THE INCONCEIVABLE FAILURE OF FREE-MARKET LIBERALISM

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Abstract. *The present article addresses a recent essay by liberal thinker Martin Rhonheimer as representative of an aporetic assumption that has been characterising mainstream economic thinking as well as influencing worldwide policy-making for a very long time. Specifically, it criticises the common place liberal hypothesis concerning the markets' unique capacity to generate prosperity and explain that such a hypothesis obfuscates from the start the ability of those who operate under it to: read historical experience in ways that may render more complex or contradict the original assumption; avoid engaging in pseudo-scientific* ad hoc *explanations, or* de facto *exculpations, so as not to revise the original assumption; envision different, hybrid, pragmatic, contingent or case-specific solutions to economic problems; and conceive of major alternatives, whether based on past experiences or novel ones.*

Keywords: *Capitalism, economics, liberalism; Rhonheimer; science; socialism.*

Introduction[1]

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 keep over-indebted private banks afloat, protect the value of financial assets from inflation, and plunge the world into a prolonged slump (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

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[1] This article is based on a previous conference paper of mine, itself developed upon a review essay of the book in which Rhonheimer's essay appeared ("Free Markets and the Culture of Common Good", *EMFM*, 7(4)/2012, 276-91), presented at the March 2013 NSU Symposium in Akureyri, and eventually published the same year in the conference proceedings as "The hopeful liberal. Reflections on free markets, science and ethics", *Nordicum-Mediterraneum* 8(2), available at: http://nome.unak.is/nm-marzo-2012/vol-8-no-2-2013/58-conference-paper/395-the-hopeful-liberal-reflections-on-free-markets-science-and-ethicsDuly revised and modified under the title "The Unscientific Ground of Free-Market Liberalism", another version of this conference paper might be published in a future anthology of NSU contributions that is currently being considered by the NSU's governing board.

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modicum of doubt has timidly re-entered the mainstream of public discourse on topics such as globalisation, capitalism and the free market, to the point that even major national and international newspapers have reported renowned liberals' and conservatives' statements that, until few years ago, would have been associated with leftist or nationalist 'radicals', anachronistic religious leaders, and generally ignored by mainstream media:

• "The doctrine of the dictatorship of the market is dead" (Nicolas Sarkozy, former President of the French Republic, 2008);

• "We need… humaneness… rules… and abandoning the idea of… massive profits" (MIT Nobel-laureate economist Paul Samuelson, 2008);

• "The dictatorship of the [credit] spread… nullifies… universal suffrage… [because] those who hold economic power… have every decisional power" (former MP and head of Italy's securities and exchange commission [CONSOB] Giuseppe Vegas, 2012);

• "There emerge... in civil Europe the first signs of a new type of fascism: financial fascism, white fascism" (Italy's MP and former Finance Minister Giulio Tremonti, 2012: 14)[2].

Aims and Methodology

Such statements, though notable, remain uncommon. International economic crises and their dramatic outcomes notwithstanding, certainlong-lived, deeply rooted beliefs are truly hard to die. Thus we hear leading politicians and revered economic advisors calling for a return to growth and asserting 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 (e.g. Monti, 2012). Could it ever be that endless growth, market confidence and increased competitiveness are under-defined or even misguided aims for the world's economies?[3] If even economic meltdowns cannot undermine the belief in these aims as self-evident and justified, what else can do it?

In the present text I wish to address one of these resilient beliefs[4]. Specifically, in the traditional philosophical way initiated by Socrates, I shall assesssome conceptual knotsarising froma specific *hypothesis*, that is, the common place liberal notion that the so-called "free market" possesses a unique capacity to generate prosperity[5]. *This hypothesis is highly generic, diversely instantiated and potentially*

[2] All translations from Italian into English are mine, unless otherwise stated.

[3] Castoriadis (1997) speaks of economic *pseudo*-rationality, since notions such as growth, competitiveness and market confidence (i) beg the question of their ultimate aim and, under current socio-economic conditions, (ii) are aims in themselves, i.e. growth for growth's sake.

[4] Briefly, I do tackle in this text the notion of the overall aim of any economy (cf. note 13).

[5] In today's US, this notion is shared by both "liberals" and "conservatives". However, my use of "liberal" refers to the broader economic tradition initiated by the French physiocrats and the Scottish enlightenment thinkers David Hume and Adam Smith, as well as to the broader political one associated with Continental thinkers such as Immanuel Kant, Cesare Beccaria and Benjamin Constant, and pivotal British ones such as John Locke and John Stuart Mill.

