure, that the market as an institution will disappear. It does mean that the role of the market will have to be understood in new terms -- in a new social value context -- that will inevitably set new constraints and general parameters on its operation. Within such a new context, a market of some kind, if no longer a technical "mechanism" subject to manipulation by non-political economic engineers, seems certain to continue to function.

2. The Rise of the Market Mechanism

The market has a much longer history than the specific concept of the market mechanism. In the 18th century, Adam Smith and other economists described the market in Newtonian terms (Myers). Self-interest was a law of nature, analogous to the force of gravity in the physical world. Giving free reign to the forces of self interest, operating in the marketplace without government interference, would yield a natural harmony in society as perfect as the harmony that Newton had described in the workings of the solar system.

In the second half of the nineteenth century, Darwin challenged and in much of public thinking superceded Newton (Fine, 1964). Herbert Spencer's vision of laissez faire capitalism, taught in the United States by his disciple, Yale economist William Graham Sumner, saw the competitive workings in the market as a social manifestation of the same struggle for survival of the fittest found in the plant and animal worlds. The operation of market competition among firms was ordained as the one natural evolutionary system for society, tending toward ever higher levels of social and economic progress.

By the 1930s, however, yet another vision of the market was taking shape. Attempts to impose socialist planning regimes in European nations had directed the attention of economists to the
information problems that a modern economy must resolve (Hayek, 1935). The market, it seemed, was able to solve the enormous computational problems posed in a particularly effective way. Some economists suggested that it would be possible to maintain public ownership of the instruments of production, but to direct government owned enterprises through the manipulation of market forces and incentives, all the while serving broader socialist redistributional and other goals -- the proposed regime of "market socialism" (Lange, 1956). In short, the market was now becoming the technical instrument that best solved the practical economic coordination problem that any society, socialist, capitalist or whatever, must address.

By the 1940s, the old Darwinist models of social thinking had been further discredited by their association with National Socialism in Germany. The influence of John Maynard Keynes was coming to loom large over the economics profession. Indeed, Keynes became the leading economist of the twentieth century as his efforts proved decisive in the spread of the new engineering vision of the market.

It was not only that the market had to be separated from value-laden ideologies inherited from the nineteenth century. The traditional theories of the market were also seen to have failed at a practical level, as the United States and other countries had been plunged into severe economic depressions lasting through the 1930s. The Keynesian system thus was in the first instance an answer to a terribly urgent practical problem. Keynes (1936) proposed to solve the unemployment problem through the manipulation of the market with various fiscal and other policy instruments. In so doing, Keynes acted to replace the older vision of the market as a self executing system grounded in laws of
nature with the twentieth century concept of the market as a mechanical instrument designed for human use and subject to social direction and manipulation.

A major advantage, as Keynes (1936, p. 380) saw matters, was that it would still be possible to preserve a "wide field for the exercise of private initiative and responsibility." Through a "right analysis of the problem to cure the [unemployment] disease" and "whilst preserving [market] efficiency" (p. 381), the employment, national income and other goals of society could be achieved. Although the Keynesian analysis focussed on realization of macroeconomic goals, the new understanding of the role of the market in society had much broader applicability. As noted above, in the environmental area many economists would later propose the adoption of emissions taxes or the creation of rights to pollute as a way of steering the market to achieve air and water pollution targets set by government.

After World War II, disciples of Keynes in the United States such as Lawrence Klein (1961, p. 153) were soon spreading the word that the "economic system is essentially a machine which grinds out results according to where the several dials controlling the system are set. The functional relations are the building blocks of the machine, and the dials are the parameters (levels and shapes) of these functions." Paul Samuelson's textbook in introductory economics, first published in 1948, was particularly influential. Samuelson (p. 591) wrote that there was "nothing sacred about the results achieved by a free market system....A socialist state might, if it wished to, use many of the mechanisms of a pricing system in its own planning." He introduced the term "market mechanism" (p. 595) in the first edition and later editions would feature it still more prominently.

