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Suppose—just to limber up our minds—that we faced the fanciful task of designing a political system or a political/economic system that would be highly resistant to change. How to do it? One way that can be imagined—but only imagined—is to design institutions of such excellence as would satisfy us without further amendment and would do so under all possible circumstances in a rapidly changing world. To identify such a possibility is to discard it as hopelessly visionary. Another possibility might be somehow to place all power in the hands of a despot or oligarch, who would thereafter deny citizens any capacity for changing the system. But doing so would of course enable the elites to change the system, and we know that some elites are more eager for change than some masses.

Another possibility is simple and fiendishly clever. It is to design institutions so that any attempt to alter them automatically triggers punishment. By "automatic" I mean that the punishment follows from the very act intended to change the system. Punishment does not wait for anyone's deliberation on whether the change is acceptable or not. Such a change-repressing system would be all the more effective if the punishments were strong; if they took the form of over-responses, like the tantrums of a spoiled child raging at even mild attempts at parental control.

How fanciful is that possibility? It is not at all clear how such a simple concept could be made effective in actual practice. Consider some of our institutions. There seems to be no way to make such a mechanism work in the case of schools. We are indeed sometimes punished in our attempts to improve them in that the attempts sometimes fail and make the situation worse. But that is not a built-in feature of the school system or of our attempts to improve it. There may be no way, even if we sought one, to build in an automatic punishing recoil. The same seems to be true for labor unions. Unions possess a capacity for retaliatory punishment through strikes, but it is a weapon they must use sparingly. And it is a weapon rarely used to punish attempts of society to change the institutional role of unions but is instead largely an adjunct to bargaining over terms of employment for members. There appears to be no easily perceived possibility for automatically punishing ourselves every time we try to legislate on unions.

If we go down the line of social institutions, the possibilities for repressing change through an automatic punishing recoil appear to be either nonexistent or impossible to imagine. For the church, the family, or the various institutions of government, for example, unpunished change continues in fact from year to year even if, again, we may sometimes construe a failure in reform as a punishment. No method for guaranteeing automatic punishment is in evidence.

When we come, however, to that cluster of institutions called business, business enterprise, or the market, just such a mechanism is in fact already operating. Many kinds of market reform automatically trigger punishments in the form of unemployment or a sluggish economy. Do we want business to carry a larger share of the nation's tax burden? We must fear that such a reform will discourage business investment and curtail employment. Do we want business enterprises to reduce industrial pollution of air and water? Again we must bear the consequences of the costs to them of their doing so and the resultant declines in investment and employment. Would we like to consider even more fundamental changes in business and market—worker participation in management, for example, or public scrutiny of corporate decisions? We can hardly imagine putting such proposals as those on the legislative agenda so disturbing would they be to business morale and incentive.

In the town in which I live, a chemical plant discharges something into the atmosphere that carries both a bad odor and irritants to the eyes. Town and state governments are both reluctant to put an end to the problem for fear that the plant will find it advantageous to move to a new location in another state. Nationally, we have recently seen that a reinvigorated Federal Trade Commission has been crippled by new restrictive legislation and presidential instructions for fear that effective regulation of monopoly by the Commission will undercut business incentives to invest and provide jobs.

All this is familiar. One line of reform after another is blocked by prospective punishment. An enormous variety of reforms do in fact undercut business expectations of profitability and do therefore reduce employment. Higher business taxes reduce profitability. Bearing the costs of pollution control reduces profitability. Building safer automobiles reduces profitability. Countless reforms therefore are followed immediately—swiftly—by the punishment of unemployment.

Change is repressed, not wholly stopped. Businessmen sometimes learn to live with reforms. Sometimes also we escape the punishment because we attach to the reforms new offsetting benefits to business to keep up their incentives to provide jobs. To a growing number of environmental controls over business we attach new tax benefits or, as in the case of Chrysler, new loan guarantees. But the conflict between reform and its adverse effects on business that punish us through unemployment is a long standing and real repressant of change. As for the ubiquity of punishment, its swiftness and severity, there is nothing like it elsewhere in the social system. Nowhere else is there so effective a set of automatic punishments established as a barrier to social change.

Business people often exaggerate the conflict. Chrysler, for example, argued that its financial difficulties, for which it sought relief from government, were largely caused by environmental regulations, which is almost certainly not the case. And business people often predict dire consequences from regulations that they know they can accept if they must. Nevertheless, change in business and market institutions is drastically repressed by the frequency with which change will in actual fact produce unemployment. This is a familiar phenomenon as old as markets themselves.