vague[6]. Nevertheless, it is worth tackling, for it pervades the whole spectrum of the liberal conceptions of the economy, not only at the level of political rhetoric, but also at the academic level, as exemplified by the microeconomic textbook category of "market imperfections", according to which explaining is needed when the outcomes of market transactions are *not* optimal (e.g. Sloman, 2006). Similar considerations apply to macro economic stochastic models describing disequilibria as the result of external shocks on an otherwise peaceful ocean of market equilibrium (cf. Schlefer, 2012) This hypothesis applies also to Adam Smith's canonical "invisible hand", i.e. the doctrine of unintended consequences whereby the individual's pursuit of self-interest results regularly, though not always, in collective well being (1776: IV.ii.9)[7]. There exists extensive literature for each of these conceptions, which I could address in a book, but not in ashorter text like the present one. Rather, I shall select one symbolic liberal formulation of the hypothesis at issue and deal with those conceptual knots that I deem most representative – hence most likely to be of interest to a scholarly audience.[8]

Rhonheimer's Formulation

The formulation hereby selected appears in a recent book chapter written by the Swiss liberal thinker Martin Rhonheimer (2012)[9], 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" (Rhonheimer, 2012: 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 instead what more trenchant *laissez-faire* liberals believe. States must also be involved, according to ordoliberalism and many other streaks of liberalism, in order to secure fair market transactions, enforce beneficial rules, correct market distortions, or redress socially and morally harmful market outcomes. Exemplarily, Friedrich Hayek (1944) argued that "there is no doubt that some minimum of food, shelter, and clothing, sufficient to preserve health and the ability to work" should be guaranteed by public institutions, "[n]or

6 Being highly generic, *ergo* potentially vague, explains part of the hypothesis' success: since it can apply to many different circumstances, it can be called upon under all and any of them.

7 The hypothesis at issue is present in recent liberal expressions of faith in free-market economics *and* institutions, e.g. Rajan & Zingales (2003), who echo traditional ordoliberalism.

8 My references are parsimonious too, i.e. mostly limited to cited sources or exemplary cases.

9 I published a critical essay of this volume in the fourth 2012 issue of *Economics, Management and Financial Markets*, in which I address some of the knots hereby discussed.

is there any reason why the state should not assist the individuals in providing for those common hazards of life against which, because of their uncertainty, few individuals can make adequate provision" (124-5). However, as Rhonheimer (2012) rejoinders, to think that "central planning and state regulation… through several government-run agencies" could ever achieve any prosperity without the "free market" is a foolish notion to be 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" (Rhonheimer, 2012: 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)[10]. So obviously flawed and so doomed is the case for socialism that Rhonheimer does not deem it necessary to dwell much on it. Perhaps, it is conventional wisdom, since he writes as though the audience that he addresses with his chapter were most likely to share in the same belief without hesitation[11].

The Critique

1. Indemonstrable Necessity

Rhonheimer's elucidation, though commonly heard, is not much of an empirical proof. At best, it is an enthymeme, i.e. a rhetorical proof (cf. Richards, 2008). 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 as binding and comprehensive a thesis as the one presented in Rhonheimer's essay and, in general, upheld by the liberal community?[12]

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 beneficence of the "free market" or, for that matter, of "socialism". 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, at least under certain definitions of it.

[10] The choice of the failed failure of Roosevelt's New Deal strikes as odd, since it is admitted that it was *not* a failure, due to the gigantic multiplier effect induced by the war effort of 1939-1945. The choice of Soviet Union strikes as myopic, since it ignores the vast literature by Trotskyites, libertarian socialists (e.g. Castoriadis, 2000), market – and other socialists (e.g. Lawler, Ollman, Ticktin and Schweickart in Ollman, 1997) criticising "real socialism" as State capitalism, i.e. a system differing from the Western one in one crucial element alone: State bureaucrats, not shareholders and/or managers, led an economy fostering class antagonism.

[11] Rhetoric teaches to start from premises that are immediately acceptable to the audience, even if they may not be demonstrated to be true (cf. Perelman & Olbrechts-Tyteca, 1969).

[12] I do not address here the evidence running contrary to his claim, e.g. the demographic decline of free-market post-communist Russia under Boris Eltsin and its partial recovery *via* a far less liberal economic system under Vladimir Putin (cf. Todorova & Gille, 2010).

Unfortunately, to this day, such a test has been impossible to perform. Moreover, focussing onto the "market" *versus* "socialist" dichotomy can be misleading, since it shifts the gaze away from what is undeniably necessary for the meaningful survival of our species, i.e. the continued satisfaction of genuine human needs across generational time (cf. McMurtry, 1999, 2013; Noonan, 2006). That is the prime end, whatever additional feature we may wish to add to the notion of prosperity, such as "freedom" or "political rights" (cf. Berlin, 1969: 124). Economies are the means to attain *in primis* this prime end[13].

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 *via*, say, conquest, extortion, enslavement or mass slaughter (cf. Castoriadis, 1997). However, that would be a banal and, I suspect, degrading notion of superiority, not to consider the thin or absent link that such a superiority may have to genuine human needs or prosperity.

Furthermore, Rhonheimer (2012) seems oblivious of the contingent origins and historical development of global market structures themselves, which emerged through a prolonged process involving political, legal, military, monetary and industrial planning by public authorities (cf. Polanyi, 1944). Not to mention the socio-cultural and anthropological changes required for actual human beings to think of themselves and lead their lives as entrepreneurs, employees, speculators, self-interested individuals, etc. rather than heathen priests, slaves, legionaries, or loyal members of a certain clan or *gens* (cf. Castoriadis, 1998; Weiner, 2013).

