

Can the world afford the inefficiency of markets anymore...

Published: January 13, 2026, 2:19 am

I wrote this in chapter 6 of my book 'The Courageous State', which was published in 2011. I have edited it lightly for use here:

There are, without doubt, certain conditions that must exist before any market can operate, even imperfectly.

The first of these is that there have to be willing buyers for the products that are to be made available. Without such buyers there is no chance of selling products, let alone of doing so at a profit.

Second, if abuse is to be avoided as a result of monopoly profits being made there has to be competition in the marketplace. If there were, for example, to be only one commercial supplier of an essential service, such as healthcare, then the opportunity for price abuse would be enormous. This is especially true when purchases of healthcare frequently arise in situations of high stress when the opportunity for finding an alternative supplier is limited (or to put it another way, the purchaser is almost invariably at a disadvantage to the supplier at the point when they must buy because they are in pain and far from being able to make an objective decision). Only competition and informed decision making can, to some extent, limit that opportunity for abuse of the consumer and even then only if what is called oligopolistic behaviour can be avoided.

Oligopolistic behaviour happens when there are just a limited number of suppliers in the market and they can, whether explicitly or otherwise, cooperate to ensure that they can collectively earn monopoly profits that are exploitative. Precisely because informed decision-making on issues such as healthcare, and pensions (for example) is very hard to achieve the private supply of these services will always be open to considerable abuse, as the failings of pension privatization has already proved.

But even if competition could help when informed decision-making was possible it is also true that competition does also have a downside. This downside is that, by definition, competition requires that there is excess capacity in a market. There can be

no such thing as effective competition if every single supplier in a market is operating at full capacity: in that case there is no opportunity for choice (whether informed or otherwise) on the part of the consumer. That consumer is left, if all suppliers are operating at full capacity, having to take whatever opportunity might be available to them at the supplier's convenience, and at the supplier's price. However, that means that to be effective competition is dependent upon all market participants always working at less than full capacity, which means that competitive markets must always (whatever the theoreticians may say) be inherently inefficient in practice because all participants in the market must be under-utilising the resources that are available to them if the consumer is to get the choice that they desire.

I have been musing on the extent to which the world can now afford the inefficiency of markets. Can we really afford excess capacity anymore?