

Myopia of the market

by [Rodney Clapp](#) in the [January 11, 2012](#) issue



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Since the years of Reagan and Thatcher, we have heard a steady drumbeat about the limitations of government. In turn, the free market has been extolled for its supposedly boundless benefits. Perhaps it is time—or past time—that we recognize that the market has its limits.

This isn't to say that the free market is without strong advantages. As Adam Smith first articulated, the market works wonderfully in situations of strong supply and demand, with free exchange between the two. It increases productivity. It spurs competition that squeezes out waste. And it does all this by taking advantage of the self-interest so ineradicable in human nature. Somehow the market's "invisible hand" moves to apportion the results of self-interest to the benefit of the common good. In these respects, the market works more efficiently and productively than any other system imagined or implemented.

So far, so good. The danger arises when people think the market works best for all the realms of our lives and when people fail to recognize that there are different economies, some of which do not operate best according to the rules of the market.

To take a premier example, consider the economy of the kingdom of God. This is an economy that functions not by supply and demand, but by grace. Prosperity gospels make the mistake of assuming on God, guaranteeing that if we give of our money to God, we will receive much more in return on our "investment."

Such false gospels distort the true gospel grievously, imagining not only that we can control God and God's responses, but that grace is a good we can earn or purchase from our own wherewithal. Prosperity gospels fall prey to a kind of capitalist heresy. So here is a realm in which the free market does not work or belong—it has its limits.

The market has more immediate and practical limits as well. As economist Jeffrey Sachs notes, "Private markets work well when there are many suppliers and consumers, as is the case for goods and services such as clothing, furniture, automobiles, hotel services, restaurants, and the like. They begin to misfire when economic logic calls for a *single supplier*, for example, to operate the police force, fire department, army, court system, highway network, or electricity distribution system."

We don't want competing fire departments running into each other on their way to save a burning home. Having a single public, governmental supplier makes more sense. Similarly, it makes no economic sense to build a proliferating series of private highways from one city to another. Better to concentrate on one or a few roads at the most.

In his book *The Price of Civilization*, Sachs points to another limitation on the market. Free markets fall short when producers "cause adverse spillovers to the rest of society, such as by polluting the rivers with toxic chemicals or emitting climate-changing carbon dioxide into the air." The market has no internal mechanisms to prevent abuses such as pollution. The free market in and of itself is simply too shortsighted to take account of what economists tellingly call "externalities." The market needs to be complemented by governmental regulation and levies that discourage harmful practices.

The market is shortsighted in another way: it includes only currently living consumers and producers. It does not take account of the citizens of the future, the generations not yet born. The market, unchecked, simply encourages the current consumption or even over-consumption of the earth's natural resources. It does not encourage sustainability and thus does not protect the interests of those who are

not yet here to speak for themselves.

Only comparatively recently have we have recognized limits on the supply of fossil fuels and drinking water, as well as the vulnerability and limitations of the earth's atmospheric ozone layer. As Sachs observes, it is a matter of fairness to the future that we steward the earth's finite resources. "That's a tough role to play," he writes. "There is nothing natural or innate about it." We can't count on the market to naturally take account of future generations. "We need to defend the interests of those whom we've never met and never will. Yet those are our descendants and fellow humanity. Alas, it's a role that we've mostly ignored till now, to the increasing peril of all who will follow."

It is no insult to the free market to recognize its limits. These limits are theological as well as practical and material. To name them is to admit that the free market is good, but not the sole good. The market works best if it is complemented by church, government and other social agencies and not treated as an idol, the sole arbiter of the common good.