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 competitive barbarism? Yet this is the province of science-fiction, not of science.

[13] On this point, the UN's Committee on Economic, Social and Cultural Rights (CESCR) 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). I regard the CESCR's approach as a paradigm of intellectual openness.

2. Lack of Prosperity

If we follow Rhonheimer's (2012) 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 with exactitude what will happen on our planet tomorrow, not to mention in two years or two centuries[14].

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" (Rhonheimer himself does so at times), we know for sure the following: it fails 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 (e.g. FAO, 2013). 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 (e.g. O´Flaherty et al., 2012). In other words, the global market fails not only to secure planet-wide need-satisfaction, which is what Rhonheimer appears to be taking as "consumption", but also to distinguish between, say, the need for bread of starving paupers and the desire for golden toilets of oil tycoons, so as to prioritise the former above the latter. No distinction between genuine human needs and sheer subjective wants is built firmly within current economics (cf. Quiggin, 1993; Noonan, 2006). Quite the opposite, what sets in motion the "free market" in both theory and practice is money-backed demand, i.e. subjective preferences or wants of market agents endowed with pecuniary means, not the vital necessities of humans and societies, not to mention other living beings, whose possession of pecuniary means may be nil[15]. In point of fact, under present conditions, wealth can be accumulated by some to unprecedented heights, while at the same time access to basic sanitation or healthcare is denied to others (cf. OECD, 2012; FAO, 2013). Money-backed demand, not need, is what determines consumption in today's world, *pace* Rhonheimer's noteworthy equation (cf. McMurtry, 1999).

Revealingly, mainstream economists and, above all, the actual economy of many countries treat both food and luxury items as priced, marketable *goods* (e.g. Parkin, Powell & Matthews, 2008)[16]. 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. Economic ordinalism may not depict a night in which all cows are black, but neither any economic "good", nor all

[14] The worldwide depletion of natural and social life support systems does not bode well for future consumption, though no exact prediction can be made (cf. UNESCO, 2002-13).

[15] It should be noted that many a subjective preference and want are the result of artificial conditioning by the most sophisticated marketing techniques (cf. Galbraith, 2004).

[16] There exist countries that publicly provide or subsidise vital staples and services outside market transactions, countering "privatisations" and "market liberalisations" that, by definition, indicate the deprivation of some individuals (i.e. what is private is not public) and the axiological homogenisation of such staples and services (i.e. they turn into priced market items, exactly like non-vital luxury and carcinogenic 'goods'; cf. McMurtry, 1999 & 2013).

economic "goods" are good. Some are bad. For example, financial speculation over the price of staples such as rice and wheat may be deemed economic "rational" and itself a form of "wealth creation", but it does increase malnutrition and illnesses, which are clear tokens of badness[17]. In other terms, the invisible hand seems to possess an invisible brain, which is why ordoliberals *à la* Rhonheimer, unlike libertarians and *laissez-faire* liberals, has long recognised the importance of at least some State intervention[18].

3. Imperfect Imperfections

In connection with the importance of State intervention, Rhonheimer (2012) introduces a number of additional qualifications that cause the "free market" to come across as more inefficient than initially stated. Albeit he claims it to be a necessary one, the "free market" is not a sufficient condition for prosperity or consumption. It is said that it "frequently" leads to prosperity, i.e. not always (Rhonheimer, 2012: 10). It is incapable of providing many "public goods" (14)[19]. 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)[20].

These qualifications are unlikely to sound surprising to most professed liberals, for, in varying degrees, the near-totality of them have long acknowledged that imperfections, even lethal ones, do affect the market system (e.g. Smith, 1776; Veblen, 1924; Pareto, 1935). They sound even less surprising to professed socialists, who have persistently remarked upon market economies' self-destructive tendencies, ranging from Marx's (1894) allegedly inexorable doom by falling rate of profit, to the promotion of anthropological traits such as short-term greed and infantile hedonism that run counter to those personal virtues of "honesty, integrity, responsibility, care for one's work, respect for others" that market economies have inherited from previous societies, built themselves upon, and are yet "incapable of reproducing" to a comparable extent (Castoriadis, 1990: 242)[21].

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17 19th century social Darwinists, sadists and Pyrrhonian sceptics may not agree on malnourishment and illness being clearly bad, though I know of no member of these groups who has sought either for herself.

18 State intervention is *per se* no guarantee of fairness, equality or prosperity, since it may, *inter alia*, favour select clients, bail out private businesses at the expense of the population at large, or lead to war. Rather, State intervention flags out the need for guiding, integrating and/or constraining non-economic rationalities (e.g. religious, moral, aesthetic, medical).

