

Economic Bigotry: the Affirmation of the Free Market as the Ideal

GODFREY HODGSON*

an excerpt from *How Economics forgot History*

In the history of economics since Adam Smith, many economists have attempted to use alleged 'economic laws' to attempt to justify free market policies. Those who advocate free and unfettered markets typically hold them up as a pure and ideal standard by which to judge reality. Of course, they observe many cases of inflexible, regulated or even missing markets in the real world. These are denounced as deviations from the pure and perfect norm.

It has been said that economic theory demonstrates that free markets are optimal. But any competent economic theorist knows that this claim is based on restrictive and challengeable assumptions. Nevertheless, the belief in optimality persists. Believing that markets are the solution, and that markets will work well if only they are free and unfettered, the cases of imperfect or missing markets are then ignored. **If the theory does not fit the reality, then reality must be made to fit the theory.** Imperfections and restraints in existing markets must be removed, and new markets must be set up in places where they are missing.

Leaving the ideological issues on one side, there are important theoretical implications of this commonplace gambit. In short, economics becomes the study of one ideal, pure market system. It is held that no other system, past or present, needs to be studied because it is deemed to be an aberration from the ideal norm. Economic history becomes the story of the development of all economies towards this ideal. Any impurities or 'imperfections' in existing market systems are regarded as unfortunate hangovers from the past. The theoretical discourse focuses on a single model of an allegedly pure market system. . .

A particular version of this free-market ideology is to assume that the ensemble of institutions in American capitalism is the ideal. When economies elsewhere experience recession, such as in Japan and East Asia, it is then exclaimed that the reason for this suboptimal performance is that the free and competitive economic institutions of American capitalism are not adequately replicated. Again this gives an excuse for ignoring the specific institutions and structures involved. The possibility that their development may be path-dependent, or that they may be capable of consistently outperforming American capitalism in other circumstances, does not appear on the agenda.

* [Godfrey M Hodgson](#) is Professor of Business Studies at the University of Hertfordshire (England). This extract comes from his book *How Economics Forgot History: the problem of Historical Specificity in Social Science* (Routledge, London, 2001), pp 31-32 (ISBN 0-415-25717-4).

Emphases in red type added by the webmaster.