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Don't Give In to Almighty Market

By: Joel Rogers, Guest Editorial

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I've ceased to be amazed at politicians telling us we should leave all social choice to markets. Some bits of idiocy are repeated so often that they take on a false reality of their own. I guess this is part of what Joseph Goebbels, the famous Nazi propagandist, was after with his theory of the "big lie." Repeat some preposterous thing again and again, and allow no room for argument, and some people will actually come to believe it.

Not that mindless marketers are Nazis - but they are repeating a big lie. Markets have their purposes but they also have their faults, and even as we seem to be heading there, it would be truly crazy to let them rule the world.

Everybody knows this if they stop to think about it. Ask yourself: Would you like your life decided by an impersonal institution that doesn't worry about the future, cares for nothing and no one, knows the price of some things but the value of nothing, and can't even get it together to invest in great stuff that isn't profitable yet (such as basic research) or that benefits so many people at once that it can't be easily sold? Long question, short answer: "No!"

And thank goodness for that, since life would be truly disgusting and sad if markets ruled it. Take something as basic to us all as love - the stuff that, along with capital accumulation, makes the world go 'round. Now imagine that fully marketized, so that romantic love and family love and friendship become just a set of personal services you can buy. Growing into your teenage years, and feeling the stir of nature, you maybe dip into the rent-a-date market for someone to accompany you to a movie or sporting event. And soon enough, you progress to escort services for heavy breathing and more.

In adulthood, or the semblance thereof, you negotiate a marriage contract with someone who seems productive and competent enough. This contract dispenses with all that corny stuff about commitment, caring for each other in sickness and in health, being along for the hard ride as well as the good times, forsaking all others, and so on. It's more like a long-term auto lease, with all sorts of qualifying clauses and exceptions on the performance conditions.

And then, if you want to have kids, there's another contract with the person whose body will produce them, or maybe you go to a lab to pick up a couple of clones. But unlike in "A.I.," the kids you get are real, but their love is not; it's got to be bought like anything else. So you pay for their first smile, and word, and step, and adoring gazes and goodnight kiss, and laughter; even for their wave in the morning as they head off to school, or smile to see you when they get home, or troubled look when something's awry in their world and they seem to want to talk to you about it.

And all in all, it amounts to a good deal of money. Of course, if they break their end of the contract negotiated for them by the agency - if they, for example, ever misbehave, get cranky with ear infections, start bawling over minor mishaps, talk nonstop in a loud singsong during a long car trip, make each other cry or otherwise irritate, you can always send them back. As you can your spouse.

So there are some undeniable conveniences that come with this way of life. But all in all, it's a pretty awful way to live, right?

Right. So applying a new form of the golden rule, why do to a society something you wouldn't want done to yourself? Why leave everything to the market?

There's no reason at all really, and even less when we consider that, along with their unattractive "commodification" of human life (turning priceless things that you can't even buy with MasterCard into something that you can), markets are prone to all sorts of "imperfections" and "failures."

The first refers to ways in which actual markets are different from those imagined in economic theory worlds in which information is costless, everybody's got enough to make sensible decisions, and nobody can put a lock on production or consumption and thus distort prices.

The second refers to ways in which even "perfect" markets have some difficulties keeping track of certain costs of economic activity - for example, the cost to health from toxic production that isn't included in the price of what gets produced, since there's no incentive to the producer to include it - or the ways in which economically rational action just doesn't add up to a socially optimal result, or isn't even guided by independently arrived at consumer preferences, since the market shapes those preferences themselves. Decisions that affect the environment are rife with such difficulties. You've got just a few big oil companies controlling most of our energy future, and as OPEC likes to remind us, it's quite possible to jack up the price of oil by constraining production. Most people have no idea about their real possible range of energy technologies. Producers don't include the cost of pollution in the price of their goods and services. And if you just look at our individually rational behavior, it's gradually killing the Earth. Thank you, Almighty Market!

None of which is to say that markets are without their uses. They have many. But we should deal with them rationally, and with our own values intact, and not be bullied by them or expect more of them than they can deliver. And, more pertinent still, we shouldn't hesitate to fix them or work around them when they are not delivering what we want.

* In the specific area that has concerned us the past few weeks - sustainable energy - this means confronting a host of market barriers to making sensible energy choices.

These start with a lack of information among consumers about the practicality and attractiveness of alternative energy choices. They continue with the high "transaction costs" that come in figuring out which technology choice is best, and negotiating for relevant services.

Then there are "externalities" all over the place - ways in which the real costs (e.g., in health) of certain types of energy are not included in their price. This further compounds the information problems of consumers, of course, but it also weakens the competitive position of energy providers without those side effects, since it obscures their real cost advantages over those that have the side effects.

And there are many "split incentive" problems - for example, different incentives for construction firms and end-users in making housing or commercial buildings energy efficient. The first are concerned only with minimizing their short-term costs; the second are interested in reducing long-term energy costs, which may require greater upfront investment. But since the second are typically not even on the scene at the time of construction, their interests aren't factored into construction decisions.

Maybe the all-time split incentive problem is between us and future generations. They'd like to breathe, and not live under water. We'd like to guzzle gas and oil, and think it's sort of neat that the winters around here already seem to be getting warmer. Thank goodness they're not around to watch what we're doing. We might get drawn and quartered if they were.

And there are capital problems - getting money to make energy- efficient investments with longer payout periods than banks like, or making the big public investments needed to bring new technologies to the market, or getting production of existing ones to scale and thus reduced unit costs. One of the major issues is building the infrastructure needed to support widespread energy efficient practices - installation and repair services, quick access to spare parts, advice on new investments - which is not there now because so few people engage in them.

This last is a classic Catch 22 that won't be solved by the market. If such infrastructure doesn't exist, fewer people will go through the hassle of making choices without it. But if few people makes those choices, the market for the infrastructure never develops.

To move toward a sustainable energy future, creative public policy is needed to clear the path of these and related market barriers. In effect, to improve the workings of the energy market, or to work around it in temporary ways.

Next week: some specific suggestions on how to do so in Wisconsin.

Joel Rogers teaches at the University of Wisconsin-Madison and is founder and director of the Center on Wisconsin Strategy (COWS), which administers the Sustaining Wisconsin campaign. This is another in a weekly series of Capital Times columns he's writing on issues in the campaign. For more information, see www.cows.org and www.sustainingwisconsin.org.

Joel Rogers is director of COWS, the Center on Wisconsin Strategy, at the UW-Madison. On Jan. 29, COWS debuted "Sustaining Wisconsin," a statewide dialogue about the future of Wisconsin. The themes expressed in this view of the state of the state will carry through the next 18 months as COWS uses Sustaining Wisconsin to put the Wisconsin Idea into action.

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