

*[T]he idea of a self-regulating market implied a stark utopia. Such an institution could not exist for any length of time without annihilating the human and natural substance of society*

(Polanyi, 1944: 3)

## Introduction

The international economic crisis following the 2008 collapse of Lehman Brothers unleashed a flood of *fiat* money by selectively prodigal central banks that have seen fit to plunge the world into a recession in order to keep over-indebted private banks afloat (cf. Hudson, 2012). Also, it unleashed an outburst of academic literature on the crisis itself, its causes, its effects, and its possible solutions. With this literature, a modicum of doubt has re-entered the mainstream of public discourse on topics such as globalisation, capitalism and the free market, to the point that even corporate newspapers have reported renowned liberals' and conservatives' statements that, until few years ago, would have been associated with leftist 'radicals' and ignored by mainstream media:

1. "The doctrine of the dictatorship of the market is dead" (Nicolas Sarkozy, former French president, 2008);[\[1\]](#)
2. "We need... humaneness... rules... and abandoning the idea of... massive profits" (MIT Nobel-prize winning economist Paul Samuelson, 2008);
3. "The dictatorship of the [credit] spread... nullifies... universal suffrage... [for] those who hold economic power... have every decisional power" (former liberal MP and current head of Italy's securities and exchange commission [CONSOB] Giuseppe Vegas, 2012);
4. "There emerge... in civil Europe the first signs of a new type of fascism: financial fascism, white fascism" (Italy's liberal MP and former finance minister Giulio Tremonti, 2012).

## Aims and methodology

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International crises and their dramatic outcomes notwithstanding, certain long-lived, deeply rooted beliefs are hard to die. Thus we keep hearing leading politicians and revered economic advisors who call for a return to growth and assert that structural reforms are imperative so that market confidence may be re-established and increased competitiveness achieved, without ever pondering upon the fact that these aims are precisely those that guided the global economy before the crisis. Could it ever be that endless growth, market confidence or competitiveness are misguided aims for the world's economies?

In these reflections of mine, I wish to address one of these resilient beliefs. Specifically, in the traditional philosophical way initiated by Socrates, I shall assess some logical knots arising from a hypothesis, that is, the commonplace liberal notion that the so-called "free market" possesses a unique capacity to generate prosperity.

This hypothesis is highly generic, diversely instantiated and potentially vague. Nevertheless, it pervades the whole spectrum of the liberal conceptions of the economy, such as Adam Smith's "invisible hand", whereby the individual's pursuit of self-interest results often into collective wellbeing (1776, IV.ii.9), or the textbook category of "market imperfections", according to which explaining is needed when the outcomes of market transactions are *not* optimal (e.g. Sloman, 2006). There exists an extensive literature for each of these conceptions, which I could address in a book, but not in a short piece like the present one. Rather, I shall select one representative liberal formulation of the hypothesis at issue and deal with those logical knots that I deem most likely to be of interest to a scholarly audience.

### Rhonheimer's formulation

The formulation that I now refer to is a recent book chapter written by the Swiss liberal thinker Martin Rhonheimer (2012),<sup>[2]</sup> who claims that the "free market" is "a *necessary* condition" of human prosperity (9; emphasis in the original). In his eloquent account of Eucken's ordoliberalism and the related critique of *laissez-faire* liberalism, Rhonheimer offers in support of his claim:

(A) one elucidation; and

(B) one generic token of empirical proof.

(A) The elucidation is that no central planner would be able to coordinate all economic activities as efficiently as the “free market”, in which individual agents pursue their own particular self-interest and, by so doing, unintentionally produce prosperity, in accordance with Smith’s principle of the “invisible hand” (9-10). Though not all conditions for prosperity may arise this way, none would arise without it. The “free market” is a necessary condition for prosperity, albeit not a sufficient one, which is what more trenchant *laissez-faire* liberals believe. States must also be involved, according to ordoliberalism and many other streaks of liberalism, to secure fair market transactions, enforce beneficial rules, correct market distortions, and redress socially and morally harmful market outcomes. However, to think that “central planning and state regulation... through several government-run agencies” could ever achieve any prosperity without the “free market” is discarded at once (5).