Punishment is not dependent on conspiracy or intention to punish. If, anticipating new regulations, a businessman decides not to go through with a planned output expansion, he has in effect punished us without the intention of doing so. Simply minding one's own business is the formula for an extraordinary system for repressing change.

The mechanism that accounts for this extraordinary state of affairs is the same one that I referred to in *Politics and Markets* to explain the related phenomenon of the privileged position of business in the political system of all market-oriented societies. In all market-oriented societies, the great organizing and coordinating tasks are placed in the hands of two groups of responsible persons, functionaries, or leaders. One group consists of government officials at sufficiently high levels. The other group consists of business people. The tasks assigned to business people are of no less importance than those assigned to government officials. To business people is assigned the organizing of the nation's work force, and that task in itself is perhaps the largest and most basic specific problem in social organization faced by any society. Businessmen direct capital accumulation, income distribution, and resource conservation, as well as discharge more particular tasks such as organizing the production of steel, bicycles, armaments, pots and pans, and housing. Businessmen also undertake specific coordinating tasks as, for example, the bringing of farm products to urban consumers.

The defining difference between a government official and a business entrepreneur is not that one discharges important functions and the other only secondary functions, for both perform major and essential services for society. The difference is that one is directed and controlled through a system of commands while the other is directed and controlled by a system of inducements. Why societies use both systems of direction and control is a long story that we shall not undertake. But a market society is one that makes heavy use of an inducement system for directing and controlling many of its major leaders. Market systems are inducement systems. Put out of your minds the question of whether or not societies ought to use inducement systems for controlling and directing top leadership. The fact is that some do, and that is what market systems are.

Playing their roles in a command system, government officials can be commanded to perform their functions. Playing their roles in an inducement system, business people cannot be commanded but must be induced. Thus inducement becomes the nub of the automatic punishment system. Any change in their position that they do not like is a disincentive, an anti-inducement, leading them not to perform their function or to perform it with less vigor. Any change or reform they do not like brings to all of us the punishment of unemployment or a sluggish economy.

Again, the system works that way not because business people conspire or plan to punish us, but simply because many kinds of institutional changes are of a character they do not like and consequently reduce the inducements we count on to motivate them to provide jobs and perform their other functions.

The result is that across the entire array of institutional changes that businessmen themselves do not like, an automatic punishing recoil works to repress change. In that broad category, change—and often even the suggestion of change—adversely affects performance, hence adversely affects employment. Anticipations of change are enough to trigger unemployment.

Children may sulk when they do not like the way they are being treated. Professors may grumble. Workers may slow their work. But their responses differ from the responses of dissatisfied businessmen in a critical way. The dissatisfactions of these other groups do not result in disincentives and reduced performance that impose a broad, severe and obvious penalty throughout the society, which is what unemployment does. A generalized gradual slowdown of workers, if it were to occur, would ordinarily be neither measurable nor observable. Any general business slowdown is measurable and hurtful in jobs lost, and almost everyone is aware of it. A specific localized work slowdown or stoppage—say, a decision of trainmen to work by the rule-book so assiduously as to paralyze rail traffic—can be a felt injury to millions of people. But it is a tactic that can only now and then be mobilized. Instead, the penalty of unemployment is visited on us by business disincentives in any situation in which business people see themselves adversely affected, because business people are major organizers and coordinators.

Business people do not have to debate whether or not to impose the penalty. They need do no more—as I said before—than tend to their own businesses, which means that, without thought of effecting a punishment on us, they restrict investment and jobs simply in the course of being prudent managers of their enterprises.

Do I need to point out how broadly business disincentives injure a population? The unemployed suffer—that is obvious. So also do young prospective entrants into the labor force, who find that they cannot obtain jobs when business is slack. So also do businessmen themselves, large and small, as production is reduced. So also do stockholders, whose earnings decline. So also do farmers—businessmen themselves—who find markets for their outputs depressed.

What about government officials? It is critical to the efficacy of automatic punishment that it be visited on them. For it is they who immediately or proximately decide to persist in policy changes or to withdraw from such initiatives. The penalty visited on them by business disincentives caused by proposed policies is that declining business activity is a threat to the party and the officials in power. When a decline in prosperity and employment is brought about by decisions of corporate and other business executives, it is not they but government officials who consequently are retired from their offices.

