My View on … Markets

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This post is part of an ongoing series in which I set out my views on significant issues in economics, political economy, politics, taxation, and accounting. It should be read in that context. It provides an overview of a position that I have developed over many years of writing and analysis, rather than a comprehensive treatment of the subject. If you would like to explore these ideas in more detail, the reading list at the end of this post provides a good place to start. The whole View On series is available here.

These articles are produced by asking Claude AI to undertake a literature review on my own writing on a topic based solely on what has been written in this blog.

I then edit the end piece to reflect my current opinions, if they have developed since some of the posts noted in the reading list were published.

Introduction

'Markets' is one of the most misused words in contemporary economic and political debate.

On the right, the word is invoked as if it were synonymous with freedom, with private enterprise, or with capitalism itself, and as a kind of all-purpose endorsement of whatever the speaker happens to want less government interference with.

On the left, it is sometimes treated as shorthand for exploitation, inequality, and the subordination of human need to private profit, something to be either reformed out of existence or replaced by something more wholesome.

Neither of these uses describes what a market is, and the confusion they create does genuine damage to economic thinking and to economic policy.

A market is a mechanism, or a specific set of institutional arrangements through which buyers and sellers come together to exchange goods, services, labour, or financial assets, and it is neither inherently emancipatory nor inherently oppressive.

To understand markets, I will in this piece, explain what they are and what makes them possible, how they differ from both business and capitalism, and where they serve social purposes well and where they fail to do so.

What a market is

A market, at its simplest, is any arrangement through which exchange takes place and a price is either requested or discovered and potentially agreed upon.

The market stall, the auction house, the online platform where buyers post bids and sellers post offers, the labour market in which wages are negotiated, the bond market in which corporations raise finance; all of these are markets in the relevant sense. What they have in common is not private ownership, nor profit-seeking, or anything ideological at all. What they have in common is that buyers and sellers interact, prices might emerge from that interaction, and resources are allocated accordingly.

The first and perhaps most important thing to understand about markets is that they do not occur naturally. They are not the default state of human affairs that governments and regulations disturb. Markets require an institutional infrastructure that only collective action, usually through the state, can provide. Every functioning market requires property rights that are clearly defined and reliably enforced. It requires contract law, so that agreements are binding and disputes can be resolved. It requires a shared currency, because without a stable medium of exchange almost all trade beyond simple barter becomes impractical. It requires courts, regulatory frameworks, and, in most cases, some form of competition policy that prevents market exchange from degenerating into the simple exercise of power by whoever happens to be strongest.

I have written about this at some length in recent years, and the conclusion I keep returning to is the same. There are no free markets, in the sense of markets that operate independently of state action and legal infrastructure. There are only markets that the state has built and continues to sustain, and markets in which the governance arrangements are more or less appropriate to the purposes the market is meant to serve. Deregulation does not liberate markets. It dismantles the framework that makes genuine market exchange possible, and in doing so it tends to replace competitive markets with monopolistic ones, because the firms with the most power are always best placed to fill the regulatory vacuum.

Why the textbook model misleads us

The version of a market that most people absorb from economics education is a picture of many buyers and sellers, none of them large enough to influence the price, all of them perfectly informed about what they are buying and selling, free to enter or exit the market without cost, whilst trading products that are completely interchangeable or substitutable one for another. Under those conditions, the theory holds, that the price that emerges from these interactions is an accurate signal about the relative scarcity of what is being traded, and resources flow to their most valued uses. It is an elegant picture, and it has proved extremely useful as a tool for understanding certain tendencies in market economies.

The problem is that real markets very rarely look like this. In fact, the one thing that can be fairly said about such markets is that they are exceptionally scarce, very hard to find, and are getting more so over time. In that case, the tendency to treat the model as a description of how markets actually work, rather than as an analytical tool used for the purposes of academic simplification, has produced serious systematic errors in economic thinking and economic policy.