The problem facing the members of the economics profession was, as Samuelson liked to say, a value-neutral task analogous to the discovery of the laws of physics and their application by engineers.
and other professional scientific groups. It depended on use of the same mathematical methods of analysis which, following Samuelson's *Foundations of Economic Analysis*, soon spread throughout the profession. As Stiglitz (1994, p. 11) has recently commented, the self concept of the economics profession would be dominated by "the engineering approach that prevailed in the decades following Samuelson's *Foundations.*" The principal object of this engineering was the instrument of the market mechanism.

3. The crisis of progressive orthodoxy

The explanation for the wide success of this new understanding of the market is found to a significant degree in shifting American political thinking. The scheme for American government earlier worked out by political theorists in the progressive era was coming under growing challenge by mid century (Seidelman, 1985; Truman 1951). Much as socialist orthodoxies were being questioned in Europe, the progressive orthodoxy, based significantly on central planning and command-and-control methods of government administration, was no longer credible to many people in the United States (Simon, 1957). The market mechanism offered a way -- much like market socialism in Europe -- of preserving traditional progressive goals and values, even while clumsy and impractical central administrative arrangements could be abandoned.

It was in the progressive era that the intellectual foundation was laid for the development of the American welfare state (Skowronek, 1982). The first practical steps were taken by the progressives themselves, resulting in the creation of the the Forest Service (1905), the Food and Drug Administration (1906), the Federal Reserve System (1913), the Bureau of the Budget (1921) and other agencies still playing prominent roles in American government today.
At the heart of progressive thinking was the goal of the scientific management of society (Waldo, 1984). From the progressive perspective, free market competition worked by an old fashioned method of trial and error. Every failed business involved a loss of social resources, a wasteful and expensive learning process. It was perhaps unavoidable in earlier eras, but now the advance of science offered a better way. The informed intelligence of professional experts should comprehensively plan in advance how to allocate the resources of society most efficiently, guided in the end by government.

In 1921 the progressive economist, Thorstein Veblen (1965, p. 115), thus declared that "a revolutionary overturn as will close out the Old Order of absentee ownership and capitalized income" was occurring. As this took place, "industrially useful articles will presently cease to be used for purposes of ownership, that is to say for purposes of private gain" (p. 157-58). Instead, a "Soviet of Technicians" (p. 134) must be created to manage the industrial system, including prominently "Production Engineers" and "Production Economists" (p. 144), whose social role would be grounded in their possession of "technological knowledge" that is "exactingly specialized, endlessly detailed, reaching out into all domains of empirical fact" (p. 132). Their goal will be "productive efficiency, economical use of resources, and an equitable distribution of the consumable output" (p. 152). Professional experts -- in government and industry alike -- will understand that "they are... the keepers of the community's material welfare," who are not to be moved by "commercial interest" but by the "common purpose" (pp. 79-80).

When elements of progressive prescriptions for the scientific management of society were actually put into practice in the United States, to be sure, major difficulties often arose. Much like
scientific management as originally practiced by European socialists, the progressives found the task of
directing society to be much more complicated than their theories (Ellman, 1979). The failings of the
progressive vision for a large and complex society have by now generated a large body of writings, and
are widely familiar. They include such matters as: (1) the inability of central planners to assemble and
process the information needed to manage a large economy, (2) the continued pursuit of narrowly
private motives in business decisions, (3) the tendency also of many government managers to serve
private interests, either their own or groups they are supposed to be regulating, and (4) the failure of
the social and managerial sciences to discover an adequate body of knowledge to establish any true
"science of society."

4. The Triumph of Economic Progressivism

The development of Keynesian economics, as noted earlier, offered a model for serving the
goal of stabilizing the economy while at the same time preserving the existence of the market. Indeed,
as government's ability to plan and manage an economy in a comprehensive fashion came into question,
the very possibility of achieving a whole host of progressive social goals came to be seen as depending
on finding similar methods in other areas as well. The market mechanism was the answer. With the
market mechanism as the core instrument, a revised version of progressivism emerged, a political value
system or philosophy that might be labelled "economic progressivism" (Nelson, 1991).

