# An Enquiry into the Ideology and Reality of Market and Market System

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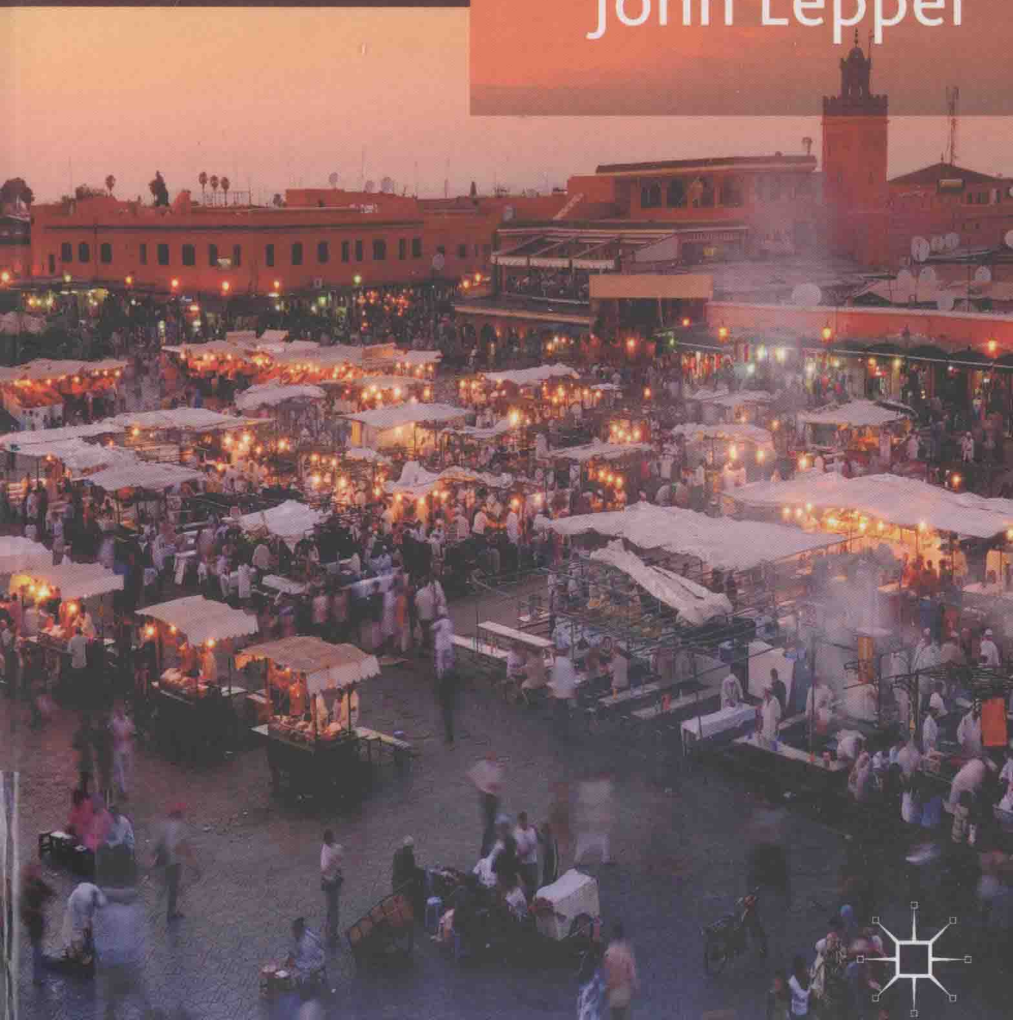

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John Lepper
*Visiting Research Fellow, Institute of Advanced Studies, Lancaster University*



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# Preface

One evening some years ago, our son Ben asked me to list the things you really have to know about economics. After several unsuccessful attempts I came to the conclusion that the answer was to be found in how markets are formed and how they work. As I explored texts for intelligence about these matters it became plain that market was only vaguely understood. It was also a Trojan horse by which all manner of theories and beliefs had been injected into economics without economists' knowledge. Ben could not be answered until market had been dissected. I was in the midst of the analysis when our daughter, Hester, insisted that I write down my conclusions.

This book is the result. It is not a step-by-step account or guide book. It reports the highlights of a journey which took many years and drew on many experiences. It does not include the blind alleys in which I became lost or many of the sunny uplands in which I loitered. I have tried merely to report the main ideas that I came across. My lack of space means that many of the connections with other disciplines that I have noticed are left aside. My lack of time and resources means that I have not tested the central ideas of the book.

I propose that market the concept (which I label Market) be separated from market the actuality (which I label mercantifer). Valid statements about Market are not necessarily also valid statements about mercantifer. I propose that the outcomes of mercantifers are the resultants of three interrelated dynamic processes: pseudo-arbitrage, pseudo-fairness and pseudo-development. These forces are unrelated to preferences and rational action. I finally propose that mercantifers are made and maintained.

Mercantifer theory solves some of the well known difficulties that attend the application of Market to economies. Along the way, I explain variations in mercantifer prices, types of mercantifer and the relationship between money and mercantifer.

