Equilibrium - and the economic nonsense it represents

Published: January 12, 2026, 10:39 pm

Amongst the glossary items published this morning is this quite important one on the utterly absurd concept of economic equilibrium. Comments are welcome:

Equilibrium is the state to which classical, neoclassical and neoliberal economists all think that an economy should aspire.

Equilibrium exists at the point where supply and demand within an economy are matched and no participant in that economy has an incentive to change their position because to do so would leave them worse off, meaning that the optimal situation that equilibrium suggests exists will have been foregone.

Theories of equilibrium assume that all participants in an economy are:

* Rational, meaning that they behave consistently.

* Are in possession of perfect knowledge i.e. they not only know what they want to achieve at a point in time and how they might achieve it because they are aware of all the options available to them but are also aware of this information for all time to come.

* Aware that equilibrium is the outcome of a dynamic process that they now wish to halt because an optimal outcome has been reached not only for themselves but all other market participants.

The idea of equilibrium, with the stable state that it implies, is borrowed from physics, where it can be observed. In contrast, economic equilibrium has never been achieved because the conditions for it to do so are quite obviously absurd and contradict all known and observable human behaviour.

Because it is claimed that supply and demand are stable and have delivered both optimal prices and optimal levels of supply at the point at which economic equilibrium happens the theory of equilibrium is necessarily dependent upon and embraces theories of market supply and demand and of the profit maximising firm upon which the foundations of neoclassical economics (are built, as are those of neoliberal economics. These theories are built upon the idea that a firm can accurately predict the demand for its product at each price at which it might offer it for sale and also its own marginal (or total additional) cost of producing each item that it supplies at every possible level of production so that it can equate its supposed marginal cost for an item it makes available for sale with the additional or marginal extra revenue that it will generate from doing so. It is then argued that the firm in question will continue to supply that product until such time as the two are equal.

It is important to note that no firm in history has ever been in possession of this information.

It is also important to note that the only conditions in which they might have this information are those where:

* The products of one firm are incapable of being differentiated from those of another firm so that the consumer is indifferent as to which firm supplies them, which is almost certainly a condition that has never existed.

* There are many firms in a market and each is so small that they cannot influence the price of the product that they make in that market, which is an assumption that contradicts what is now known about the behaviour of even very small numbers in mathematics.

* There are no barriers to entry to firms that wish to make supplies in a market meaning that it is assumed that all firms can have access to the technology, labour and capital that they need to have possession of to make a product. It is also assumed that each firm who wants it can also have such possession instantaneously if a change in demand for the product requires that additional supply be created it can be delivered instantaneously. These conditions have never existed anywhere, at any time.

The implication of these conditions is that only markets can deliver equilibrium outcomes within economies and what is assumed to be the distortionary activity of government is not required because the optimal position created by a market meeting these conditions cannot be bettered.

Although, as noted, it is impossible that the conditions that might deliver economic equilibrium might ever exist the achievement of this state remains the goal for almost all neoclassical economics and neoliberal economics. The argument that each presents that government interference prevents equilibrium is not based on an analysis of any achieved state of equilibrium but solely upon the assumption that government action will prevent this state being achieved when that is already inevitable because equilibrium will always, as a matter of fact, be impossible to deliver.

It is accepted that neoclassical and neoliberal economists can and do relax the assumptions pertaining to the achievement of equilibrium when undertaking their work, and this cannot be disputed. However, this relaxation is usually undertaken to determine the supposed cost of the sub-optimal outcome that they suggest arises within the economy as a consequence of that sub-optimal behaviour so that they might suggest the gain that might arise if only the perfect market to which they (alone) aspire was in operation. As such these relaxations are largely meaningless.

The concept of equilibrium lies at the very heart of neoclassical, neoliberal and positive economics and so at the very heart of much of the work of the economics profession whilst simultaneously explaining why most of the work of that discipline is as inevitably flawed and destined to fail as that of the alchemists always was. If you work on the basis of flawed assumptions you can never achieve a useful result.