(B) The generic token of empirical proof is that “history teaches” all this: “a capitalist economy based on a free market, entrepreneurial activity, and free trade without tariff barriers is more realistic and in the long run beneficial for everybody” (24). In this respect, the unrealised failure of Roosevelt’s New Deal and a passing reference to Soviet Union are the two cases of “socialism” that the author utilises to give strength to his point (4-7).

## The critique

### *1. Indemonstrable necessity*

Rhonheimer’s elucidation, though very commonly heard, is not much of an empirical proof. At best, it is an enthymeme, i.e. a rhetorical proof. To make it stick more convincingly, it would

require itself many empirical proofs for adequate scientific substantiation. Yet here emerges a severe and unflinchingly by-passed methodological issue. How can anyone prove a thesis as comprehensive as the one presented in Rhonheimer's essay and, in general, upheld by the liberal community?

The necessary character of any economic system cannot be determined in a scientific way, for we have only one planet, one humankind and one very short historical span at our disposal for any empirical verification and/or falsification of the "free market" and, for that matter, of "socialism". Apart from mere logical possibility, which cannot exclude a plurality of ways to prosperity, it should be observed that for any claim of such a necessary character to be ascertained, we should investigate a set of entirely alternative and separate systems over a certain period of time, probably a very long one, so as to determine that only the ones operating upon the "free market" produce prosperity, whatever this may be like. Unfortunately, to this day, such a test has been impossible to perform.

Moreover, focussing onto the "market" versus "socialist" dichotomy can be misleading, for it shifts the gaze away from what is undeniably necessary for the meaningful survival of our species, i.e. the continued satisfaction of human needs across generational time. That is the prime end, whatever additional feature we may wish to add to the notion of prosperity. Economies are the means to attain *in primis* this prime end.[3]

As the past is concerned, we know that some civilisations have made it this far. In this connection, we might think of prehistoric, ancient and medieval Earth, let us say before the age of European exploration, as a plausible set of sufficiently separate and alternative economic systems to conduct a comparative study. Yet, apart from the fact that hardly any of the known ones would count as a free-market system, we know far too little, if anything, about most of them to make any valid scientific comparison, whatever notion of prosperity we may wish to employ (cf. Boldizzoni, 2011). If we look at what history has produced until now, we may be in a better position to determine which system has been the most ruthless, hence the one that has imposed itself over the others. However, that would be a banal and, I suspect, rather degrading notion of superiority, not to consider the very thin or quite absent link that such a superiority may have to human needs or prosperity (cf. Castoriadis, 1997).

As the present is concerned, there may be alternative but no separate systems, given that

even the most isolated indigenous communities in the world are being affected by the environmental changes produced by the advanced economies of the planet (e.g. Itkadmin. 2007).

As the future is concerned, unless we deny the ability of humankind to change creatively its collective organisation, which has varied enormously throughout the known history of our species, we cannot even begin to fathom what awaits our descendants: a Star-Trek-like society without money, need and greed; or a Mad-Max-like post-atomic age of barbarism? But this is the territory of science-fiction, not of science.

## 2. Lack of prosperity

If we follow Rhonheimer's representative formulation and understand prosperity as "*consumption*, that is, the satisfaction of the needs of *all* the persons living in a determinate territory" (19; emphasis in the original), we quite simply lack information about most human communities in most parts of the world throughout most of human history. Presently, the past is closed to us; and so is the future, for we cannot predict what will happen on our planet tomorrow, not to mention in two years or two centuries.

As the history of today's world is concerned i.e. the so-called 'global market', which is usually claimed to be an imperfect instantiation of the "free market", we know for sure the following: it fails regularly to satisfy the needs of *all* the persons living on the planet, as the UN's annual statistics on death by malnourishment and starvation regularly report. And while failing these persons' needs, the current imperfect instantiation of the "free market" also caters to artificially instilled wants of others, including the desire for carcinogenic cigarettes and life-shortening junk food. In other words, the global market fails not only to secure planet-wide need-satisfaction, which is what Rhonheimer appears to be taking as genuine consumption, but also to distinguish between, say, the need for bread of the starving paupers and the desire for golden toilets of oil tycoons, so as to prioritise the former above the latter. What sets in motion the "free market" in both theory and practice is money-backed demand, i.e. preferences or wants of market agents endowed with pecuniary means, not the genuine needs of humans or other living beings, whose possession of pecuniary means may be nil.