Most real markets are dominated by a small number of large firms that have used their scale, their brand, their patents, and their accumulated advantages to raise barriers against new competitors. In retailing, financial services, digital platforms, energy supply, and most other sectors that matter to everyday life, something between an ***oligopoly* and a *monopoly* is the typical market structure. Competition exists, but it is partial, imperfect, and often more a matter of marketing than of genuine rivalry for customers on the merits.**

The assumption of perfect information is equally distant from reality. Buyers of financial products, pharmaceutical treatments, insurance contracts, and professional services are rarely in a position to evaluate what they are buying as accurately as the seller. This information asymmetry is not a failure of individual consumers to be sufficiently diligent. It is a structural feature of these markets, and it means that price and quality cannot be expected to align without regulatory intervention designed to correct for the imbalance. The standard supply and demand diagram, with its clean intersecting curves, similarly overstates the responsiveness of both supply and demand to price signals in the short run, which is why treating inflation as if it were simply a problem of excess demand, to be corrected by raising interest rates until household budgets are squeezed enough, has such consistently poor results in practice.

None of this is an argument against markets. It is an argument for taking seriously the conditions under which markets actually work, rather than assuming that the theory that they work optimally is correct and then explaining away the evidence to the contrary.

What markets do well

Markets, properly understood and properly governed, do perform genuine and important functions. Where products are reasonably comparable, where

buyers have enough information to exercise meaningful choice, where entry into the market is feasible for competitors, and where the product in question is something people can decline to buy if the price is wrong, market exchange tends to aggregate dispersed information in a way that central planning has yet to replicate. In these cases, the price mechanism is genuinely useful as a coordination device; it tells producers what is in demand, it tells buyers how scarce something is relative to alternatives, and it allows people with different preferences to make different choices without requiring anyone to adjudicate between them.

There is also a dimension of freedom in market exchange that I do not want to dismiss. The ability to choose where to work, what to buy, and how to deploy one's own income and labour is not a trivial thing. I am not among those on the left who treat market exchange as inherently suspect. Exchange between genuinely consenting parties, conducted on something approaching equal terms, is a feature of human social life that long predated capitalism and which can be entirely compatible with a society organised around public goods and collective provision. The question is not whether exchange should happen, but under what conditions it takes place and what institutional framework governs it.

Markets work well for many consumer goods, for a range of service markets where competition is genuine, and for labour markets where workers have sufficient bargaining power to make the wage relationship something approaching voluntary.

They work less well, and often not at all, for essential services that exhibit the characteristics of natural monopolies, for goods that generate significant externalities, for markets characterised by severe information asymmetry between buyers and sellers, and for anything where genuine scarcity means that price rationing has consequences that democratic societies find unacceptable.

Where markets break down

Markets break in recognisable ways, and understanding those ways is essential to governing them well.

Monopoly power is the first and most systemic problem. I have argued for some time that monopolies harm markets not only by raising prices but by substituting administered outcomes for genuine exchange, by eliminating the competitive pressure that gives markets their useful properties, and by enabling the extraction of rent from customers, suppliers, and workers who have no realistic alternative. The natural tendency of competitive markets, without sustained regulatory attention, is toward concentration. This is not a *contingent failure that will correct itself if markets are left to work. It is a structural tendency that requires competition policy to be understood as an ongoing discipline rather than a one-off intervention.*

The second major form of market failure is the externality. Markets, by definition, price only what passes between the buyer and the seller in a specific transaction. The costs that a transaction imposes on third parties, whether that is pollution, congestion, carbon emissions, or the degradation of shared resources, are not priced into the exchange unless regulation requires them to be. This is not a matter of market participants being selfish or short-sighted. It is a structural feature of how markets work. Correcting for externalities requires either regulation that prohibits certain activities, or taxes and charges that bring external costs inside the price, and either way it requires the state. Markets without these corrections routinely destroy value for society even while creating it for the parties to the exchange.

