2. Jeffrey T. Young, *Economics As a Moral Science: The Political Economy of Adam Smith* (Cheltenham, U.K.: Edward Elgar, 1997), 3–4.
3. Alvey, "A Short History of Economics As a Moral Science," 56.
4. Young, *Economics As a Moral Science*, 7.
5. Ibid., 201.
6. Ibid., 202.
7. Ibid., 204.

Everything for Sale: The Virtues and Limits of Markets
Robert Kuttner
Chicago: University of Chicago Press, 1996, 410 pp.

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When one of his students objected that his theoretical system did not actually describe reality very well, G. W. F. Hegel is said to have scoffed: "Well then, so much the worse for reality." So Chicago School economists and other defenders of free markets are all but forced to reply, Robert Kuttner contends in *Everything for Sale: The Virtues and Limits of Markets*, in the face of a good deal of evidence that there are significant discrepancies between how markets *ought* to function in theory and how they *actually* function in practice. Such myopia would be humorous, Kuttner feels, were it not for the fact that something like it is shaping a good deal of American economic policy at present. "The ideal of a free, self-regulating market is newly triumphant," Kuttner writes in the book's Introduction: "Unfettered markets are deemed both the essence of human liberty, and the most expedient route to prosperity." But Kuttner, an economic journalist and founding co-editor (with Robert Reich and Paul Starr) of *The American Prospect*, would beg to differ. "The grail of a perfect market, purged of illegitimate and inefficient distortions," he writes, "is a fantasy—and a dangerous one." Not only are perfect markets, for the most part, unrealizable, Kuttner believes, but trying to realize them may well render our society less humane, less democratic, and ultimately more vulnerable to tyranny. In *Everything for Sale*, he examines a number of significantly flawed markets—including the labor market, the market for health care, and financial markets—with an eye toward defending a mixed economy and persuading his readers that the realization of a truly humane and democratic society must inevitably warrant a good deal of governmental intervention in economic affairs.

To make his case for a mixed economy, Kuttner underscores the tensions that exist between allocative efficiency and two other economic values associated with the names of John Maynard Keynes and Joseph Schumpeter, respectively. On the one hand, allocative, or Smithian, efficiency operates on the basis of price signals by way of supply and demand and ensures that the right things will be made in the right places at the right costs. It is the efficiency so often emphasized by defenders of free markets. Keynesian efficiency, on the other hand, addresses the potential output that is lost when the economy is in recession and performing below its full-employment potential. Attempting to increase local allocative efficiencies during a recession, Keynes observed, may actually make matters worse by driving more people out of work. Schumpeterian efficiency, furthermore, suggests that technological progress is the real engine of long-term economic growth, and that technological innovation is not often best fostered by the "fierce and mutually ruinous price competition" that allocative efficiency enjoins, but instead within relatively stable oligopolies.

The reason Kuttner is concerned to underscore the tensions that exist between allocative efficiency and Keynesian and Schumpeterian efficiencies, of course, is because both of the latter require governmental intervention in the economy. While the need for such intervention has long been taken for granted—he notes that Keynesianism all but dominated the field of economics until the late 1970s—it has been replaced of late with an almost single-minded emphasis upon allocative efficiency and the virtues of free markets. Indeed, since the early 1980s, conservatives and liberals alike have backed away from interventionist economic policies.

Yet, Kuttner is concerned that the current preoccupation with allocative efficiency is short-sighted and ultimately dangerous. Perfect markets rarely actually exist, he suggests, and believing that they must inevitably form in the absence of governmental intervention simply sets the stage for economic crises of various kinds. "The patterns of market failure," Kuttner writes, "are more pervasive than most market enthusiasts acknowledge. Generally, they are the result of the immutable structural characteristics of certain markets and the ubiquity of both positive and negative spillovers. Unfettered opportunism is more widespread in economic life than free-market theory admits. In much of the economy, sellers are not reliably held accountable by buyers. In markets where the consumer is not effectively sovereign (telecommunications, public utilities, banking, airlines, pure food and drugs), or where the reliance on market verdicts would lead to socially intolerable outcomes (health care, pollution, education, gross inequality of income, the buying of office or purchase of professions), a recourse purely to ineffectual market discipline would leave both consumer and society worse off than the alternative of a mix of market forces and regulatory interventions.

Beyond defending the importance of regulatory interventions, Kuttner also stresses that attempting to purify imperfect markets by trying to make them more superficially market-like may actually render them even more imperfect. Along this line, he refers to a theory, propounded by the economists Richard Lipsey and Kelvin Lancaster in 1956, with the remarkably bland title: “The General Theory of the Second Best.” The theory, Kuttner writes, “holds that, when a particular market departs significantly from a pure market and yields an outcome that is not ‘optimal’ in market terms, attempts to make it more market-like in some, but not all, respects will have indeterminate results for economic efficiency—and sometimes perverse ones.” Backing away from regulating an imperfect market in the hopes of rendering it more competitive, in other words, will probably not result in greater allocative efficiency and may well make matters worse for consumers and producers alike.

Kuttner also observes that market institutions have a tendency to drive out extra-market institutions, just as market norms tend to drive out non-market norms. Voluntary associations and the altruism and public-mindedness upon which such organizations depend, in other words, are discouraged when markets and the maximization of private self-interest are absolutized. “When everything is for sale,” Kuttner writes, “the person who volunteers time, who helps a stranger, who agrees to work for a modest wage out of a commitment to the public good, who desists from littering even when no one is looking, who forgoes an opportunity to free-ride, begins to feel like a sucker.”