I thank Dr Petrus Simons for the many illuminating conversations about these matters over many years of fruitful intellectual endeavour and Professor Corinne May-Chahal for making it possible to write this book.

Professor John Burton has been of inestimable help. He has read drafts, entertained my stumbling attempts at explanation, made

numerous perceptive comments and suggestions and encouraged me at every turn to complete this enterprise. Without his generosity and kindness I doubt this work would ever have been completed. Thanks and acknowledgement is such a pitiful recognition for so major and constant a contribution.

I finally testify to Phillida Bunkle's immediate help and support. My inadequate attempts to render her good sense, sharp insight and perceptive interpretation litter these pages in ways far too numerous to catalogue. This is not her book, but it is one she has inspired at every turn. Any humanity and vitality it has is due to her.

Pimlico, SW1.
March 2011

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# Introduction

Is there life without markets? In many cultures, this question appears nonsensical. Markets have existed for hundreds, even thousands, of years.[1] Gibbon described the auction of the Roman Empire upon the assassination of Pertinax in 193 AD (Gibbon, 1776/1983, I: 113ff). Braudel (1982: 27–28) believes that markets and market systems with fluctuating prices existed in embryo in Europe by the 12th century. The Silk Road was not so much a highway as a necklace of connected markets through which goods entered and left China in medieval times (Wood, 2002). Many markets in the USA date from the earliest years of colonisation (Pyle, 1971). In the 1720s, Daniel Defoe listed over 40 marketplaces for different products in central London alone (Defoe, 1724–1726/1991/2006: 184–189).

During the latest quarter millennium, markets have spread so widely that, in the last 50 years, market events have been daily pressed upon everyone's attention; failures to perform the most elementary acts of charity or civic responsibility are excused because they run counter to market mechanisms; children are carefully educated to acquire marketable skills. Societies are under the sway of a new godhead: the Spirit of Market Ascendant.

Unfortunately, preoccupation with the economics and finance of markets draws attention away from the crucial place that they hold in the philosophical foundations of modern culture. No sooner were philosophers attracted to the idea that human-kind is the pinnacle of creation than they were repelled by the spectre of the social havoc that could result if each person followed her own selfish interests (More, 1516/2006). In the 17th century, Hobbes wrote that the life of man lived selfishly was inherently solitary, poor, nasty, brutish and short (Hobbes, 1651/1967). Sovereigns, Hobbes argued, were required to expel chaos and, through the rule of law, beneficently granted and administered, ensure peaceable enjoyment of individual property. Locke's (1690/2005) approach invoked self-control to bring individual liberty into conformity with social stability. In his ideal world, people consent to give up their powers over others in favour of the rule of law, and monarchs exercise prerogatives but only if not opposed by their subjects. In the world of 17th- and early 18th-century philosophers, therefore, liberty was shackled.[2] Unsurprisingly, Rousseau wrote in 1762 that "Man is born free, and everywhere he is in chains." (Rousseau, 1762/2009: 41).

The spontaneous organisation of society dispels this paradox. Society organising itself coherently as persons[3] go about their lives means that people can be at liberty, yet no centralised power is necessary to prevent chaos and disorder. Spontaneous organisation strengthens the argument that selfishness is the most socially responsible basis for action. It is even possible to assert that unless people are at liberty, the inevitable result is unfairness, chaos or autocracy. By 1776, Smith was able to assert that a person pursuing self interest through exchange in a market system is "... led by an invisible hand to promote an end which was no part of his intention." (Smith, 1776/2000: 485).

The unintended result of self interest is harmonious market outcomes. No one designs order and no power need enforce it.

Smith's statement rested on half a century of scholarship. Since the mid-18th century, the organ of spontaneous social organisation had been the market or market system.[4] The idea that markets meant spontaneous organisation first took root around 1730. Then, Cantillon argued that entrepreneurs, seeking profit, brought stability to market chaos by "proportioning" themselves to their customers because they made sure that customers were neither over- nor under-supplied with a particular commodity (Meek, 1973: 18). Quesnay, in his *Tableau Economique*, showed that the exchange of goods took place within systems of relationships (Quesnay, 1764/2004) and Turgot[5] explained how market exchange was mediated by price and let to peaceable agreement between opposing interests. Finally, in 1781, Isnard provided an account of a machine-like self-regulating system of markets in which price mediated between the forces of supply and demand. Although, Isnard did not seriously explore the foundations of demand and supply relationships (Robinson, 1980; van den Berg, 2006), he did provide an arithmetic of markets which deeply influenced later thinkers like Jevons and Walras.