A third form of failure occurs at the macroeconomic level. Individual markets can be well-designed and produce reasonable outcomes, while the macroeconomic environment they operate in makes them collectively useless. If there is insufficient aggregate demand in the economy, if households lack the income to spend, if investment is collapsing, then markets cannot self-correct at the aggregate level. Prices fall not because supply is excessive relative to genuine demand, but because people cannot afford to buy. Minsky showed why financial markets in particular generate this kind of instability endogenously, as the expansion of credit and leverage during booms creates the fragility that makes subsequent crises inevitable. The macroeconomic context in which markets operate is not something markets can provide for themselves; it requires active fiscal and monetary management.

And there are conditions in which markets simply stop working altogether. When genuine scarcity prevails, when disruption overwhelms normal supply chains, when fear drives hoarding and speculation, markets cease to provide useful price signals and instead allocate essential goods to whoever has the most money. This is not a market function. It is an outcome that rational societies choose to override through direct rationing, price controls, and organised public provision, as the history of wartime economic management demonstrates.

Markets are not business

One of the most important distinctions I want to draw is between markets and business. The two are not the same thing, and the conflation of them, which is close to universal in political discourse, produces significant confusion.

Business is organised human activity directed at meeting needs, creating value, and sustaining livelihoods. It is, at its best, a deeply human enterprise. People start businesses because they want to make something, provide something, build something that others will find useful or enjoyable. The motor for business is purpose, and the method is the organised application of human skill, creativity, effort, and collaboration. A company that builds homes, provides care, develops software that solves real problems, grows food, or manufactures goods that improve people's lives is engaged in business in this sense. Its activity has genuine social value.

Business operates within markets, uses markets to find customers and suppliers, and depends on markets to signal where its products are needed and at what price. But business is not the same as the market, any more than a team is the same as the stadium it plays in. The market is the institutional setting; the business is the human activity that occurs within it. A business can exist without depending heavily on market mechanisms, just as a school, a hospital, or a charity engages in organised human activity that does not primarily take the form of market exchange. And a market can exist without the kind of purposeful long-term commitment to value creation that characterises business at its best. Financial markets, for example, process vast quantities of transactions without most of those transactions representing any durable commitment to producing anything.

This distinction matters for policy. When governments claim to be pro-business, they often mean something quite different from pro-market. Policies that protect incumbent firms from new competitors, that extend intellectual property protection beyond what genuine innovation requires, that allow dominant platforms to extract rents from the suppliers and users who depend on them, that permit companies to externalise their costs onto communities and the environment while privatising their gains; these are not pro-market policies. They are anti-market policies that serve existing business interests at the expense of the competitive exchange that markets are supposed to provide. The confusion between defending existing businesses and promoting market competition has done considerable damage to the quality of economic policy.

Markets are not capitalism

The second distinction I want to draw is between markets and capitalism. Capitalism, in its current form, is a specific historical and institutional arrangement in which capital owners exercise disproportionate power over economic decisions, in which financial markets serve primarily to extract value rather than to allocate it productively, and in which the rules of market exchange are systematically shaped to favour the accumulation of existing wealth over the creation of new value.

This is not a description of market exchange as such. It is a description of a particular distribution of power within and around market institutions. The person who genuinely takes risks with their own resources, who builds something from nothing, who creates value that others freely choose to pay for, is engaged in something that market exchange supports and rewards, and rightly so. Genuine entrepreneurship, the kind that takes real risks in pursuit of genuine value creation, is worth both celebrating and protecting. It is not what dominates our economy. It is, in fact, very rare.

What dominates our economy is something rather different. It is the accumulation and deployment of financial capital to extract returns from existing productive activities, rather than to create new ones. It is the manipulation of tax systems, regulatory frameworks, and intellectual property protections to privatise gains while socialising costs. It is the use of market power, in labour markets, in supplier relationships, and in customer markets, to extract rents rather than to compete honestly for custom. Share buybacks, financial engineering, and the systematic extraction of value from the balance sheets of existing companies are not entrepreneurship. They are rentierism conducted in the language of markets.