Money, not need, is what determines consumption in today's world, *pace* Rhonheimer's noteworthy equation (cf. McMurtry, 1999).

Revealingly, many liberal economists and, above all, the actual economy treat both bread and golden toilets as marketable 'goods'. No axiological compass is present for basic distinctions between that which is of real value and that which is not, or that which is good and that which is bad. Neither any economic 'good', nor all economic 'goods' are good. Some are bad. For example, financial speculation over the price of staples such as rice and wheat may be deemed "rational" and a form of "wealth creation", but it does increase malnutrition and illnesses. In other terms, the invisible hand seems to possess an invisible brain, which is why ordoliberal *à la* Rhonheimer, unlike libertarians and radical *laissez-faire* liberals, have long recognised the importance of at least some State intervention.

### 3. *Imperfect imperfections*

In connection with the importance of State intervention, Rhonheimer introduces a number of additional qualifications that cause the "free market" to come across as more inefficient than initially stated in the thesis. Albeit a necessary one, this mechanism is not a sufficient condition for prosperity or consumption. It is said that it "frequently" leads to prosperity, i.e. not always (10). It is incapable of providing many "public goods" (14). It is prone to "failures" (13). If the State does not intervene, it generates "cartels" (15). Indeed it possesses "a tendency to destroy itself" (15), given also that it causes major social "problems" such as "inequality" (25).

These qualifications are unlikely to sound surprising to most liberals, for, in varying degrees, the near-totality of them acknowledge that some imperfections do affect the market system. However, it is perplexing to notice that, under their perspective, qualifications of the actual market economies such as the ones listed by Rhonheimer are not seen first of all for what they are, i.e. features of the existing markets. On the contrary, they are seen as exceptions to the implicit rule, which assumes markets to be perfect, even if they are clearly not perfect. Indeed, a few years before his death, liberal economist John Kenneth Galbraith (2004) stated the very talk of "free market" to be nothing but a "fraud" (in the title) aimed at hiding the

historical fact of *capitalism*, that is to say, a much more fitting term to describe Western economies, inside which there has always been a dominant group planning the economy to its own advantage (e.g. merchants, industrialists, absentee owners, managers, financial managers), conspicuous market manipulation (including creating demand by operant conditioning techniques) and extensive conditions of monopoly and oligopoly.

Textbooks often refer to methodological convenience when explaining why economists assume perfect markets. Though understandable, such a prioritisation of methodological convenience over empirical evidence is a grave departure from standard scientific methodology. Galileo may have invited the scientific inquirer to reason *ex hypothesi*, but he never maintained that contrary evidence should be systematically side-stepped in order not to change the starting hypothesis. In the natural sciences, hypotheses are meant to be tested and revised in light of empirical evidence. Only the formal sciences content themselves with coherent theoretical constructions (cf. Hintikka et al., 1981).

#### 4. *Vaguer and vaguer referents*

The absence of exact instantiations of the clearly unempirical “free market” is only the beginning. If we allow for some State intervention, as Rhonheimer does, what should count then as truly “free market” and “socialist” economies? Where should we draw the line of demarcation?

These two terms are almost omnipresent in both recent political history and scholarship, yet their actual separation is far from obvious. Indeed, from a 19th-century conservative perspective, liberals and socialists were hardly distinguishable from each other, as the political critiques by Pope Pius X or Friedrich Nietzsche exemplify. Furthermore, before the 19th century, most societies in human history had not been market societies. They may have contained some markets (e.g. slave trade in the ancient Mediterranean), but most of their members did not participate in them (cf. Boldizzoni, 2011). As far as we can ascertain, subsistence and reciprocity were their main features, as reflected also in their culture, which kept the analogues of today’s economic rationality as limited secondary instruments to other primary social goals, such as community status, personal honour, or the salvation of each

believer's immortal soul.

