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**PERSPECTIVE****Is the Marketplace Efficient?**

It is tempting to defend the free market by claiming it's efficient. But we'd better resist that temptation. It can lead to trouble.

Individuals surely strive for efficiency; to the best of his knowledge, each person attempts to economize resources, time, and energy in the pursuit of goals, and each necessarily puts higher values before lower ones. As Israel Kirzner suggests, if all we wish to claim when we say the market is efficient is that it lets individuals coordinate with others in pursuit of their personal aims, then that claim is unobjectionable. The problem is that many economists, unrealistically assuming equilibrium and perfect knowledge, think there's more to the claim. You can see this when they assert that the market directs resources to their best, or highest-valued, use.

To a methodological individualist this should be troubling. "Best" to whom? If I choose between using a quantity of gasoline to run my lawnmower and to drive to the park, it makes sense to say that my choice indicates my highest-valued use of the gasoline. At any given time, I have a scale of values that is revealed by what I do. If I drive to the park I demonstrate that, at the moment of choosing, I prefer that to a mown lawn.

But we can't use this kind of analysis with more than one person. What's a higher-valued use of the gasoline: *my* driving to the park or *your* mowing your lawn? There's no answer to that question because more than one value scale is in the picture and no way exists to rank the two activities. If that's true for two people, it's no less true for 285 million people. There is no social value scale to consult. The idea that there is such a scale lies at the heart of collectivism.

The price system won't get us out of this difficulty. If you outbid me for the gasoline, requiring me to forgo the park and enabling you to mow, we cannot say that you value the mowing more than I value the recreation. Why not? Because there is no unit with



which to measure value, or utility, and thus no basis for comparing such things between individuals. What we can say is that I prefer whatever else I plan to buy with the money to time in the park, and you prefer a mown lawn to whatever else you could have spent the money on. (We could both discover we're mistaken.) But those are separate *intra*-personal value comparisons and so do not violate methodological individualism.

We can also say that rising prices for resources tend to encourage individuals to postpone or cancel their (personal) low-priority projects, which frees the resources for other individuals' (personal) high-priority projects. That may be mistaken for a shift to socially "higher valued" uses, but it isn't the same thing.

(For more, see Roy Cordato, "Free Markets and 'Highest Valued Use,'" *Ideas on Liberty*, May 2000, online at [www.fee.org/vnews.php?nid=4623](http://www.fee.org/vnews.php?nid=4623).)

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So much bad public policy comes out of the belief that the needs of the individual and the needs of the community clash. Nonsense, writes Arthur Foulkes.

It's tough being unemployed, but that's no reason to portray oneself as a victim and capitalism as the victimizer. Gary McGath explains why.

The war in Iraq brought calls for a resumption of the military draft. Aeon Skoble demonstrates why that would be a big mistake.

It's a popular notion—and there are clichés to prove it—that those on the money side of a transaction are superior to those on the goods and services side. Gene Callahan exposes the faulty economics in that thinking.

A town in Denmark is a textbook model at turning industrial waste into valuable resources—and government planners had nothing to do with it. Pierre Desrochers has the details.

There's a population problem after all. But it's not the one the environmental lobby has warned of for the last 30 years. Jim Peron spells it out.

Thanks to government, we have reformulated gasoline. Michael Heberling wants to know how many more gifts like this we can stand.

Students of the Austrian, or subjectivist, approach to economics know that a precursor to that approach was developed by the School of Salamanca in late-sixteenth and early-seventeenth-century Spain. Norman Barry reports on the passing of an eminent scholar of the School of Salamanca.

As the success of America demonstrates, private property, though much disparaged, is indispensable to freedom. The late congressman Howard Buffett knew this well, as he shows in a classic reprint from 1956.

Here's what our columns cover this month: President Richard Ebeling demonstrates that FEE is needed more than ever. Donald Boudreaux discourses on free trade. Burton Folsom documents President Andrew Johnson's respect for the Constitution. Charles Baird draws lessons from the Washington, D.C., teachers-union scandal. And Shikha Dalmia, after mulling over the claim that culture needs taxpayer subsidies, remonstrates, "It Just Ain't So!"

Coming under scrutiny in our book-review department are volumes on the Great Depression, the Jews in Germany, cities, and the "common good."

—SHELDON RICHMAN