A genuine commitment to markets is not the same as a commitment to capitalism of this kind. I believe in markets that are genuinely competitive, that are accessible to new entrants, that are governed in ways that prevent the abuse of dominant power, and that are embedded in a democratic framework that holds them accountable. The current form of financialised capitalism systematically undermines each of those properties; it concentrates economic power, raises barriers to competition, and deploys the language of markets to protect arrangements that are, in practice, deeply hostile to genuine market exchange.

I think that the left made a serious political error in the latter decades of the twentieth century when it allowed itself to be positioned as anti-market. That positioning ceded the entire field of market design to those whose real interest was in protecting capital, not in making markets work for everyone. Claiming that markets inherently serve the powerful concedes the possibility of markets that serve everyone, and it is that possibility, of genuinely competitive markets embedded in strong public institutions and democratic governance, that a progressive economics should be fighting for.

Objections considered

Two objections in particular deserve a serious response.

The first is the objection that treating markets as institutional constructs dependent on state action is simply a way of justifying endless state

intervention, and that the regulatory frameworks I describe as essential to market function are in practice captured by vested interests and used to entrench incumbents rather than to protect competition. There is genuine evidence for regulatory capture, and I would not pretend otherwise. Regulatory agencies do sometimes end up serving the industries they are supposed to oversee, and regulatory frameworks designed to protect competition can be turned to anti-competitive purposes. But the conclusion this demands is reform of how regulation is designed and enforced, and not the abandonment of regulation. Markets without governance do not produce more competition; they produce monopoly. The experience of deregulation in financial markets, in energy, in water, and in telecommunications is not a story of liberation. It is a story of the replacement of public accountability with private power, in ways that have consistently damaged the interests of consumers, workers, and the broader public.

The second objection comes from a different direction. Some will argue that the distinction I draw between markets, business, and capitalism is clear enough in theory but of limited practical use, because the three are so thoroughly entangled in practice that separating them is analytical self-indulgence rather than a guide to policy. I disagree. The practical consequences of the distinctions are significant and specific.

If we understand that markets require competition to work, we become serious about antitrust policy and stop treating market concentration as a sign of success.

If we understand that business is about purpose and not merely about profit extraction, we become serious about stakeholder governance, about the obligations companies have to their workers, their communities, and their environment, and about the regulatory frameworks that enforce those obligations.

If we understand that capitalism as currently practised is not the same as market exchange, we free ourselves from the false choice between accepting everything that contemporary corporate practice entails and rejecting market mechanisms altogether. That is not a trivial gain. It is the precondition for building an economic policy that is serious about making markets serve social purposes rather than simply protecting the interests of those who hold capital.

Conclusions

Markets matter. They are genuine institutions of human social life, capable, when properly governed, of serving social purposes that no alternative mechanism can fully substitute for. I want markets that work, markets that

are genuinely competitive, that give producers and consumers real choices, that allocate resources toward social needs rather than merely toward whatever returns the most to existing capital, and that operate within a democratic institutional framework that holds them accountable.

But markets are not the same as business, and business is not the same as capitalism. Business is organised human activity in pursuit of purpose and value. Markets are the institutional mechanisms through which much of that activity is coordinated. Capitalism, in its contemporary financialised form, is a system of power that increasingly corrodes both, replacing genuine exchange with rent extraction and productive investment with financial engineering.

The task of economic policy is not to choose between markets and their alternatives as if those were the only options. It is to build the institutional foundations that make markets actually function, to identify the domains where markets are the wrong tool and make different provision, to ensure that business serves social purposes and not merely financial extraction, and to challenge the structures of power that have allowed a particular form of capitalism to colonise market institutions in ways that serve the few at the expense of the many.

I do not find markets worrying. I find badly governed markets worrying. I do not find business threatening. I find business that has given up on purpose in favour of financial extraction threatening. The distance between a well-governed market economy embedded in strong democratic institutions and what we currently have is not a theoretical nicety. It is the practical difference between an economy that serves people and one that serves capital instead.