To be sure, after the substitution of "market mechanism" for "administrative process," few
further modifications of the older progressive orthodoxy were necessary. Like the original
progressives, the goal remained the scientific management of American society. The federal
government would still logically bear the overall responsibility for coordination. Society would still be
directed by professional experts. It was only necessary that, instead of government experts in administrative processes and physical production methods, the appropriate experts would now be professional economists, the controllers of the market mechanism.

By the 1960s, support for the tenets of economic progressivism spanned virtually the entire economics profession. Milton Friedman's writings are not usually characterized as "progressive" but in fact, like Samuelson, Friedman was an optimist about the ability of social science to reveal the workings of the market; his research was commonly framed in the same mode of physics that prevailed throughout the profession. In his public role Friedman in *Capitalism and Freedom* recognized that even limited government will "clearly have important functions to perform" (p. 35) and spoke of the merits of "the market technique of achieving [economic] coordination" (p. 15). He advocated the use of school vouchers, for example, observing that education -- while requiring continued public involvement -- was one field with "the possibility of improvement through bringing into more effective play the forces of the market" (p. 199). Such efforts logically suggested the social capacity to use expert economic knowledge to engineer the market in a value-neutral way.

Closer to the mainstream of the profession, Charles Schultze in 1977 offered a statement of the broader political philosophy. In *The Public Use of Private Interest*, Schultze (1977, p. 5) explained that modern American society does in fact have a "growing need for collective influence over individual and business behavior that was once the domain of purely private decisions." In pursuing this objective, there had been an unfortunate tendency to rely heavily on command-and-control government. This effort, however, all too often had been plagued by "excessive red tape and
bureaucratic control" (p. 2). Instead, government should renounce the old progressive orthodoxies that prescribed direct administrative methods and substitute the much greater efficiency of the market mechanism. The market is, as Schultze wrote, "an efficient instrument for society" in light of which government has the affirmative responsibility to take "corrective action to create efficient markets" (pp. 29-30).

The project of engineering the market mechanism for environmental and many other purposes has shaped the research agenda of much of American economics over the past 50 years. Many thousands of articles, as economics journals proliferated, have been engaged in the task of laying the necessary value-neutral and scientific foundation.

Economic progressivism also achieved many practical triumphs. The Employment Act of 1946 represented an initial important step by government toward the adoption of this political philosophy. By the 1960s, reflecting the growing influence of economists, the basic disciplinary orientation of the federal Bureau of the Budget had shifted from public administration to economics. President Kennedy appointed an economist, Kermit Gordon, to head BOB and Schultze would later head the agency in the Johnson administration. In the 1960s and 1970s, a number of the old schools of land use planning and of public administration were phased out and replaced with new schools of public policy grounded in economic thinking (Wildavsky, 1979). The achievement of the basic goals of society, more and more Americans seemed to agree, would depend in the future on putting economic knowledge of the market mechanism to practical use.

5. Economic Illusions
History, however, often holds many surprises. Today, the enthusiasm of the 1960s and 1970s for the social manipulation of the market has given way to significant uncertainty and doubt. As a technical matter, confidence in the ability of Keynesian or other macroeconomic policy prescriptions to set a precise course of market stabilization has declined. In microeconomic theory, a new "information paradigm" (Stiglitz, 1994 p. 15) has challenged much of the conceptual foundations on which the case for the market mechanism rested. In this new critique, the fundamental problem facing any economic system is seen to be the establishment of an appropriate set of institutions to encourage the discovery, dissemination and use of knowledge, including knowledge of new marketing possibilities, improved technology, ways of achieving greater managerial and worker productivity, etc.

