

Controversy:

**Do Market Economies Allocate Resources Optimally?
A Response to Walter Block**

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In these controversy exchanges, the beginning article will have stated the opening author's thinking with a completeness and coherence to which the later surrebuttal will neither need nor be able to aspire. I see my function at this time as relatively limited: (a) to clear up a confusion that inhabits Professor Block's introductory remarks and (b) to respond to him on the main points he has made. Clearing up confusion will not be as intellectually interesting as the more substantive discussion but is necessary because I believe that my message may have become obscured.

Clearing Up the Initial Confusion

Block's introduction is based on a misreading of my own opening comments. I was not at that point giving reasons why the optimum allocation of resources concept is wrong but, rather, telling why I am eager to have the idea recognized as fallacious. The "purely intellectual" reason I gave was that the concept is based on "an elementary fallacy"—but I did not in my introduction seek to explain what that fallacy is, leaving the discussion of that until later. Second, I indicated that the fast-approaching, non-labor-intensive technology will largely make the system of income-through-wages obsolete, and that this will lead to labor displacements and inequalities that will make the self-contained systems of laissez-faire philosophy no longer serviceable to hundreds of millions of people. That observation was not itself a demonstration that the optimum concept is wrong; instead, it merely described why we must start questioning the self-contained systems that, by justifying anything that happens, will impede our ability to formulate sound theory for the world that is fast-developing. As an (erstwhile?) classical liberal, I do not want all of the

values and principles of classical liberalism to pass into disrepute because its advocates cling to inadequate theoretical systems.

The “Fallacy of Wrongly Imputed Consciousness”

Let us first examine Block’s rebuttal to my point about the optimum concept’s being based on an “elementary fallacy.” This is the central point in my paper so far as the optimum claim is concerned.

Readers will do well to reread my discussion of the source of value judgments, in which I said that there is neither “good” nor “bad,” “best” or “better,” to inanimate objects or forces, and that value judgments must come from some consciousness. Since the only forms of consciousness we know of (capable of judgment) is God (or gods) and individual human beings, there is an error of “wrongly imputed consciousness” when someone seeks to impute judgment-making ability to some mediate entity, such as “consumers” taken as an aggregate. I pointed out how Ludwig von Mises had been fully aware of this mistake in other areas but fell into it with respect to consumers in treating them holistically.

I looked forward to receiving Block’s rebuttal, because I was curious about just how he would overcome this difficulty. I see, however, that he passes over it entirely, apparently never grasping its importance. He considers my central argument as merely a “gratuitous slap at Mises,” and thus, dismissing it, moves on. (I never intended to take a slap at Mises, gratuitously or not. I remember him with the greatest affection and respect. But I do not confuse those assessments with a need to agree on every aspect of his thinking, which, in my opinion, is the worst form of homage that can be shown to a serious thinker.)

As Block moves on to other matters related to the optimum concept, it would seem that he is mainly arguing for the market’s allocation on the very ground that I myself have accepted, namely, whether the allocation is “best” or “proper,” we are willing to accept it because it is the result of a free process. I have made the point that this claim is something distinct from the idea of “best allocation.”

Other Conceptual Issues Raised in the Rebuttal

Let us take these randomly as they come to mind. First, Block says that the optimum concept “is hardly the rallying cry of libertarians,” who base their thinking on deduction from “private property rights and the non-aggression axiom.” I agree that the optimum concept is not a linchpin for that particular axiomatic approach, as found, say, in Robert Nozick’s writing. I am critical of closed axiomatic systems, but on grounds other than those I have expressed in

my opening article. Readers should realize that this is a subject that goes beyond our present task of criticizing the claim of optimum allocation of resources. It is important to notice, however, that any closed theoretical system that will not allow market theory to meet the oncoming displacement and inequality will put the whole classical liberal enterprise on a course to self-destruction.

Second, in endnote number fourteen, Block writes that the optimum concept "is predicated upon the concept of Pareto efficiency: No one can be made better off without at least one person being made worse off." I agree that much economic literature does relate *optimum* to *Pareto efficiency*. But the free-market, free-trade school that is so influential in the world today, and that finds its best expression in Mises and his followers, does not. Mises was fully aware of the fallacy of what he called *the Montaigne dogma* (which, today, is often referred to in connection with "a zero sum game"). He did not base his ideas of consumer sovereignty and optimal allocation on the notion that one person's gain is necessarily somebody else's loss, as though there were a fixed pie. He argued eloquently against that perspective as a crude fallacy.