Great achievements were possible in these older societies, whether in the arts, philosophy, mathematics, law, engineering or religious life. Such human accomplishments seem to have little to do with "free markets" or the size of a country's GDP, and perhaps may be unrelated to whatever prosperity the hypothesis at issue implies. Still, it is not aimless to ponder upon the fact that even the great scientific discoveries that led to the technologies whereby 20th-century human populations boomed worldwide, in both self-proclaimed "capitalist" and "socialist" economies, were made in countries with smaller GDPs than today and limited "free markets" (cf. Galbraith, 2004). Moreover, modern societies, in which commercial and financial markets have become much more extensive and influential, have often retained—sometimes up to the present day—significant elements of subsistence and reciprocity (e.g. small-scale farms in Scotland, Poland and India), as well as many development-spurring elements of public ownership and public planning (e.g. Venice's publicly owned merchant and military fleets; George C. Marshall's post-WWII ERP; Germany's, Brazil's, North Dakota's and China's public banks).

Additionally, it should be noted that Ronheimer himself claims that genuine free markets existed worldwide only for a brief period of time, i.e. "between 1850 and 1870", and that self-proclaimed "free market" post-WWII USA has resembled post-WWI Germany in maintaining the State-centred structures inherited from their war economies, which still allow the State, for example, to bail out bankrupt private firms (21). In short, the issue of identifying genuinely "free-market" and "socialist" economies is not an easy one. Not even post-war USA may count as a decent token of the former type of economy, at least according to Ronheimer, who compares them to the historical champion of cartel-friendly organised capitalism, i.e. Germany (cf. McGowan, 2010).

Any firm, trenchant scientific evaluation of the historical experience of concrete societies seems therefore less and less likely, at least if we take Ronheimer's considerations seriously, for we lack clear referents for the key-terms of "market" and "socialist" economies.



### 5. *Non-existence*

The distance from concrete societies increases further whenever liberals like Rhonheimer assert that the “free market” is an ideal, i.e. something that does not truly exist in reality (I shall not dwell on the contradiction entailed by the claim that he makes about free markets having existed worldwide only for a brief period of time). In other words, it is a purely theoretical construct, an empirical impossibility, for the human being is actually incapable of operating according to it. Perfect markets as such, in whatever Hyperuranus they may be located, are therefore not to be blamed for crises, unemployment or whatever other misfortune may befall upon us. People are. The former are not around. The latter are.

Liberals seem not to notice the troublesome logical implications of such an approach, for not only does it mean that there is no clear empirical evidence that free markets are the one and only way to prosperity, but also that there cannot be any, for they have never been truly present, since they are not suited to “the human condition” (15).

Moreover, liberals do not seem generally to notice that their approach is analogous to that of many 20th-century Marxist zealots who, when confronted with the failures of Eastern Europe’s “real socialism”, argued that their theory was correct, since its practice alone had failed, given various and varying human flaws. In short, no amount of contrary evidence could disprove their stance.

### 6. *Unfalsifiability*

The Marxist zealots’ case leads us to the most fundamental and most intractable logical knot of the liberal position with regard to the markets’ unique ability to generate prosperity. If (a) the genuine “free market” cannot be established, for it is a theoretical construct inconsistent with “the human condition”; and if (b) the actual historical experience of what is commonly referred to as the “free market” or “capitalism”, i.e. the history of mostly Western developed countries over the past three centuries, is one of considerably imperfect applications involving significant elements of State intervention and ownership (e.g. post-bellum Germany and USA), why is the market *necessarily* responsible for wealth and, to some extent, well-

being, whereas significant State intervention and ownership are not? Why not the two of them together, on a par? Or why not either of them, depending on the specific circumstances of each particular case, duly investigated by means of close historical, economic, medical, sociological, anthropological, environmental and axiological analyses? Principled comparisons are possible, but they must rest on solid empirical ground. And why should we ignore other factors altogether, such as gifted individuals, fortunate circumstances, scientific discoveries, cheap energy sources, literacy levels, or religious dispositions? Must it be always the markets that save the day?