Standard economic analysis, however, left out institutions and assumed perfect knowledge and an economy in equilibrium. In so doing, mainstream economics in effect assumed what it was supposed to be explaining -- how to use resources efficiently. Thus, as Stiglitz (p. 13) noted recently, economic modes of theorizing yield an "incorrect characterization of the market economies and the central problems of resource allocation....and [the use of] the market mechanism." As a consequence:

The standard neoclassical model -- the formal articulation of Adam Smith's invisible hand, the contention that market economies will ensure economic efficiency -- provides little guidance for the choice of economic systems, since once information imperfections (and the fact that markets are incomplete) are brought into the analysis, as surely they must be, there is no presumption that markets are efficient. (p. 13)

To be sure, the case for the market, economists to the contrary, may depend more on political than economic arguments. Indeed, Schultze, rare for an economist, had earlier explicitly based his conclusions in major part on the existence of certain political values in American life. He emphasized that government often fails because it labors under a large burden imposed by the American political
value system -- the rule of "do no direct harm" (Schultze, 1977, p. 72). Economists have suggested providing actual compensation to those who lose out as a result of government actions, in order to loosen the tightly limiting consequences of this political rule (Thurow, 1980). However, in practice government has generally refused to do so -- perhaps for reasons of administrative complexity and difficulty -- even when a proposed government action might yield many more winners than losers, thus creating large net benefits for all of American society. As a result, government has been precluded from taking many efficient and socially desirable administrative actions, because American political culture does not allow government to make a deliberate and conscious administrative decision that would cause a particular group to experience significant harm.

By contrast, as Schultze 1977, p. 21) observes, American political views are much more likely to exhibit an attitude of "devil take the hindmost" when it comes to the social and equity impacts of market workings. As a consequence of this difference in value perspective with respect to actions in government, as contrasted with actions taking place in the market, the market mechanism offers a freedom to undertake a wide range of efficiency enhancing measures that would not be politically possible for government to undertake through direct administrative means. This value difference, Schultze suggests, is the greatest single reason why the market mechanism offers the prospect of so much more efficiency in the use of the resources of society.

Schultze did not clarify why this distinction in American political culture exists -- why the American political value system applies a rule of "do no direct harm" to government administrative actions but not to the market mechanism. To be sure, technical economics will have little to say about the matter. It must be understood in terms of the basic outlooks as expressed by ordinary Americans in
public life. Indeed, in the framework of thought of economic progressivism, the values applied by the public are irrational. The basic premise of economic progressivism is that the results of the market mechanism are and should be equally planned and intended by government, the products of deliberate government manipulations of market forces to achieve specified social purposes. Hence, government should, it would seem, logically be held equally accountable for any harm done to losers, whether it is the result of a command-and-control directive of an administrator or the result of a planned manipulation by government economists of the market mechanism.

Schultze's basic policy conclusion thus is left dependent on a continuing public irrationality with respect to the role of the market mechanism. Indeed, if much of the current higher efficiency of the market is value dependent, it could be temporary, perhaps disappearing if political values in American life should turn in other directions. If the average person should come to see the market mechanism more accurately, not as an impersonal and objective neutral process, but as in fact guided by government economic planners to predetermined social goals, the "do-no-direct-harm" rule might well have to be invoked in market circumstances as well. American political values might then require compensation for market outcomes adversely affecting particular groups, which would tightly constraint the market in the way that direct government administrative actions have long been constrained.

Although few members of the economics profession care to advertise -- or perhaps even recognize -- the fact, the very same values on which the policy case for the market mechanism depends are implicit in most broader microeconomic theorizing about the market. The market is an engine of great material advance but also of large scale social dislocation. Free trade, for example, brings
millions of American consumers lower prices but also eliminates the jobs of many thousands of workers every year. There are no grounds in science for ignoring the psychological distress of the unemployed, the anguish of those displaced from their communities, the unhappiness many people feel with the widespread changes in the character of the external environment associated with shifting patterns of economic production. A genuine scientific management, as economists have long understood the matter, would consist of maximizing the total welfare of society, requiring the adding up of every form of benefit and the subtracting of every form of cost. Yet, economists do nothing of the sort.

Much as the American political value scheme gives the market mechanism an exemption from the "do-no-direct-harm" rule, economic analysts have long been given an exemption from the scientific obligation to consider all forms of social benefits and costs. Economic analysts, for example, ignore the social "harms" -- even though they are real enough -- of the many dislocational and transitional effects of the market process. Technically speaking, the great bulk of economic analysis is devoted to comparing one equilibrium state with another, leaving the many benefits and costs associated with the process by which society moves from one equilibrium to another largely unexplored (Kornai, 1971).

