

I have added this entry to this blog's glossary, it being a myth within neoclassical economics.

Perfect Information

A pillar of neoclassical thought is the claim that markets work efficiently because everyone has access to perfect information. Buyers supposedly know everything sellers know, and vice versa. No one can deceive or conceal. If that were true, prices would indeed reflect reality. But capitalism's great secret is secrecy itself.

Assumption

The textbooks say that in a competitive market, knowledge flows freely and instantly. All participants can observe prices, quality, and future prospects. There are no trade secrets or insider advantages. Information costs nothing, and because everyone knows the same things, markets become perfectly efficient, with prices revealing the "truth" about value.

Reality

In practice, information is power — and it is never shared equally. Consumers rarely know what companies know about costs, quality, or risk. Financial institutions thrive precisely on opacity: they package debt into forms so complex that even regulators struggle to understand them. Corporations use intellectual property and legal secrecy to protect profits. Tax havens exist to hide ownership and transactions from public scrutiny. The rise of data monopolies has made asymmetry even worse: tech giants know everything about us while we know almost nothing about them.

When information is hidden or distorted, markets misprice risk. Investors chase illusions. Speculators profit from ignorance. The 2008 financial crash was built on the systematic concealment of bad debts, rated "safe" by agencies paid to look the other way. Far from being rare exceptions, such asymmetries are the rule.

Why It Matters

If knowledge is unequal, market outcomes cannot be fair or efficient. The pretence of perfect information legitimises deregulation by claiming that markets self-correct when, in truth, they self-deceive. Transparency is not an optional extra; it is a public good essential to democracy as well as economics. Without it, power and wealth concentrate. Reforming capitalism, therefore, requires not more competition but more honesty: open asset registers, clear accounting, and an end to secrecy jurisdictions that distort global trade, amongst a great deal else.

Summary

Markets do not run on truth; they run on secrecy, and until that changes, “perfect information” will remain a convenient lie.