19 The inability to provide many public goods strikes as a major limitation *vis-à-vis* socially owned, managed, protected and/or provided "civil commons" i.e. social constructs enabling universal access to vital and life-enabling goods – and *a fortiori* Rhonheimer's (2012) own "consumption" – such as: "universal health plans, the world wide web, common sewers… sidewalks and footpaths... water fountains… the air we breathe, effective pollution controls... old age pensions, universal education, Sweden's common forests... the rule of law, child and women shelters, parks, public broadcasting, clean water... the UN Declaration of Human Rights, occupational health and safety standards, village and city squares, the Brazilian rainforests, inoculation programmes… the Ozone Protocol… death rituals, animal rights agencies, community fish-habitats, food and drug legislation, garbage collection, the ancient village commons before enclosures" (McMurtry, 1999: 206-7).

20 States can actually increase inequality by means of fiscal and monetary policy, financial (de)regulation and *ad hoc* legal norms favouring the wealthy over the poor (cf. OECD, 2012).

21 Paganelli (2013) refers to field experiments showing how the interpersonal commercial activities praised by Adam Smith can foster morality, but fails to notice how dominant impersonal consumer and corporate activities do the opposite, thereby destroying moral propensities cultivated in prior stages of civilisation (cf. Castoriadis, 1990, Terjesen, 2011).

However, it is perplexing to notice that qualifications of the actual market economies such as the ones listed by Rhonheimer (2012) are generally not seen for what they are, i.e. features of the market system, which consists of living individuals engaging in mutual exchanges under certain types of norms (cf. Barden & Murphy, 2010). On the contrary, in a strange twist of logic, they are seen as exceptions to the implicit rule, which assumes markets to be perfect, even if they are not perfect – and have proven repeatedly not to be so. Indeed, few years before his death, John Kenneth Galbraith (2004) argued the very talk of "free market" or "market system" 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 descriptor of real market economies, in which there have always been:

(i) At least one powerful group planning the economy to its own advantage (e.g. merchants, industrialists, absentee owners, corporate managers, financial managers); as well as

(ii) Conspicuous market manipulation (including creating demand by operant conditioning techniques); and

(iii) Conditions of monopoly and oligopoly covering key-areas of the economic arena (e.g. credit), if not most of it[22].

Textbooks often refer to methodological convenience when explaining why economists assume abstract, unreal, perfect market conditions (cf. Häring & Douglas, 2012). Though understandable, such a prioritisation of methodological convenience over empirical evidence is a grave departure from standard scientific methodology, as Veblen had already acknowledged one century ago (cf. Reinart & Viano, 2012; Reisman, 2012)[23]. 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 (cf. Schlefer, 2012)[24]. In the natural sciences, hypotheses are meant to be tested and

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22 After about fifty years of activity as one of the world's best-known economists, Galbraith (2004) reached a conclusion that, until now, has been thoroughly ignored by most of his colleagues, for accepting it to any significant extent would demand a Copernican revolution within his discipline. According to him, contemporary economics and business studies teach a number of fraudulent notions that make economists popular among the rich and powerful, and are so commonly repeated and commended that most economists accept them uncritically, thus making these lies "innocent" (in the title). The lies are: that there exists a market system, rather than capitalism; that consumers are the price-determining sovereign, rather than corporate pawns being moulded through and through by the most sophisticated marketing techniques; that annual GDP marks progress, despite past greatness in poorer societies and present environmental devastation in richer ones; that "work" applies equally to the poor, for whom unemployment means destitution and blame, and the rich, for whom it means leisure and distinction; that States alone have bureaucracies, not private corporations; that individual entrepreneurs are the standard economic agent, rather than large corporate entities, and that the two are equivalent anyway; that shareholders have decisional power, rather than the managerial class; that the public sector is separate from and interferes with the private one, whilst corporate interests have hijacked public bodies at all levels; that business-friendly deregulation is good for growth, rather than the root of private abuse over the public at large; that finance experts monitor and forecast likely economic trends, which are unknown and unknowable by definition; that market discipline is the rule, whilst those who bear the brunt of economic failures are innocent employees and their families, not the wealthier actual decision-makers; that monetary policy matters, whilst central banks are largely ceremonial.

23 McCloskey (2002) criticises economists' existence theorems for assuming the unproven.

24 On the liberal economic scene, the so-called Cambridge school of Keynesian economics did nothing of the sort, but it was marginalised by the neoliberal school, especially in America, to the point of producing what Krugman (2010) calls the "Dark Ages" of his discipline, i.e. ignorance of economic history and major alternative or older doctrines (cf. Castoriadis, 1997).

revised in light of empirical evidence, as done, for example, by system theorists Vitali, Glattfeder and Battiston (2011) with regard to "the network of global corporate control" (in the title) that characterises today's global economy[25]. Facts, as unpleasant as they may be, should be the backbone of scientific inquiry[26]. Only the formal sciences, i.e. logic and mathematics, content themselves with coherent theoretical constructs (cf. Hintikka et al., 1981)[27].

