

Information, Efficiency and Scale

Central planning is superior to free markets if the central planner has perfect information, and acts in good faith. Free markets are better when information is imperfect. When information is localized by a factor or location, decentralized groups can process information more effectively. These groups, can be regarded as centrally planned cells within a neighborhood in which information is close to perfect. They are then able to optimize locally and then interact with the rest of the system on the basis of the price mechanism.

In reality we do not have a free market system. What we have are mostly centrally planned firms which interact with the economy on a market based system.

The rise of mega sized corporations is a manifestation of better information. For a given quantity and quality of information, there is an optimal firm size. Any firm which grows beyond this size is at risk of failure.

Entire economies may attain a certain level of information quantity and quality that makes central planning superior to decentralised market based organisation.