Third, Block rightly devotes much attention to an effort to refute my expectation that the onslaught of increasingly non-labor-intensive technology will make the wage system untenable as a source of income for perhaps billions of people. This is, after all, the ground for my sensing a coming crisis for economic systems that depend on wage income as the means by which most people participate in economic life. The two premises that "human wants are without limit" and "if prices and wages are left free to adjust, there will always be a demand for everyone's services" are themselves central to current thinking about a market economy, and seem to dispose of the possibility of crisis. We do not need to quibble long over the unlimited nature of wants: Even if at some point the great majority of people were to decide that they do not want consumerism to be central to their lives, there will still be vast tasks to be accomplished. So let us grant the unlimited nature of wants. But the second premise, having to do with wage adjustment providing full employment under all conditions, leaves a lot to be desired. It provides a neat theoretical answer but makes no comment upon how low those wages will be when non-labor-intensive technology performs most menial tasks and billions of people (and here I speak especially of the billions who lack the intelligence and aptitude to master advanced skills) compete to earn a living by doing the few tasks that remain. We can grant the theoretical "truth" of the full-employment premise and nevertheless see the coming of a crisis of any economic system centered upon income-from-wages.

Fourth, the previous point merges with a related notion. When Block

defends the inequalities that arise in a marketplace, he draws upon classic free-market thinking: That the productivity of a market economy will raise all boats, and that inequality, rather than being an evil, is a hallmark of the freedom the market embodies. These premises have certainly been true, and I have held to them myself. But in the context of a radical new future, they take on a different character, and are compounded of faith and myopia. How can we be confident that the near-utopian technology will raise all boats, when the result of that technology is that literally billions of people will be left to compete to perform the few things that remain labor-intensive?¹ Now, with respect to the second premise, have we forgotten that classical liberalism was once, for good reason, the enemy of aristocracy and hierarchical society? There are cultural prerequisites to a free society that were once understood by classical liberals but have been lost sight of under the narrower theoretical systems held to today. It is predictable that vast inequality—even though market-originated—will lead to a hardening of classes and a transformation away from the open culture of a society that values individual freedom. We take the “inequality is the hallmark of freedom” idea too far when we make it an apologia for impending hierarchy.

I realize that I am looking farther ahead than most people want to think. Right now, the premises I am criticizing continue to apply pretty well, because, despite all the daily announcements of new scientific and medical discoveries, we are just at the beginning of the new age. I do not blame people for wanting to stay with those well-known premises, since my concerns seem speculative and futuristic. But a new world is coming upon us at a hitherto unheard-of pace, and I urge that those who are not convinced keep their eyes and minds open.

One great potential difficulty will be that, armed with an ideological support for inequality, classical liberals will not be able to spot a disastrous situation when they see one. Historically speaking, most societies, such as Brazil with its squalid urban slums, seem to take any amount of inequality in stride. In doing so, they are not adequately sensitive to the effects of social hierarchy upon the institutions, principles, and way-of-life of a free society.

Nor are such societies sufficiently sensitive to the moral issues. An inequality borne out of differences in ability, effort, character, market discernment, and the like, is a morally justifiable inequality. But, as Henry George pointed out a century ago, some wealth accrues to individuals without any relationship either to merit or to a productive meeting of consumers' needs. George made this point with regard to the increase in land values that comes from increasing population near the land. During the past century, most classical liberals, including myself until recently, have not become followers of George (who was

in all other ways a devout free-market thinker) because it has seemed better to let the market work without qualification than to make an admission that Socialists could use to their own advantage. Now, however, with the rapid advance of computerization, robotics, materials sciences, and biotechnology, Henry George's observation becomes even more pertinent. Those in the year 2030, for example, who make a fortune as computer experts will make only a part of that income from their own effort; instead, they will have inherited from the civilization in which they live the work of countless geniuses who will have preceded them, and much of their income will be due to those previous successes. How appropriate will it be then to say that "any amount of inequality is all right, because it arises out of the successful peoples' success in the market"? Will future classical liberals be able to say that with a clear conscience if billions of people are faring quite badly?

And why will those billions be faring badly? Will it be because of their own inertia, laziness, or lack of effort? Perhaps with some it will be; but with vast numbers it will be despite every desire to work hard and to participate in the economic system.