By his own account and qualifications, Rhonheimer has no real answer to these questions. Quite simply, he states his thesis and uses it to read history so as to be allowed to state it. In other words, Rhonheimer is assuming *a priori* that the “free market” produces necessarily wealth and, to some extent, wellbeing. By means of that assumption he then proceeds to read human history as its verification—State-led development, recurrent crises, environmental degradation and social tragedies notwithstanding. Verification is open; falsification is not. This is a profound methodological flaw not just in Rhonheimer’s essay, but also in much economic thinking. In fact, it does begin with Adam Smith’s *Wealth of Nations* and reaches its highest peak in *laissez-faire* economics, which argues that the “free market” is the necessary *and* sufficient condition for human prosperity. In all of its forms, it is an example of scientific unfalsifiability, or pseudo-science, for such an assumption, whereby “free markets” are bound to generate prosperity, admits of no counterevidence. Let me explain better how this unfalsifiability is the case:

- A. In the first place, insofar as it is assumed that unhindered markets bring about prosperity, if we do not have prosperity now, then we must simply wait and abstain from causing undue hindrance. As Christians and Marxists have long known, eschatology calls for patience; hence the recurrent phrases commonly attached to so-called “market reforms”: “in the long run”, “future generations”, “long-term benefits”, etc.
- B. Secondly, if waiting is not a credible option and we do not have prosperity yet, then we can always blame the government (e.g. ‘corruption’, ‘red tape’) or some dishonest private actors (e.g. ‘crony capitalism’, ‘State capture’ by special interests) for being

unfaithful to the actual spirit of “free markets” and therefore causing hindrance. Markets fail not, people do—although one can legitimately wonder what markets may be if not people transacting with one another within a certain normative setting (cf. Barden & Murphy, 2010).

- C. Furthermore, insofar as Smith’s followers and ordoliberalists *à la* Rhonheimer argue as well, though often reluctantly, for the desirability of some, however limited State intervention (e.g. Smith’s progressive taxation, Presbyterian-style education of the youth, public regulation of banks and mentally destructive working conditions; Eucken’s redressing of socially detrimental unfavourable market outcomes), they corner public authorities in a hopeless argumentative position. Given the starting point, growth and prosperity can always be seen as the result of the markets’ enduring degree of freedom—i.e. not of the State’s intervention—while crisis and misery can always be blamed onto the State—i.e. not onto the markets being actually unable to generate growth and prosperity.

Operating under such an assumption, markets can never be wrong, whatever environmental or social ills may have arisen. Thus, not only can prejudicial favour for the free market go on unchallenged. Also, if the markets do not deliver the promised bounty, the cure can be said to be only more of the same. Unsurprisingly, this is exactly what happens in Rhonheimer’s essay: “markets”, he writes, are “*normally and as a matter of principle the solution*” (12; emphasis in the original). And equally unsurprisingly, many leading statesmen and politicians seek too more of the same (e.g. Italy’s PM Mario Monti, 2012).

## Conclusion

Rhonheimer’s essay is fallacious, given the self-contradictory confusion that results from insisting upon the markets’ necessary beneficence whilst also piling up observations and qualifications that point precisely to the opposite conclusion. Like all analogous liberal assessments, it is built upon an unfalsifiable hypothesis that makes liberals highly unlikely to:

(a) Read historical experience in ways that may render more complex or contradict the original assumption (e.g. Earth-wide ecologic collapse, recurrent crises, continuing unemployment, the wasteful failure of most enterprises and products launched every year, successful development by public planning of industrial production or strategic public subsidies), so as to acknowledge that capitalism à la Galbraith is at work and, though driven by the same principles of the “free market” (e.g. growth, market confidence), it is not necessarily beneficial to societies at large and must be therefore integrated, constrained and/or contrasted by other principles (e.g. sustainability, human rights; cf. Polanyi, 1944)

(b) Avoid engaging in pseudo-scientific *ad hoc* explanations, or *de facto* exculpations, so as not to revise the original assumption (e.g. people fail markets and not *vice versa*; the State’s pro-market legislation, liberalisations and privatisations are to blame, for they were erroneous, corrupt or insufficient; State institutions are to blame for financial crashes, because of some minor change in the laws that unleashed an otherwise impossible flood of private greed; Mexican, Korean, Russian, Icelandic..., X culture or human nature itself is not suited for the actual application of the “free market” and therefore leads to its historical failure)

(c) Envision different, hybrid, pragmatic, contingent or case-specific solutions to economic problems (e.g. mixed economies; voluntary communes, cooperatives and social enterprises; State ownership of crucial assets *qua* cost-abating fourth factor of production; Georgist taxation of economic rent from natural resources; constructive cooperation with cartels and oligopolies; ecologically sound rationing in view of gradual retreat from the environment and life-sustaining de-growth)