This is not merely an analytical question. As Schultze -- in this respect unusual for a mainstream economist -- makes clear, the differential political values applied to "harms" in government administration and in the market have basic policy implications. Indeed, as we have seen, it is critical to the case Schultze and many other economists make for the market mechanism as the superior scientific instrument of the progressive welfare state. In many other contexts as well, economists are not shy about offering strong policy conclusions, based on their theorizing about the market process (Nelson,
These policy conclusions depend in large degree on a strong value assumption made by economists that the benefits and costs of market dislocation and transition should essentially be ignored -- technically set at zero for analytical purposes.

6. The Market Mechanism as a Value Statement

If there is at present no justification in value-free economic science for preferring the market mechanism over alternative economic systems, has it all been simply a great mistake in economic reasoning? In a narrow technical sense, or as a matter strictly of the logical quality of economic thinking, the answer would seem, unavoidably, to be yes. Most economists have significantly misrepresented their social role and the basis for their policy conclusions to the American public.

However, in another and practical sense, perhaps the answer is no. As McCloskey (1985), Klamer et al. (1988), and others have suggested, technical arguments sometimes are really value arguments themselves, if in a partially disguised form. There may not have been any strictly scientific justification for the economic policy conclusions with respect to the market mechanism, but in advocating the use of markets economists have in fact favored an approach well suited to a value system that has been very widely shared at least until recently in American society.

William Baumol was asked a while ago to explain why he had decided to enter the economics profession. Baumol (1992, p. 51) replied "I believe deeply, with [George Bernard] Shaw, that there are few crimes more heinous than poverty. Shaw, as usual, exaggerated when he told us that lack of money is the root of all evil. But he did not exaggerate by much." That is to say, the source of human misbehavior, as Baumol believes, is poverty and poverty can be solved by economic growth. In
holding out economic progress as the hope for a solution to the ethical failings of humanity -- to "evil" -- economists are entering into a new domain; they are addressing a subject that has traditionally been the province of religion.

Baumol's thinking followed in a long tradition. American progressives early in this century believed they had found the correct answer to an age-old question: why has there been so much fighting, stealing, lying and other misbehavior throughout human history. It was the result, the progressive movement was convinced, of the fierce struggle to survive in a world of inadequate material resources. Human beings were simply driven to do bad things by the material pressures of their external environment. To put this in the value framework of Christian theology, one might say that material scarcity is the true "original sin." But the fallen state of mankind would soon be ended by a greater and greater availability of material outputs. In the professional classes the progressives saw in essence a new secular priesthood holding the scientific keys to a salvation here on earth (Nelson, 1991).

Such values had already contributed significantly to the founding of the American Economic Association in 1885. The leading figure in this effort, Richard Ely, was also one of the best known members of the social gospel movement of the time, and in later years a prominent spokesman for American progressive causes (Ely, 1938). As Ely (1889, p. 56) wrote, what we "learn about heaven" in the Bible is in fact meant to apply "for this world." Indeed, "God has given to His people this world for salvation" (p. 72). And earthly salvation would mean as a prominent feature that we must "guide
and direct the forces which control the production and distribution of economic goods, that they may in the highest degree subserve the ends of humanity" (p. 127).

Indeed, American historians have characterized the progressive movement as a religious "crusade" that was part of "a secular Great Awakening" (Haber, p. ix). Its beliefs were, as Hays has written, "the gospel of efficiency." Waldo (p. 19) wrote in 1948 that "every era has a few words that epitomize its world-view and that are fixed points by which all else can be measured. In the Middle Ages they were such words as faith, grace and God; in the eighteenth century they were such words as reason, nature and rights; during the past 50 years in America they have been such words as cause, reaction, scientific, expert, progress -- and efficient."