4. Vaguerand Vaguer Referents

The absence of exact instantiations of the growingly unempirical "free market" is only the beginning. If we allow for some State intervention, as Rhonheimer (2012) 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 conservative perspective, liberals and socialists can be hardly distinguishable from each other, as the political critiques by Pope Pius X (1907) and Friedrich Nietzsche (1872) exemplify[28]. Furthermore, before the 20th century, most societies in human history had not been market societies. They may have contained some markets, such as 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, redistribution and reciprocity were their main features (cf. Polanyi, 1944). These features were reflected also in these societies' cultures, which kept the analogues of today's economic rationality as secondary instruments to other primary social goals, such as community status, personal honour, or the salvation of the believer's immortal soul (cf. Chesterton, 1935; Castoriadis, 1997).

It should be observed that great achievements were possible in these older societies, whether in the arts, philosophy, mathematics, law 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 liberal 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

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[25] Häring & Douglas (2012) criticise standard economics for being methodologically blind to the power structures and power relations shaping economic events in a decisive way (cf. also Galbraith, 2004) and for following the ordinalist unwillingness to distinguish between preferences and needs for the sake of methodological convenience (cf. also McMurtry, 1999).

[26] Boldizzoni (2011) discusses the illustrative case of cliometrics, i.e. free-market economic history, which avoids much of the toil of traditional historical research *in lieu* of a theory-driven reconstruction of the past for which market structures are anachronistically presupposed and imposed upon it, e.g. "implicit markets", "shadow costs" and "invisible transactions" (50). If not avoiding altogether by expunging it from university curricula, free-market economists try to re-write the history of actual economies as flawless exemplifications of their assumptions, which any serious economic historian, however, would dismiss as either naïve or dishonest, given the ample record of, *inter alia*, protectionism, State intervention and cartels in the development of modern economies (e.g. Cattini, 2010).

[27] McMurtry (1999) explains modern economics' reliance on mathematical theorems and models as a technique of avoidance that keeps facts farther away from the discipline.

[28] Socialist Castoriadis (2000) and liberal Galbraith (1977) too cannot clearly separate actual free-market and socialist economies: the former describes both as kindred forms of bureaucratic organisation; the latter as analogous responses to the same economic problems.

20th century human populations boomed worldwide, in both self-proclaimed "capitalist" and "socialist" economies, were made in countries with smaller GDPs than today and, often, limited market systems (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, redistribution and reciprocity (e.g. small-scale farms in Scotland, Poland and India; national and international poverty alleviation programmes; 'old pals' networks and 'revolving doors' inside corporate bureaucracies)[29], as well as many development-spurring elements of public ownership and planning (e.g. independent Venice's publicly owned merchant and military fleets; George C. Marshall's post-WWII ERP; Germany's, Brazil's, North Dakota's and communist China's public banks)[30].

Additionally, Rhonheimer (2012) 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 have resembled post-WWI Germany in maintaining the State-centred structures inherited from their war economies, which still allow the State, for one, to bail out bankrupt private firms (21). In short, given Rhonheimer's own standards, 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 Rhonheimer, who compares them to the historical champion of cartel-friendly organised capitalism, i.e. Wilhelmine Germany (cf. Veblen, 1915; McGowan, 2010)[31]. Any firm, trenchant scientific evaluation of the historical experience of concrete societies seems therefore less and less likely, at least if we take Rhonheimer's (2012) considerations seriously, for we lack clear referents for the key-terms of "market" and "socialist" economies[32].

5. Non-existence

The distance from concrete societies increases further whenever it is asserted, as Rhonheimer (2012) does, that the "free market" is an ideal (15), i.e. something that does not truly exist in reality (I shall not dwell on the contradiction entailed by his claim about free markets having existed worldwide only for a brief period of time in the 19th century). In other words, it is a purely theoretical construct, an empirical impossibility: the human being is actually incapable of operating according to it. Perfect markets, in whatever Hyperuranion they may be located, are therefore not to be blamed for crises, unemployment or any other misfortune that may befall upon us. People are. The former are not around. The latter are.

[29] Quiggin (1988) offers a concise review of recent systems of common property; Weiner (2013) reveals the persistence of non-liberal clan-based societies in today's world.

[30] My choice of examples signals how reciprocity, redistribution and market exchange can be good as well as bad. No fixed axiological standard is inherent to each or any of them; rather, it is imposed onto them from the outside (e.g. legislation, politics, religion, moral education).

[31] Rhonheimer is not alone in his assessment of the USA. For one, 1980s free-market advocates of the Ludwig von Mises Institute were critical of Ronald Reagan, whom Sheldon Richman (1988) defines "the most protectionist president since Herbert Hoover."

[32] Gorbachev (1995) testifies to the varieties of "socialism" experimented with in the USSR.