That result, then, is why the market might be characterized as a prison. For a broad category of political/economic affairs, it imprisons policy making, and imprisons our attempts to improve the social world because it afflicts us with sluggish economic performance and unemployment simply because we begin to debate or undertake reform.

In his *Great Transformation*, Karl Polanyi makes the point that early English experience with policy designed to soften the harshness of the market system in eighteenth-century England demonstrated how easily regulation of the market could derange the economy. But he did not go so far as to argue that market systems imprison or cripple the policy-making process and indeed thought that more intelligent policy making could succeed where earlier attempts failed. I am arguing that the crippling of policy making in a market society may be more serious than he thought.

You may be tempted to believe that the real obstacle to social change is—as we often carelessly assert—a kind of social inertia or a tendency of societies to remain as they are. But it is not at all clear that inertia of that kind exists in the social world. Many people constantly try to change the social world. An explanation of their failure more plausible than that of inertia is to be found in the great number of other people who are vigorously trying to frustrate social change. My

analysis points to a social mechanism that frustrates it. It is a highly selective mechanism, you should note, that permits change of some kinds and imposes powerful obstacles to other kinds.

Clearly, if we look at different areas of social life, ease of change varies greatly from area to area. In recent years we have seen large changes in sexual mores, for example, as well, of course, as multiple changes pressed on us by technological development. In political/economic life, society all over the world has gone through or is now going through one of the world's greatest social revolutions—the organization of almost every form of social cooperation through formal organization, especially bureaucratic organization. The bureaucratic revolution is enough to testify to the capacity of society for political and economic change. It is all the more impressive that there exists a mechanism of automatic punishing recoil that successfully retards or represses change in other aspects of political and economic life.

In just what aspects of political/economic life that mechanism operates I have not yet said, except to note that the included aspects are all those in which businessmen—or any large or critical number of them—see change as hurtful to their own prospects. You can fill in what those aspects are. They include institutions and policies that protect the decision-making authority of businessmen in their own businesses, and the customary prerogatives of management, including rights to self recruitment into corporate elites. They include policies that maintain the existing distribution of income and wealth, along with institutions and policies that hold the labor movement in check. The efficacy of the recoil mechanism is evidenced by the continuing historical failure of equalitarian aspirations to achieve a significant change in the distribution of wealth and income among social strata, and by the continuing autonomy of corporate management in a world in which increasing numbers of thoughtful people are arguing, on environmental and other grounds, that no group of leaders can be allowed to exercise so autonomous a control over our lives. A new study of corporate power by Herman opens our eyes to the extent in which business autonomy has been sustained despite decades of apparent growth in the regulation of it.

It is also the case that insofar as policy has successfully pushed into areas of which business people disapprove, it has often had to be offset by new benefits or supports to business. When that happens, policy is imprisoned not in the sense that it cannot break out of its confinement but in the sense that to release it we must pay ransom. Where there are prisons, however, there are also jailbreaks. Again, therefore, I do not argue that the market is escape-proof.

The imprisoning of institutions and policy making in market-oriented society is, I think, ordinarily brushed aside as an embarrassing feature of ostensibly democratic systems. We are not comfortable in acknowledging that popular control is crippled in these systems by an automatic punishing recoil. In the U.S. today, however, in the Reagan administration we now hear remarkably candid acknowledgments that we must learn to be happy in our prison. The new administration tells us boldly and badly that we cannot have growth, cannot have price stability, and cannot have full employment unless we stop undermining business incentives. Hence, they have told us that we cannot have an effective Federal Trade Commission, its recent energy having harmed business. Nor can we persist in recent programs of automobile safety, which must now be relaxed. Nor can we protect the landscape against strip mines. One after another of our recent reforms are being curtailed so far as the administration can achieve the result, on the grounds that our economic system—the market system—does not allow such reforms if we are to enjoy prosperity. We cannot even hold to a policy of human rights abroad. As David Rockefeller early announced and members of the Reagan administration have repeated since, our policy of protecting human rights abroad has to be subordinated to our needs for foreign markets, with which it has been an interference.

The Reagan administration is trying to make the automatic recoil mechanism even more obstructive to social change than it need be. But I credit the administration with understanding that such a mechanism exists in any market system. They are right in appreciating that policy making is imprisoned, even without their efforts to build the walls higher.