(d) Conceive of possible major alternatives, whether based on past experiences (e.g.

monastic communities, the Israeli kibbutzim) or untested and novel ones. Human freedom entails creativity and change that cannot be predicted in advance. (cf. Castoriadis, 1998)

(f) Realise clearly that by assuming the markets' beneficence as necessary, promoting freedom to trade as paramount and reinforcing scepticism *vis-à-vis* public intervention and regulation, liberals make it more difficult, if not impossible, to discriminate effectively between good and bad growth, good and bad market confidence, good and bad markets, and good and bad goods. Thus, ecologically and biologically destructive economic growth keeps being pursued instead of growth in life-capacity alone; wealthy investors' desiderata keep being prioritised over the life-needs and related demands of deprived local communities; and cigarettes, junk foods, armaments and speculative assets keep being traded because profitable (cf. McMurtry, 2013).

*In nuce*, the fictional notion of free markets impinges upon reality by buttressing in theory and fostering in practice unfettered capitalism, which has led to disastrous results on economic, social and environmental levels. Yet none of them is blamed upon free markets, since free markets are already assumed to be the paramount way to prosperity, with all good results numbered as proofs of this assumption and all bad results blinkered out—the self-enclosing frame of mind behind all possible interpretations of past and present experiences. Blame for the disastrous results is, in turn, shifted onto other agents, especially the State, on which the near-totality of free-markets adherents first of all depend and the limited intervention of which, albeit grudgingly, they require. It is then easy to use the State as the scapegoat whenever things do not work out as the doctrine assumes they must. And since things do not work out the way they should, then more free market, hence more unfettered capitalism, can be the only answer within such a closed metaphysical circle, which reduces from the beginning all possible solutions to itself.

Yet there is more. Given how pervasive the hypothesis at issue has been, it follows that politics, policies and entire academic programmes have been built upon a fundamentally

unscientific assumption. I do not object to having unscientific assumptions. Indeed, some of the most important dimensions of human existence are built upon unscientific assumptions, such as intimate love and religious life. I do object to doing so, though, and not admitting it. Were liberal economists to state that they offer an essentially religious interpretation of reality, based upon some successful partial instantiations—analogue to the proofs of reasonability of scholastic theology—and the hope that the markets left largely unhindered may provide us with prosperity, then they would be intellectually honest. They could follow in the steps of Richard Rorty (1998), who advocates political liberalism *qua* civil religion of democracy. They would be consistent with Friedrich Hayek's (1992) characterisation of the market order as "transcendent" and analogue to the religious one in assuming that its own unfathomable will, "not *mine*" i.e. humankind's, "be done" (72). They would be reminiscent of the likely Providential character of Adam Smith's (1776, IV.ii.9) "invisible hand" (e.g. Oslington, 2011).

But economic liberals do not. Economics textbooks say nothing of the sort. They assume the free markets' existence, which is itself empirically doubtful and at best historically limited, assume away any flaw by way of a *a priori* methodological perfection, and ascribe to them the necessary generation of human prosperity, whatever contrary evidence there has been in human experience, such as State-led development (e.g. Communist China), prosperous cartel-intensive economies (e.g. Bismark's Germany), the collapse of the first age of market globalisation (1870s-1914) and the ensuing Great War and Great Depression, the booming populations of 20<sup>th</sup>-century socialist nations (e.g. USSR), or the on-going worldwide depletion of natural and human systems upon which "the life and health of the billions [are] supported" (Hayek, 1992: 75). Their reticence and assumption are not only unscientific; they are also unprofessional. In truth, they are a nothing less than a lie. And lying is, under normal circumstances, unethical.

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[1] All translations are mine, unless stated otherwise.

[2] I have published a critical essay of this volume in the fourth 2012 issue of *Economics, Management and Financial Markets*.

[3] On this point, the UN's Committee on Economic, Social and Cultural Rights has long espoused an aim-driven approach: the specific economic system of each member nation is not important, as long as human rights are protected, respected and fulfilled (cf. Baruchello & Johnstone, 2011).