Rhonheimer (2012) seems not to notice the trouble some implications of such an approach, for not only does it mean that there is no clear empirical evidence that free markets are the one, necessary 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, he does not seem to notice that his 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 conceptual knot of the liberal position with regard to the markets' unique ability to generate prosperity. If (i) the genuine "free market" cannot be established, for it is a theoretical construct inconsistent with "the human condition", and if (ii) the actual historical experience of what is commonly referred to as the "free market", 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 (e.g. post-bellic Germany and USA), why is the market system *necessarily* responsible for wealth and, to some extent, wellbeing, whereas, say, significant State intervention and ownership are not? Why not the two of them together, on a par (cf. Rajan & Zingales, 2003)? Or why not either of them, or other factors (e.g. literacy, patriotism, military strength, science-technology), depending on the specific circumstances of each particular case, duly investigated by means of close historical, economic, legal, medical, sociological, anthropological, environmental and axiological analyses? Principled comparisons are possible, but they must rest on solid empirical ground (cf. Boldizzoni, 2011). Moreover, reality may well be messy, diverse and complex. Why should there be one necessary source of prosperity for all cases?[33]

By his own account and qualifications, Rhonheimer (2012) has no 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, well being. By means of that assumption he then proceeds to reading human history as its verification – State-led development, recurrent crises, vast environmental degradation and social tragedies notwithstanding.

This is not just a case of rash oversimplification, which it certainly is too, such that it would be necessary to pause and specify which forms of market transactions are beneficial in which ways to which groups of people under which circumstances. It is also a profound methodological flaw. It does not apply solely to Rhonheimer's essay, but also to much political liberalism and mainstream

[33] The peculiarity of different types of successful economic development shows in studies such as Hodne (1975 & 1983), Lintner & Mazey (1991), Hudson (1993) and Ofer (1987).

economic thinking in general. In effect, 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 counter evidence[34]:

First of all, 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": "transition", "in the long run", "long-term benefits", "children and grandchildren", etc. (e.g. Monti, 2013).

Secondly, if waiting is not a credible option, then we can always blame someone else, such as the government (e.g. "corruption","red tape", "interference", "distortion"), the trade unions (*qua* common example of "rent-seeking special interest group") or some dishonest private actors (e.g."crony capitalism", "State capture by private interests"), for being unfaithful to the spirit of "free markets" and 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).

Thirdly, insofar as Smith's followers and ordoliberals *à la* Rhonheimer argue as well for the desirability of some 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 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 or genuine prosperity.[35]

(d) Operating under such an assumption, markets can *never* be wrong, whatever major environmental or social ills may have arisen. If things go well, it is because markets have been allowed to work out their "magic" (hence "rational agents" have responded to "incentives", "entrepreneurship" has been "rewarded", etc.): a textbook case. If things do not go well, then the guilty party is always someone or something else, including protectionism[36], unpredictable "financial

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[34] The principle of falsification has been crucial in the history of science since at least the 17th century and was famously crystallised in the philosophy of science of Karl Popper (1963).

[35] Even the recent financial collapse has been blamed on insufficient State regulation and supervision, despite deregulation and freedom from State interference being the policies that free-market advocates had been promoting, successfully, for decades (cf. Hudson, 2012).

[36] Taking effects for causes, Hayek (1944: 132-3) blames the mass unemployment of the 1930s-1940s on "the striving for security" by "restrictionism", i.e. the worldwide response to the Great Depression, as though the Golden Age of free capital trade (1860s-1914), the crash of the Roaring Twenties, and the mass liquidations that followed it had no import whatsoever.

tsunamis"[37] andexcessive cocaine intake[38]. In short, the unintended consequences are such that, if they are positive, their intended premise is the free market; if negative, something else[39].

(e) *A fortiori*, if the markets do not deliver the promised bounty, it is because there have not been enough, or they have not been "free" enough; hence the cure can only be more of the same[40]. Unsurprisingly, this is exactly what happens in Rhonheimer's 2012 essay: "markets", he says, are *"normally* and *as a matter of principle* the solution" (12; emphasis in the original)[41]. Similarly, leading statesmen, politicians and economic advisors seek more of the same, even after promoting market-oriented policies for decades (e.g. the EU's competition policies; cf. McGowan, 2010). If these policies have not been glaringly successful – they cannot but conclude, given the starting assumption – it is because there is still too limited amarket systemin place (e.g. former EU competition commissioner Mario Monti; cf. Monti, 2012)[42].

7. Nefarious Consequences

Rhonheimer's (2012) essay is fallacious because of the self-contradictory morass resulting from (i) insisting upon the markets' necessary beneficence, whilst also (ii) piling up observations and qualifications that point precisely to the opposite conclusion and (iii) to the empirical non-testability of (i). Representative of analogous liberal assessments, his essay is built upon an unfalsifiable hypothesis that has made him – and many liberals – unable to:

(a) Read historical experience in ways that could (a1) acknowledge a much higher levelof complexity (e.g. the role of trade unions' demands in forcing capitalism to become civilised and allowing for a higher share of the existing wealth to reach the population at large and improve overall living conditions[43]; the analogous role of socialist, religious and/or conservative agendas in civilising capitalism[44]; the prevailing mixed[45] as well as oligo and monopolistic character

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37 Yet Marxism teaches since the 19th century that unfettered capitalism leads inevitably to crises, as also argued by the French regulation school of Aglietta (1976; & Rébérioux, 2004).