Finally, take note that my argument is that policy is imprisoned in market-oriented systems, which is a broader generalization than if I had said that it is imprisoned in private enterprise systems. The feature of market systems that is at the core of the recoil mechanism is the inducement system that we use to motivate one great category of organizers and coordinators to

do their work. If we were to operate a market system composed exclusively of government owned and operated market enterprises, the recoil mechanism would still operate. The inducements necessary to get the required performance out of public managers might be fewer or less; hence the problem of automatic punishing recoil might be reduced. But it would not be eliminated unless we abandoned the inducement system in favor of a command system, thus removing the socialized enterprise from a market system of inducements.

One of the causes, I believe, of Soviet abandonment of their attempts in the 1960s to introduce more market elements into the Soviet economy is that their earliest moves were abruptly perceived as requiring top political leadership to sit on its hands, that is, not to interfere with market stimulated managerial decisions. At least dimly, they perceived that the growth of the market implied constrictions on their own ability to make policy. They, top Soviet authorities, would be imprisoned by their commitment to the market.

Some of you will hear my remarks today as constituting an argument for getting rid of the market system so that policy can escape from its prison. But that would be putting words in my mouth. I do believe that the fact that the market system imprisons policy through an automatic punishing recoil is a serious disadvantage of market systems. I would not want to deprecate, minimize, or obscure that inference. We pay a big price for the use of a market system. But whether the market ought to be maintained or abandoned calls for a weighing of its advantages and disadvantages. And that task I am not undertaking today.

In any case, the relation between democracy and market is more complex than we hear it to be from classical liberals like Hayek and Friedman. No democratic nation state has ever arisen anywhere in the world except in conjunction with a market system—surely a historical fact of enormous importance. But, according to my argument today, no market society can achieve a fully developed democracy because the market imprisons the policy-making process. We may be caught in a vise. For minimal democracy, we require a market system. For fuller democracy, we require its elimination. But its elimination might pose more obstacles to a fuller democracy than does its continuing imprisoning of policy making. It may therefore be that a fuller democracy is never to be ours. Or, if it can be achieved, it will come only when we discover how to provide, without a market system, those minimal supports for democracy which, so far in history, only market systems have provided. Our dilemma or difficulties are extraordinary—and are not clarified for us by the current state either of market theory or democratic theory.

For Americans and many Western Europeans the market is a prison in another sense as well. Both as an institution and as an intellectual concept, it seems to have imprisoned our thinking about politics and economics.

For me, an early and memorable demonstration of imprisoned thought was many of the reviews of *Unions and Capitalism*, a book based on my doctoral dissertation and published in 1949. In it I had argued that certain incompatibilities between two major institutions of our society—collective bargaining, on one hand, and the market system, on the other—would in the future produce serious problems, including simultaneous unemployment and inflation. Not knowing what to do about the problem, I simply offered a diagnosis without a remedial prescription, naively assuming that the diagnosis implied that something had to give either on the side of collective bargaining or on the side of the market system. Almost all reviewers, however, simply took it for granted that my purpose was to make a case against collective bargaining or a case for its restriction. At least conventional academic reviewers seemed unable to contemplate the possibility that a conflict between two institutions raised questions about both of them and, *a priori*, no more about the one than the other.

Having been sensitized by that early experience, I have noted ever since that the standard formulation of one of our economic problems is that union pressure on wages causes inflation or restriction of job opportunities in the immediately affected industrial firm. *Given* a market system, that is probably true. But let me suggest the other possible formulation: given the inevitable and understandable desire of workers to increase their share of national income, a market system will produce inflation or unemployment. The second proposition is no less true than the first. The limited capacity of our thinking is revealed in our commitment in habit of mind to the first

proposition to the neglect of the second. We have come to think not of human need and aspiration but of the market system as the fixed element in the light of which we think about policy. We find it difficult to think of the market as the variable.

Much of our thinking in other policy areas is similarly imprisoned, as, for example, our thinking on environmental protection. That policy made in Congress and in the White House sacrifices environmental protection to the needs of market enterprises is one thing. That those academics and other scholars, analysts, and critics who are trying to think constructively about the options open to us often themselves cannot see the market as a variable but treat it as the fixed element around which policy must be fashioned is another thing. The latter is what I mean by imprisoned thought.

