



Insight

Invisible Hand, Visible Conflicts

DOUGLAS HOLTZ-EAKIN | OCTOBER 27, 2010

As a lifelong sports fan, I find it hard not to dread the fallout from the contretemps between NewsCorp and Cablevision. I mean, the notion of not being able to see the Major League Baseball playoffs makes my knees weak.

But as a policy analyst and economist, I find it to be a teachable moment. Too often, economists portray markets as automatic, effortless, and smooth. Rising incomes, demographic shifts, or quality improvements raise demand for a product, prices rise, and production shifts toward what society values. In theory, Adam Smith's famed invisible hand coordinates the activities of millions of economic actors, marshaling supplies across distribution networks, incentivizing production, and coordinating distribution — with the result that citizens' tastes drive economic activity.

That's a nice theory, and it explains the ability of private markets to meet pressing social needs. But in reality, somebody raises prices, somebody cancels his contract and shifts to a better product, somebody decides how much to charge for key inputs to valued services, and — to the point — somebody might have to hash it out with his counterparty to make sure that the right prices get established. It might be an invisible hand, but it guides a very visible process that unfolds in our daily economic lives.

The difference between theory and practice becomes dangerous when policymakers decide, based on the belief that economic processes must always run quietly and smoothly, that they have to intervene in every private dispute. That is a recipe for disaster.

I have no idea who is “right” between NewsCorp and Cablevision. I probably don't even understand the full scope of the disagreement. But I do know that as a private-sector dispute, it is part and parcel of the operation of efficient markets, and this country needs more efficient private-sector markets and less government intervention.

Sit back and enjoy the fight. Might be better than the game.

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