

# Skidelsky on 'efficient market theory'

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I got Robert Skidelsky's new book, "[The Return of the Master](#)" at the weekend. It is, of course, about Keynes.

Skidelsky's opinions are robust, and rightly so:

*For twenty years or so, mainstream economics has taught that markets 'clear' continuously. The big idea was that if wages and prices are completely flexible, resources will be fully employed. any shock to the system will result in instantaneous adjustment of wages and prices to the new situation.*

*Admittedly, this system-wide responsiveness depended on economic agents having perfect information about the future. This is manifestly absurd. Nevertheless, most mainstream economists believed that economic actors possess enough information to lend their theorizing a sufficient dose of reality.*

*This so-called "'efficient market theory' should have been blown sky high by last autumn's financial breakdown. But I doubt that it has been. Seventy years ago, John Maynard Keynes pointed out its fallacy. When shocks to systems occur, agents do not know what will happen next. In the face of uncertainty, they do not readjust their spending; instead, they refrain from spending until the mists clear, sending the economy into a tailspin.*

All right-wing bloggers here please take note.