38 As peculiar as it may sound, British neuropsychopharmacologist David Nutt claimed cocaine consumption by bankers to be the cause of the 2008 financial crisis (Williams, 2013).

39 Current mainstream economics proceeds as though market agents become immediately something else as soon as their behaviour is not conducive to the expected results. Yet those agents, amongst whom there may be cocaine-addicted bankers, are actually the market actors whose behaviour the empirical scientist should observe, describe and predict.

40 An unassailable comprehensive rational explanation allowing for no serious doubt and no possible change of conduct is a standard token of lunacy (cf. Chesterton, 1908: 10ff).

41 A corollary of the unfalsifiable hypothesis at issue is the notion of self-correcting markets.

42 Quiggin (2010) dubs "zombie" those economic beliefs that, despite contrary evidence, creep back relentlessly. The unfalsifiability of the liberal hypothesis discussed in the present text explains why this "undeadness" occurs, such that even after the recent disastrous deregulation experiment in the financial sector, free-market adherents may still believe that "the more… interfering with the market system, the greater the insecurity" (Hayek, 1944: 134).

43 Keynes (1936) claims workers' demands for better salaries to spur economic activity. If correct, Western "labour reforms" causing the precarisation and pauperisation of large sways of workers since the 1970s would harm actual economic growth (cf. Hobsbawm, 2011).

44 Gibson (2002) offers an account of the conservative roots of environmentalism.

45 Hayek (1944: 130) is paradigmatic in his anti-historical claim that planning and free market systems are "irreconciliable", as well as in assuming the actual existence of such ideal types.

of modern capitalism[46]), or (a2) contradict the original assumption (e.g. ecological collapse[47] and waste accumulation[48]; recurrent economic crises[49]; enduring unemployment[50]; the failure of most businesses and products launched every year[51]; successful national development and/or post-war reconstruction by public planning of industrial production or strategic subsidies[52]);

(b) Avoid engaging in pseudo-scientific (b1) *ad hoc* explanations (e.g. the State's pro-market legislation, deregulation, liberalisation and privatisation 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 is not ready or adequate for a well-functioning "free market" economy)[53], or (b2) sweeping *de facto* exculpations, so as not to revise the original assumption (e.g. people fail markets, not *vice versa*; capitalists fail, not capitalism; human nature itself is not suited to the actual application of the "free market" and therefore leads to its historical failure)[54];

(c) Envision different, hybrid, pragmatic, contingent or case-specific solutions to socio-economic problems (e.g. context-based mixed economies; voluntary communes, cooperatives and social enterprises; State ownership of strategic assets *qua* cost-abating additional factor of production; Georgist taxation of economic rent from natural resources; cooperation with oligopolies; ritual debt cancellation; sustainable retreat by carbon rationing; market socialism) that are typically pushed forth by other actors (e.g. trade unions, religious groups, philanthropists, green parties) for reasons that have little or nothing to do with "free markets" (e.g. better salaries, social cohesion, national prestige, fear of revolt, humaneness, conservationism; cf. Castoriadis, 1997)[55];

46 Krugman, Obstfeld & Melitz (2011) photograph candidly this given, which Veblen, Chamberlin and Robinson had already observed and discussed extensively in their lifetime. How *i.a.* Hayek (1944) may ignore it or assume its equivalence to the free market is baffling.

47 Awareness of looming environmental disaster is as old as the Club of Rome's denunciation of the *Limits to Growth* (Meadows et al., 1972). Considerable progress has been achieved in "green" economics (e.g. Jackson, 2009; Dietz & O'Neill, 2012; Weston & Bollier, 2013). However, all this intellectual production has not dented neoclassical orthodoxy and, above all, standard textbooks, upon which is formed the knowledge of economics of most business people, politicians, as well as economic and political advisors, i.e. crucial decision-makers (cf. Häring & Douglas, 2012), who still claim "growth" to be the supreme end.

48 See Stuart (2009) on the vastly wasteful character of today's market economies.

49 Free-market advocate Greenspan (2010) brushes away crises as "notably rare exceptions".

50 British historian Hobsbawm (2011) notes how mainstream economics has abandoned the Keynesian principle of full employment for the Friedmanite 'natural' rate of unemployment.

51 National statistics bureaus register the failure and voluntary closure of most businesses launched annually after only few years of activity, e.g. US Census Bureau (nda).

52 See Florio (2004) on State-led reconstruction in post-war Britain and an extensive welfare comparison with the economic and social outcomes of Thatcherite privatisations.

53 Business and financial presses print these explanations and exculpations most commonly, but they are not absent from academic discourse either, e.g. Linz (2000).

54 The notion of a well-functioning free market abstracted from actual market agents is captured in the title of Rajan & Zingales (2003), *Saving Capitalism from the Capitalists*.