A more striking example is the state of thinking about television. One of the great shapers of contemporary culture and politics is commercial broadcasting, especially television. You have all heard what once would have been thought of as astonishing figures on the number of hours adults and children spend watching and hearing what commercial advertisers and their clients decide we will see and hear. That in the United States we have permitted or chosen a broadcasting system that confers such authority on people whose motives are to sell something to us; that we accept frequent urgent interruptions in almost all programs so that we can be exhorted to buy; that we must also hear a steady diet of praise for the corporate institutions that exhort us to buy; that we grant without charge broadcasting rights to those fortunate enough to gain the enormously profitable broadcast licenses; and that we do not even ask in exchange for significant use of broadcast time for educational purposes—all these features of American broadcasting are as plausible evidences of insanity as they are of intelligence in public policy.

For a wealthy society that can afford any of a variety of superior systems—and for a society that in any case pays all the costs of the present system—one might think that political scientists and other analysts would attend to the merits and demerits of commercial broadcasting, that so critical a shaper of politics and culture would be on the agenda for spirited debate. It is not. Our thought is imprisoned. We cannot venture intellectually—a few exceptions aside—beyond what seems normal and natural. We uncritically accept what the market provides. For American social science it is a scandal that it remains silent on so great an issue. And—to make the point precisely—it is not that commercial television is unacceptable. That is not the point. The point is that whether it is or not is a great issue on which we are incapable of thought, so imprisoned are our minds.

You will note that I am saying—and here I make it explicit—that the prison is strong enough to incarcerate not only popular thought but professional thinking in the social sciences. Further evidence lies in the controversy over pluralism in the last fifteen or so years. Dominant pluralist thought in American political science describes all policy making as a result of vectors, each vector often consisting of the influence of some group. All groups who wish to be admitted are, according to pluralist thought, admitted to the process. The attack on pluralist thought that eventually emerged argued—successfully, I think—that in some policy areas or for certain kinds of policy issues the pluralist competition of groups did not work and that class influences, traditional biases in the political culture, or processes called "mobilization of bias" made certain policy positions dominant and others impossible to advance. But on the whole these critics missed the phenomenon I am describing—the extent to which policy making has to be and is constrained by the peculiar characteristics of an inducement system in a market system. Pluralism at most operates only in an unimprisoned zone of policy making. Hence the continuing debate on pluralism, although it has greatly improved our understanding of politics, is still significantly constrained or imprisoned.

Even today, interest-group theory for the most part treats business interests as symmetrical with labor and other interests bearing on policy making. It has not yet generally recognized that business interests occupy a special place in imprisoned policy making.

More indirectly the market has taken hold of our thinking in social science in ways that cripple us, though a more complete account of what has happened to us would have to acknowledge the influence of professional economics as itself a major influence. For example, in regarding the

market system as a piece of social machinery for organizing the nation's resources in response to individual wants expressed through purchases, economists have drifted into an ethics of preference. Insofar as possible, all ethical issues are settled by reference to individual preferences taken as given. Is X good or is X bad? All depends on the patterns of individual preferences.

Impressed both by the market as an institution and by the tidiness of economists' interpretation of it, many political scientists have adopted the ethic of preferences taken as given. Is this policy a good one? It depends on the patterns of individual political preferences, whatever they are. Is democracy a good thing? Yes, because it is a system for letting individual preferences, whatever they are, govern policy making. Democracy is a political market. Or as Schumpeter, who is a major source of this current of thought, put it: democracy is competitive politics.

What is wrong in this version of democracy as a market-like process in which individual preferences ideally prevail, as in an ideal market, is that the powerful and all-pervasive effect of politics on the formation of preferences is ignored. From at least Mill on to just before Schumpeter, so massive and persistent a process of preference formation as is constituted by the political system itself was never ignored. In allowing the market to dominate our political thought since then, we have simplified our political theories, with some gains in clarity. But we have impoverished our thought by imprisoning it in an unsatisfactory model of preferences taken as given.

My main point, however, has been that market systems imprison policy. Those of us who live in those market-oriented systems that are called liberal democratic exercise significantly less control over policy than we have thought. And we are also less free than we may have thought. Such are the inevitable consequences of imprisonment. That our thinking is itself imprisoned is a separate phenomenon of importance. Given, however, the complexity of human thought and the impossibility of disentangling its sources, the second phenomenon cannot be so confidently argued as the first.

Again, I would like to leave a caution about inferences. What I have described constitutes serious disadvantages in making use of a market system. But the case for and against markets is extraordinarily complex, and my analysis is a long way from a case either for or against. It is also a long way from an answer to any question about what is to be done if the problems posed by my analysis are accepted as significant ones.