It is these social values, which reached their peak of acceptance earlier in this century, that are still implicitly expressed today by economists in their advocacy of the market mechanism. It followed from progressive faith that it was the religious duty of every citizen that he or she should do their part to contribute to economic progress. This would mean in practice bearing uncomplainingly any temporary burdens and disruptions -- as an economic analyst might say, assigning them a zero cost -- that might lie along the road of progress.

Christian theologians used to say that, as compared with the glories of heaven in the hereafter, the burdens of this world are nothing (Tillich, 1967). Any price in this life is trivial, if it will mean the saving of one's eternal soul. In short, if economic progress can offer the prospect of heaven on earth, to say that any government imposed "harms" or "transitional disequilibrium events" along the way should have a zero weight is to secularize an ancient Christian theme. It is to accept that, as compared
with the future attainment of heaven on earth, every other current consideration is momentary and secondary.

Economic progressives, while preferring to use the specific instrument of the market mechanism to accomplish their goals, have never moved far from such core values of the original progressives. Keynes' personal views were complex and he was skeptical of many aspects of the older progressive orthodoxy. Yet, Keynes was characteristically bolder than most of his fellow economists in his willingness at times to affirm explicitly the values at the heart of the progressive message. In his 1930 essay on "Economic Possibilities for our Grandchildren," Keynes promised that within 100 years humanity would in all likelihood achieve a state of such great material abundance that all the old and nasty disputes over the division of the social pie would be irrelevant. As Keynes (p. 371) explained, it would then finally be possible for us "to return to some of the most sure and certain principles of religion and traditional virtue--that avarice is a vice, that the exaction of usury is a misdemeanour, and the love of money is detestable." But Keynes (p. 372) warned that "the time for all this is not yet....Avarice and usury and precaution must be our gods for a little longer still. For only they can lead us out of the tunnel of economic necessity into daylight" -- to heaven on earth.

It is remarkable but nonetheless true that, if such elements of religious obligation are removed, the standard economic case for the market mechanism simply falls of its own weight. Economists have never shown analytically that, if dynamic factors are appropriately taken into account, including the costs to society of the market failures of businesses, and the disutility to individual producers and consumers both of the process of change and of the mere fact of change as well, the market is a more efficient social mechanism than other alternatives. Few have ever even sought to address the issue at
such a basic level. Instead, in the standard analysis, transitional costs along the road of progress have simply been assumed to carry no weight, reflecting the transcendent importance given to ensuring that rapid economic progress is in fact maintained.

In short, and however at odds with the self image of the mainstream of the economics profession, the case for the market mechanism is ultimately a theological argument -- and literally, not metaphorically. Future discussions of the role of market institutions in American life will have to be rethought in the terms of a new subject with which economists have virtually no familiarity at present and that might be called "economic theology" (Nelson, 1991).

7. Does the Market Have a Future?

At the end of the 20th century, Marxist, socialist and other religions of economic progress are in sharp decline if not dead. The concept of the market mechanism, along with the entire progressive "gospel of efficiency" from which it emerged, is facing much the same fate. New secular religions such as are found in certain segments of environmentalism are seeking to replace the economic theologies of the past century (Nelson, 1993). Old style Christian fundamentalism also seems to be reviving, all part of a new religious ferment that appears to characterize the present period.

The progressive and other economic gospels failed in the 20th century at various levels, some practical, others involving more transcendent considerations. It is enough here to say that -- considered on their own terms from a merely secular and pragmatic perspective -- the basic tenets of the economic gospels have been undermined by the history of the century. The 20th century did in fact yield in many countries the vast expansion of material outputs that had been hoped for and predicted.
Nevertheless, the result has hardly been the transformation in the moral and spiritual condition of humanity that had been expected.

The 20th century has witnessed the holocaust, two World Wars, Siberian prison camps, the cold war threat to human existence, the extinction -- or near extinction -- of many animal species from the earth, and other dismal events. Indeed, in the western world the 20th century stands as the most violent and destructive period since the wars of religion in Europe of the 16th and 17th centuries. Evidently, religious conflict remained a powerful force in the affairs of mankind, if now often taking secular forms and more likely to be grounded in theological disagreements over the correct route of economic salvation.