What is at issue more than anything else is the methodology by which classical liberals reason about a free society. Do they see society as a whole and seek ways to accomplish individual freedom, limited government, and the fulfillment of advanced civilization? This can be called a *systems theory of a free society*. Or do they settle upon a few axioms or insights and deduce from them a complete system that is so fully explanatory that they allow no new axioms or insights to enter? This is a closed or self-contained system, which is the sort of thing ideologues love so well. The trouble with it is, however, that no axioms can include everything that human beings need in an advanced and free society. "There is more in heaven and earth, Horatio, than is dreamt of in your philosophy."

This is not to say that we should not use a principled approach, both with regard to understanding and to behavior. There is great value, even intellectual necessity, in principles. This is largely negated, however, if they congeal into closed systems that "explain everything" and admit of no new facts or further considerations.

Fifth, Block ends by suggesting—all within the bounds of the civility that both our friendship and fruitful intellectual discussion require—that I am "flirting with socialism." Indeed, I am, at least as to one important feature of socialism. Let us be clear about that. Several years ago, I wrote an essay for *The Freeman* pointing out how fraudulent it was for Louis Kelso to claim to be advancing capitalism while he advocated what was clearly socialism. I want no part of

such a fraud. What I favor for the future is a non-market distribution of property (shares in the economy by way of shares in index mutual funds) to everybody in a given society, whether they have done anything to “earn” them or not. Being non-market, and involving, in part, compulsion through taxation, we can easily identify it, by itself, as a Socialist means. What I am saying is that it will be a necessary means if we are to keep both the global and local market economy going, are to prevent revolution that can destroy everything we value, and are to formulate a theory (and practice) of a free society based both upon sound thinking and a tenable moral foundation. In this, I think I am on sounder ground *precisely as a classical liberal* than those who would label me a Socialist. Time and events will tell who is right.

Concern over the future of society in an age of computers is new to those of us on the right. When not long ago I wrote a book (which remains unpublished) about all of this, I did not expect that many, if any, of my friends would start by agreeing with me. I suspect that more and more will come to agree as time goes on.

Sixth, Block takes issue with my prediction of “catastrophe in the less-developed economies.” He argues rightly that the plight of people living in the Third World stems from excessive government (although we should add innumerable cultural and ideational factors that join in holding them down). What he misses is that I am looking ahead to the future as a time when there will be virtually no demand for the products of such societies’ enormous pool of unskilled labor. That will not itself be a product of too much government.

Seventh, as I have discussed these subjects with well-read conservatives and libertarians, they have joined Block in knocking Jeremy Rifkin as both a Socialist and a Luddite. I have no reason to defend Rifkin in general (he can very well do that for himself); it is enough for me to say that his books *The End of Work* and *The Biotech Century* are among the more provocative and insightful in recent memory. My attitude is that it is time for thinkers who are not Socialist and who have no anti-technology tendencies to begin considering the impending future seriously. Nothing very meaningful can be said about the world today without a reasoned futurism.

Conclusion

Certainly my own views should not be confused with a Luddite rejection of technology (and I do not suggest that Block pins that on me). I see the new technologies as offering incredible hope. Humanity would be extremely foolish to block these new technologies and the productivity they portend. We will only realize those benefits, however, if we address appropriately the social

problems that will arise concomitantly with those technologies. By “appropriately,” I mean in ways that are consistent with a free and advanced society.

Let me conclude by thanking the *Journal of Markets & Morality* for making its pages available to a very serious discussion, and by thanking Walter Block for being my partner in this exchange.

Notes

1. At one point, Block observes how it would have seemed at the beginning of the Industrial Revolution that all work would soon be displaced; and from this he infers that my concern over displacement and inequality resulting from today's new technology are equally unrealistic. Let us consider that proposition. Following the Industrial Revolution, people migrated from farming into industrial pursuits, so that, as Block rightly points out, only two percent of Americans are engaged in agriculture. In the twentieth century, people have migrated out of industrial work and into service industries. According to Block's expectation, service work can continue to occupy unlimited numbers, serving as a permanent sop. Now, however, we see that great fields of service work are becoming non-labor-intensive, as virtually all “middle-men” professions are beginning to be displaced by “disintermediation” (i.e., consumers are beginning to go directly to providers through the Internet and otherwise, cutting out stock brokers, real estate agents, retail clerks, wholesalers, college professors, and countless others). With voice-recognition computers and robotic lawn-mowers (just announced the same day this is written), the new technology offers to require little, if any, human effort. Even in the skilled areas, the technology is becoming increasingly user-friendly, so that less and less skill is being needed for it. All of this is a process that is new to the economic equation, and all that Block has to answer it with is an article of faith. Past experience has borne out that faith. Will the new realities do the same?