

Market: Theory and Reality
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The market of homo oeconomicus is not real. Perhaps this is Polanyi's point when he says that it could not really be applied to land, labour and money (all fictitious commodities) without the destruction of society. Mrs. Thatcher, who famously did not believe in society, did not care about that, but the reaction - among real conservatives - was very real. They weren't having it. And real markets, as Polanyi insisted, are created by government and regulated by bureaucrat, cannot be applied to the concrete reality without misplaced concreteness. Which is why Georgescu-Roegan (*The Entropy law and the Economic Process*, Harvard, 1972, pp. 320) said that misplaced concreteness to be exact, "The fallacy of misplaced concreteness" is the "sin of standard economics".

Bear with me: Georgescu-Roegan:

The question is why a science interested in economic means, ends and distribution should dogmatically refuse to study also the process by which new economic means, new economic ends, and new economic relations are created. Perhaps one would answer that what is to be included in the scope of any special science is a matter of convention or of division of labour. To return to an earlier parallel, is it not true that husbandry constitutes a proper scientific endeavor and a very useful discipline despite the fact that it does not concern itself with biological evolution? There is, however, a very important reason why economics cannot follow the example of husbandry.

The reason is that the evolutionary pace of the economic "species" -- that is, of means, ends and relations--is far more rapid than that of the biological species. The economic "species" are too short-lived for an economic husbandry to offer a relevant picture of the economic reality. Evolutionary elements predominate in every concrete economic phenomenon of some significance--to a greater extent than even in biology (note 9 in text: This is not the same thing as saying that the economic material is exposed to numerous disturbances, as Joseph A. Schumpeter says in *Business Cycles* (2 vols., New York, 1939) I, 33. From a mechanistic viewpoint, every concrete phenomenon appears subject to innumerable disturbances).

If our scientific net lets these elements slip through it, we are left only with a shadow of the concrete phenomenon. No doubt, a navigator does not need to know the evolution of the seas; actual geography, as Pareto argued, suffices him. (Note 10: Pareto, *Manuel*, p. 101). But my point is that Pareto's illustration would be of no avail if the earth's geography evolved as rapidly as that of the economic world. It is beyond dispute, therefore, that the sin of standard economics is the fallacy of misplaced concreteness, by which Whitehead understands "neglecting the degree of abstraction involved when an actual entity is considered merely so far as it exemplifies certain [preselected] categories of thought. (Note 11: Alfred North Whitehead, *Process and Reality: An Essay in Cosmology*. New York, 1929, pp. 11).

What Polanyi did (for which some economists could never forgive him) was to immerse himself in the study of the process of which Georgescu-Roegen speaks, breaking the level of Cartesian abstraction that constitutes homo oeconomicus and economic "science". I suppose that this is also why economists often look down on the practitioners of economic history -- because they also look at that historical process. And Polanyi has a famous essay entitled "The economy as instituted process". Here for example Polanyi wrote:

The substantive meaning [of "economic"] implies neither choice nor insufficiency of means; man's livelihood may or may not involve the necessity of choice and, if choice there be, it need not be induced by the limiting effect of a "scarcity" of the means; indeed, some of the most important physical and social conditions of livelihood such as the availability of air and water or a loving mother's devotion to her infant are not, as a rule, so limiting. The cogency that is in play in the one case and in the other differs as the power of syllogism differs from the force of gravitation. The laws of the one are the laws of the mind; the laws of the other are those of nature. The two meanings could not be further apart; semantically they lie in opposite directions of the compass (K. Polanyi, "The Economy as Instituted Process", in Polanyi, Arensberg, & Pearson, *Trade and Market in the Early Empires*, Chicago, Gateway, 1957, p. 243-44).

His opponents have perhaps committed the greatest fallacy of misplaced concreteness when they take the Market, not as a concrete institution created by government and regulated by bureaucrats (the reductio ad absurdum might take the form of a "thought experiment": if a fully self-regulating market is deemed possible, then why not eliminate all of the bureaucracy required to sustain it! This could not have been done even in the days of the gold standard), but as a mathematical abstraction that is imposed on historical reality, assuming that it would be applicable to every culture, every historical situation.

We have some odd things involved. Marx, I think, said that the "individual" of economics is an abstraction. Homo oeconomicus is an abstraction. And of course all science involves abstraction, but we must be very careful in our conclusions, in how we attempt to apply our scientific abstractions to the concrete realities. Whitehead's caveat has something to do with physics--the "hard science" that some economists would like to emulate. In fact it appears that economics (like ethics?) must inevitably involve a mélange of science and prudence. Economics, as an abstract science, must be carefully distinguished from the art, the practise of the gaining of men's livelihood. There is no doubt a parallel here with ethics: abstract considerations can be extremely useful in analysis, but the danger of Whitehead's fallacy of misplaced concreteness is always present, a trap for the unwary.

Thus while many practitioners of economic science and their political followers speak eloquently of the market, or perhaps of markets (there may be some question, on the ground, as to whether these two usages are compatible, and in practice no government has ever allowed markets to function without severe limitations. Perhaps J.K. Galbraith has said it most clearly:

Lecturing on these matters in Budapest last autumn, I was questioned by a Hungarian journalist who was distressed that I had not mentioned Friedrich Hayek as a guide to needed reform. Did he not offer the most workable economic and political model? My interrogator was visibly distressed when I replied that it was a design we in the West would not care to risk ("Why the Right is wrong" in *The Manchester Guardian Weekly*, February 4, 1990, pp.10).

The context here is extremely important: Galbraith was in fact urging that "The prime essential is that the transition to capitalism be complete." (ibid.) And he was looking at Western capitalism not as it is sometimes described in textbooks, but as it actually functions on the ground. In the same article, Galbraith adds:

Those who speak, as many do so glibly, even mindlessly, of a return to the Smithian free market are wrong to the point of a mental vacuity of clinical proportions. It is something we in the West do not have, would not tolerate, could not survive. Ours is a mellow, government-protected life; for Eastern Europeans, pure and rigorous capitalism would be no more welcome than it would be for us (ibid).

Behind this, we must repeat, is the Polanyian distinction between abstract formalization of economic theory and economic reality as it is actually practised, in its impact on societies and the real people who form them.