55 In the 20th and 21st century, liberal economists sponsoring a more hybrid and contingency-based conception of economic activity (e.g. Keynes, Galbraith, Tobin, Krugman) have often been derided as "socialists" and other disqualifying predicates aimed at preventing wide social acceptance and true intellectual exchange (e.g. Luskin, 2011).

(d) Conceive of alternative systems, whether based on past experiences or untested and novel ones – freedom entailing creativity and change that cannot be predicted in advance. Despite its recurrent talk of liberty and freedom, and its systemic avoidance of insufferable facts notwithstanding, the liberal mind-set castrates imagination *ab initio* by assuming the received conditions to be somehow rational and only perfectible, but not something that could or should be overcome altogether (cf. Castoriadis, 1998)[56].

Concluding Remarks

If my argument is sound, then contemporary politics, influential policies and entire academic programmes are built upon an 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 liberals, and mainstream economists in particular, to state that, given some partially successful partial instantiations of the market system, they *hope* or have *faith* that the markets, left largely unhindered, may provide us (or some of us) with future prosperity, then they would be intellectually honest. They could follow in the steps of Richard Rorty (1998), who advocates political liberalism *qua* hopeful civil religion of democracy. They would be consistent with Friedrich Hayek's (1992) characterisation of the market order as "transcendent" and comparable to the religious one in assuming that its own unfathomable will, "not *mine*" i.e. humankind's, "be done" (72). They would bear witness to Keynes' (1936) claim that non-rational passions determine market trends and his warning that his own future-driven theory might be merely "a visionary hope" (24.v). They would be reminiscent of the Providential character of Adam Smith's (1776: IV.ii.9) "invisible hand" (cf. Oslington, 2011). But how many liberals and main stream economists do it? Textbooks in economics say nothing of the sort. On the contrary, they:

Assume the free markets' existence, which is itself empirically doubtful and at best historically limited (cf. Rhonheimer, 2012);

Assume away any shortcoming by presupposing methodologically the free markets' perfection; and

Ascribe to the free markets the necessary generation of prosperity, what ever contrary evidence there has been in human experience, such as: State-led development (e.g. communist China); prosperous cartel-intensive economies (e.g. Bismarck's Germany); the collapse of the first age of market globalisation (1871-1914) and the ensuing Great War and Great Depression; the booming populations of 20th century officially "socialist" nations (e.g. USSR); or the world wide depletion of natural and human systems upon which "the life and health of the billions [are] supported" (Hayek, 1992: 75)[57].

[56] Smith (1776) prefigures and exemplifies the unimaginative character of liberal 'realism' by dismissing 'utopian' ideas such as the worldwide abolition of slavery, universal literacy, democratic constitutions, the UK wide abolition of commercial barriers, or preventing poor workers and their families from being wiped out by famines and disease in times of crisis.

[57] UNESCO (2002-13) offers a comprehensive record of the depletion of these civil commons.

Such a reticence about economic reality and the unfalsifiable assumption at issue are not only unscientific; they are also unprofessional. In truth, they are tantamount to a lie. And lying is, under normal circumstances, unethical. Still, I doubt that there is any self-interested intention to lie or avoid the truth systematically in the writings and statements of committed free-market liberals and mainstream economists (an accusation made, *inter alia*, by Galbraith, 2004, Ha-Joon, 2012, and Häring & Douglas, 2012). Too many and too frequent are their public utterances about the free market's unique ability to generate prosperity. Mendaciousness, double standards and Jesuitical hypocrisy on such a scale would require an incredible amount of inter-subjective coordination and group discipline. Albeit logically possible, it seems practically improbable.

Rather, the uncritical acceptance of the hypothesis at issue is much more similar to an embedded structure of superstition, or a religious dogma, rooted deeply in the consciousness of the adherents to liberalism, to the point of becoming a Burkean "prejudice" (i.e. habitual belief without reflexive judgment; 1791: 144-5), a tacit criterion for professional selection and self-censorship (cf. Häring & Douglas, 2012) or, to use Veblen's (1914) famous phrase, a "trained incapacity" (347) to think outside the box. It is analogous to the largely unquestioned and openly unquestionable belief in God's existence to be found in Europe'smedieval mind-set, amongst both simple laymen and sophisticated scholars[58]. Probably, the very suggestion that free markets may not be a necessary source of prosperity must sound preposterous, if not ungodly, to their ears: a prank at best; a blasphemy at worst. Yet, the exploration of the superstitious (or religious) character of free-market liberalism would require at least as much space as the present text and I cannot pursue it here. This stone, for the moment, is better left unturned[59].

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58 Contemporary economics is strikingly analogous to medieval theology: in its institutional success; in its display of technical skill; in its appeal to young minds; in its discussion of unreal perfect abstractions that justify *de iure* (like a theodicy), and do not challenge *de facto*, the *status quo* and those who benefit most from it (cf. Häring & Douglas, 2012).

59 Stiglitz (2003) and McMurtry (2004) have already turned this stone to a large extent.

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