If the theological values associated with the belief in progress are under basic challenge in our day -- and along with them the future of progressivism and the market mechanism -- it still seems likely that most people in the future will want more and better food, clothing, shelter, and other goods and services. In poorer nations around the world where many people are living in conditions of severe poverty, the desire to improve the standard of living will take on even greater urgency. Material gains, in short, will still be regarded as desirable, if no longer redemptive. This would seem to ensure that economics and the market -- if not specifically the social engineering concept of the market mechanism, grounded in the value system of progressivism -- will have a future of some kind.

Indeed, markets in one form or another have existed for thousands of years, long predating the twentieth century theories of the market mechanism. Although the formal economic theory may not be able to explain precisely why, practical experience also offers strong evidence to suggest that, broadly speaking, one or another form of the market will do a better job at stimulating the production of goods

20
and services than nonmarket economic arrangements. At its simplest, a market is simply an institutional
device for facilitating and regularizing voluntary exchanges of goods and services based on the use of
money, a trading device with obvious significant advantages over the alternative of voluntary
exchanges accomplished through barter transactions.

In short, it is not the marketplace of daily commercial affairs that has failed but the specific
engineering concept of the market mechanism. In the twentieth century, this concept was central to the
broader ideas that provided the theological approval for markets to operate. To be sure, in other eras,
different theologies filled this role. In the Middle Ages, the priesthood took up many economic
questions, addressing them in terms of the acceptable role of the market and other economic activities
in the divine scheme. Since the Enlightenment, however, Newtonian economics, Darwinian
economics, and most recently progressive economics have replaced divine authority. As the group in
society responsible for offering guidance on the correct route to heaven on earth, economists
themselves have become the priests of modern society. In economic progressivism the market
mechanism is ordained by the economic priesthood as the one correct route of salvation.

But this era is nearing an end. The fate of the market will then depend on what future
theologies and other value systems, not grounded in economic salvation, have to say about the proper
place of economic affairs and the market in human existence. The answers to such questions will also
surely differ significantly from one value community to another around the world. These communities
will need the independence and political authority to oversee the market in the terms of their own
fundamental values. At present, by contrast, as formulated by mainstream economics, the market
concept represents the assertion of a universal value system to which communities everywhere are
expected to subordinate other ethical and religious concerns. Christian, Muslim, Hindu, whatever, if religious beliefs are not grounded in salvation through economic progress, they become secondary.

Before existing value communities can assert basic oversight of the market, however, it will be necessary to consider a profound and difficult question: whether the existing boundaries of nation states -- the current instruments of market oversight -- correspond to the genuine value communities of the world that are appropriate for such a market supervisory role. A further complicating factor is that the bounds of nation states have often been drawn to promote an economic value system. A principal reason for forming the United States, for instance, was the creation of a large free-trade zone where state interference in the market was proscribed. It was in the progressive era that the movement towards concentration of administrative power at the national level really began in this country, a centralizing step necessary to realizing the social goals set in accordance with the progressive gospel of efficiency (Nelson, 1995).

Let us assume for the moment that, however accomplished, an appropriate set of political boundaries encompassing genuine value communities around the world can be established. In the external interactions among such communities, a critical feature of the market will be that it offers a means whereby people of diverse ideologies, religions, etc. can come together for mutually uncoerced interactions. As Kenneth Boulding (1968) emphasized, politics is ultimately coercive, while the market is based on a set of voluntary relationships. As the world is increasingly linked together in one economic and social system, yet major differences in cultural values and religion persist, market relationships may be the necessary alternative to the conflicts that would result from any attempt to assert a single world political order. An instrument of peaceful and productive interaction among
peoples and societies of diverse values, not economic salvation, may thus be the core function that will justify a new form of market institutional arrangement in the future.

To sum it all up, maintaining and defending religious liberty and other basic freedoms while providing an adequate material standard of living -- but not economic salvation -- is from a worldwide perspective most likely to be the core justification and most important role of the marketplace of the twenty-first century (Nelson, 1994).
References