Beyond contending with Chicago School economists, Public Choice theorists, advocates of “Law and Economics,” and other defenders of unbridled markets, Kuttner also makes any number of policy prescriptions. With respect to labor markets, for example, he contends for full employment, stronger unions, fair trade, wage subsidy and social income, education and training, “gain-sharing” commitments, and responsible corporations. Insofar as health care is concerned, Kuttner suggests a universal health-care system similar to Canada’s. After examining financial markets, he contends for a stakeholder capitalism that more fully enfranchises employees, communities, and others affected by enterprise. And, finally, with respect to technological development, he suggests a “national innovation system” for promoting technological growth. All of these efforts will, he suggests, require “subtle, competent, public-minded regulators” who will require the active support of equally sagacious elected officials.

What currently undermines our ability to implement such policies, Kuttner believes, is not simply Chicago School myopia but a broader ideological attack on government *per se*. He concludes *Everything for Sale*, therefore, with a chapter titled "Markets and Politics" in which he pleads for the renewal of democracy. "If markets are not perfectly self-correcting," Kuttner writes, "the only check on their excess must be extra-market institutions. These reside in values other than market values, and in affiliations that transcend mere hedonism and profit maximization. To temper the market, one must reclaim civil society and government, and make clear that government and civic vitality are allies, not adversaries. That form of enterprise, in turn, requires more effective politics, both as the emblem of a free democratic people and as the necessary counterweight to the inflated claims about markets. If we are to balance markets with other social goals, that requires an engaged and informed electorate as well as healthy, legitimate political institutions."

The reclamation of civil society and government, Kuttner believes, is necessary, not simply for the sake of continued economic growth but for the sake of preparing us for the social and economic turbulence that markets must inevitably foster. "[W]e need the habits and institutions of a strong democracy," he writes, "precisely to keep markets in their place and to provide resilience during those historical periods when the market goes haywire and makes ordinary people vulnerable to the appeals of tyrants." Here Kuttner appeals to Karl Polanyi's *The Great Transformation* (1944) in which Polanyi predicted that, in uprooting pre-modern forms of security and stability, excessive marketization would lead to modern forms of despotism. "Reading history," Kuttner writes, "one grasps that it was the nations with strong democratic traditions that escaped dictatorial remedies to economic disorder."

How can our democracy be revived? Kuttner contends for campaign finance reform, more intelligent mediation of political discourse, and higher voter turnouts. Above all, he believes that we must learn not to fear interventionist economic policy. "In this century," he writes, "the expansion of state constraints on the market and the expansion of the province of personal liberties have gone hand in hand. Plentiful employment, respite from arbitrary private power via social insurance and trade unions, expanded civil rights, and protections from environmental calamities wrought by markets all increased personal security and liberty for ordinary people—no loss of liberty resulted." In spite of the libertarian triumphalism of the present day, Kuttner notes, "there is in fact no historical instance of F. A. Hayek's famous *Road to Serfdom* beginning with an established democracy that attempted an excess of public planning and ended in tyranny. The totalitarian states—the Soviet Union, Nazi

Germany, Fascist Italy, imperial Japan—were in no case the results of previously democratic states biting off more of the economy than they could chew. All were societies where democracy itself was too weak."

Everything for Sale is quite a good book. While Kuttner's left-of-center and social-democratic passions are evidenced throughout, his argument is clearly, interestingly, and fairly presented, and thoroughly documented. He is surely correct on a number of counts. Everything should *not* be for sale, and resistance *will* be required if we are to prevent the market from, as Robert Bellah put the matter a number of years ago, "eating up the substance of our society." This resistance, furthermore, *will* require a measure of government intervention. Yet, I confess that I found his list of policy prescriptions rather overwhelming. It seems to me to betray altogether too much confidence in government's ability to intervene sensibly and judiciously. After all, *subtle*, *competent*, and *public-minded* are not typically the first adjectives that come to mind when we think of regulatory regimes. Of course, it may be, as Kuttner submits, that notorious agencies such as the Civil Aeronautics Board and the Occupational Safety and Health Administration became inept and ineffectual because they were, in effect, sabotaged by industry interests as well as by hostile politicians. Yet, the various markets that Kuttner has described in such detail are so enormously complicated that his assumption that regulators will be able—if only democratically empowered—to come up with constructive regulatory regimes, calls for a good deal of faith.

And speaking of faith, it seems to me that Kuttner may have completely missed one of the crucial explanations for what he has termed "the broader ideological attack on government." While Kuttner suggests that this attack is rooted in a long-standing American tradition of distrusting government, he apparently fails to recognize that the entrenched *secularity* of modern government has a good deal to do with engendering distrust among those who are religious *even now*. Liberal-democratic administrations, in particular, have positioned themselves as, at best, neutral, and more often than not as hostile, to conservative religious reasoning. This, it seems to me, is why so many religious conservatives—who, I think, would agree with a good deal of what Kuttner has to say—will probably resist his prescriptive solutions, solutions that will only further seem to empower a state that is indifferent, if not actually hostile, to their religious beliefs. This is a very serious problem, for history suggests that the purely self-interested rationality of the marketplace can *only really be disciplined* on the basis of religious beliefs and values. If our democracy is to be revived, then, as Kuttner contends that it must, our polity will have to find some way of *en*listing—and not *re*sisting—the energies of those who believe that the marketization of society is wrong *before God* and not simply that it is economically inefficient.