

There are no bills left on the sidewalk?

J. Atsu Amegashie

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There is a school of thought in economics that believes that any market equilibrium must be efficient because if it were not efficient, rational and forward-looking, utility-maximizing agents would have found their way to an efficient outcome. In this world, all mutually beneficial gains from trade are necessarily exhausted. There cannot be bills left on the sidewalk.

This school of thought associated with the Chicago school, led by Nobel Laureates Milton Friedman and George Stigler, argues that there is no room for government intervention or policy. Words like 'deadweight losses' and 'inefficiency' are either meaningless or do not exist in his world. If one were to claim that a system was inefficient, the swift counter response from this school of thought would be "relative to what?" or "if there is a better equilibrium, why aren't we there?"

That there can be no bills on the sidewalk and therefore all equilibrium behavior is efficient is based on a view of the world that holds tastes, preferences, costs of mobilizing people to change the system fixed: *de Gustibus Non Est Disputandum*. But when people preach for change - be they pastors, politicians, academics, the media, social activists etc - about better outcomes than equilibrium outcomes, they are preaching to get people to change their preferences (even 'equilibrium' interest rates depend on peoples' rates of time preference), get people to vote for their cause in elections (i.e., reducing the cost of political mobilization), etc.

So statements like an *equilibrium is not efficient* need not be vacuous or be judged relative to an existing, immutable cost of attaining an alternative equilibrium. That statement *per se* (i.e., the equilibrium is inefficient) can change the costs of attaining the alternative and maybe that's precisely why people debate. The fact that people debate and express dissatisfaction at, what is supposedly, an equilibrium state of affairs is an indication that for such people, there are bills left on the sidewalk. At the end of the day, the side that is savvy and plays on the ignorance or lack thereof of the electorate will win in a democracy or whatever the political arrangement is in a particular social situation.

So the next time a neoclassical economist trained in the tradition of the "Chicago school" tells you that you cannot say that an equilibrium is inefficient, tell him or her that your statement in and of itself is a step towards changing the cost of attaining an alternative equilibrium. And that alternative equilibrium need not be utopian. Some of the great socio-economic changes in the world began when people began to question the status quo.