Reading list

Post

Date

What it covers

[New glossary entry: markets]

21 February 2026

Defines markets as institutional systems requiring legal infrastructure, arguing they are mechanisms designed by society to serve society, not natural phenomena.

[There are no free markets]()

1 January 2026

Sets out in detail why all markets are state-created institutions dependent on law, currency, and regulation, and why deregulation tends to replace competition with monopoly.

[My View on … Business]()

17 September 2026

Distinguishes between business, the company as a legal form, the economic abstraction of the firm, markets, and capitalism, arguing these concepts are routinely and damagingly conflated.

[Understanding economics: What is business?]()

21 September 2026

Explains that business is organised human activity aimed at meeting needs, operating within markets but distinct from them; markets are the arena, business the activity.

[Economic myths: perfect competition]()

14 October 2025

Argues that the textbook model of perfect competition bears no resemblance to real markets, which are dominated by oligopolies and monopolies, and

examines the policy consequences of treating the model as a description.

[Economic myths: Supply and Demand Curves]

2 November 2025

Contends that supply and demand curves are teaching tools, not truths; examines how their misapplication leads to incorrect diagnoses of inflation and misguided interest rate policy.

[When Do Markets Break?]

11 May 2026

Identifies the conditions under which markets cease to function; argues that in conditions of genuine scarcity markets allocate by ability to pay rather than by need, requiring public intervention.

[Why monopolies are harmful]

30 April 2024

Examines how monopoly power enables exploitation of consumers, workers, and suppliers, and argues for a genuinely active competition commissioner with powers over prices and profits.

[Can the world afford the inefficiency of markets anymore?]

5 August 2023

Argues that competitive markets require structural inefficiency (excess capacity) to function; examines whether that necessary inefficiency remains affordable given resource constraints.

[Whichever way the issue is looked at, to suggest that markets are rational is wrong]

27 January 2024

Contends that financial market behaviour is irrational, disconnected from underlying economic reality, and that the assumption of rational actors on which market theory rests is demonstrably false.

[The mixed economy is vital – so why does no one talk about it?]

17 June 2025

Argues that markets require state partnership to function, cannot account for externalities, and that the post-1980 shift toward market-only solutions has caused repeated financial crises.

[Profit, purpose and society]

18 November 2025

Distinguishes profit that serves social purpose from the financial engineering of modern corporations; argues that markets depend on morality as much as mathematics and that capitalism requires moral foundations to survive.

[Capitalism]

8 March 2025

Distinguishes genuine entrepreneurship, which takes real risks and creates real value, from the rentierism and financial engineering that dominates contemporary capitalism.

[What if economic scarcity is a lie?]

28 July 2025

Challenges the foundational assumption of scarcity, arguing that most essential resources exist in sufficient quantities and that apparent scarcity is frequently manufactured by markets to maintain prices.

[Pie theory]()

6 August 2025

Critiques the claim that economic growth automatically benefits everyone; argues that growth without redistribution concentrates gains at the top and ignores both power structures and ecological limits.

Socialism and anti-socialism

23 November 2025

Argues that socialism uses markets strategically as tools rather than treating them as masters; positions markets as appropriate for non-essential goods while protecting life-critical services through public provision.

The differences between right wing, centre ground and non-market believing economists

27 September 2021

Categorises economic positions by their beliefs about whether market signals are accurate or inherently flawed; argues the evidence supports scepticism about market signals as guides to social priority.

Neoliberal economics is fiction

23 March 2026

Traces how neoclassical assumptions about rational actors and perfect competition were weaponised into political ideology, and why the resulting policy framework fails on its own terms.

A new economic narrative for the left

30 December 2022

Argues that financial markets no longer serve their original purpose of channelling savings into productive investment and sets out an alternative narrative based on directing capital toward social purposes.