The ideas also influenced philosophy. Through them, society and the markets it hosted could be regarded as machine-like systems yielding stable social outcomes. Such a society could be seen as virtuous when compared with others based on force or despotism. Most who accepted the properties of markets as a verity were not apparently privy to the technical discussion upon which they were founded. It was enough, perhaps, to trust that the danger of chaos following from individual action was small compared with the virtue that would accrue if everyone were to bring their actions, and the institutions by which they lived, into harmony with the natural order (Becker, 1932/2003: 65). The late 18th, the whole of the 19th and the first half of the 20th centuries were pregnant with the promise that society and the physical world were equally susceptible to first (i.e. Newtonian) principles and thereby could be made to conform to the uses of men (Becker, 1932/2003: 60). Indeed, as the 18th century drew on, the belief took hold that it was possible to re-shape social institutions to improve the lot of everyman (Becker, 1932/2003: 138).

By removing the threat of chaos that might otherwise attend independently conceived and executed action, markets indirectly allowed "Rights of Man" and the Declaration of Independence to underpin action and decision. It prepared the way for the French Revolution and its successors. Its development removed the main theoretical, although not the political, impediment to the exercise of public will through public institutions. It assisted the opposition to slavery. It could be argued that it inspired Malthus and, through him, Darwin. Markets have become a cornerstone of modern social sensibilities and have played a central role in the history of social and political thought in Western, and increasingly in other, societies since 1750.

The influence of markets has not been without qualification and debate during this time. As early as the middle of the 19th century, two arguments emerged which suggested that markets were neither as universal in scope nor as generally beneficent in effect as first thought. On the one hand, socialist, anarchist and syndicalist thinkers, including Marx and his fellow workers, argued that Market may release social, cultural and political forces which fundamentally alter its nature in the long run.[6] On the other, classical economists identified many circumstances in which the unconstrained working of markets did not lead to beneficial outcomes.[7] It is unnecessary to explore the extent to which radical analyses of markets provide a workable theory of capitalist accumulation or to question whether the exceptions pointed out by classical economists are any more than politically determined merit goods.[8] However, it is important to recall that both types of limitation are liberally employed by parties to social and political discourse to this day. The statement that markets do not yield the best possible outcomes in all circumstances gives the misleading impression that economists have a clear understanding of when and where markets do and do not work as expected. It also suggests that such instances are unusual and that normally markets can be relied upon to function optimally. Market adorned with qualifying examples of practical application ceases to appear as an austere concept. Such qualifications have, therefore, added to the importance accorded to market theory in social and political thought and to the trust which decision-makers place in its conclusions. But it is often forgotten that, although carefully described in everyday terms, examples of limits to the potential scope of markets are not usually derived from empirical investigation but rather are the result of logic. Hence, much of the social and political discourse made possible by market is conducted in abstract terms and without the benefit of factual analysis.

Braudel (1982: 26) asked: "...who would think of minimizing the role of the *market*?" He went on to write that:

> The market spells liberation, openness, access to another world. It means coming up for air. Men's activities, the surpluses they exchange, gradually pass through the narrow channel to the other world with as much difficulty at first as the camel of the scriptures passing through the eye of a needle. Then the breaches grow wider and more frequent, as society finally becomes a "generalized market society". Finally: that is to say with the passage of time, and never at the same date or in the same way in different regions. (Braudel, 1982: 26).

The market transforms the range of opportunities encountered by people. By it, the boundaries of feudal or despotic imagination are transcended. In practice, once a market is created there is no going back to the narrow confines of regionalism and self-sufficiency.[9] Many, like Braudel, observe that the spread and amalgamation of markets was influential in the demise of feudalism, the growth of towns and cities and the creation of new political interests and power structures. So marked is the philosophical and cultural significance of the market concept that it has largely framed discussion of social affairs over the past 250 years.

Markets form the institutional foundation upon which all schools of economics are built. Classical, Marxist, historical, neo-classical, Austrian, evolutionary and institutional economists each presumes the existence of market and market mechanisms in one guise or another. This statement is also true of many aspects of history, sociology, geography and anthropology.

Yet, despite, or perhaps because of, market's wide acceptance, it has rarely been explored as a phenomenon or concept in its own right. Among the many economists who have used the idea of markets in their writings, for example, only Auguste Cournot, Alfred Marshall, Joan Robinson and Douglas Vickers have asked questions about the theoretical and empirical basis of markets. Little of the rigour sought by these thinkers has permeated economic thought or the philosophy, sociology and politics associated with it. Markets are taken for granted by economists although much less so by sociologists, anthropologists and geographers.

The term "market" has many common usages. Consider the following:

- A market of ideas;
- The marriage market;
- The labour market;
- Money markets; and
- The car market.

A market of ideas is not a market but a competition for acceptance between alternative ideas. A marriage market may or may not exist but use of the term implies that participants act upon motives other than mutual affection. Labour market is a conceptual device used to categorise influences on wages and employment such as government policy, employee demands, investment and exchange rate movements. Markets for the sale and purchase of money lie at the centre of many financial systems and are used by financial institutions to fund their day-to-day operations. The car market is populated by those who would sell cars and their ancillary goods and services to those who would potentially buy them. These usages are differentiated by degree of conceptualisation, by ethical connotations, by rhetorical intention and by metaphorical meaning.

When the term "market" is taken for granted, its many possible usages may cause confusion to the unwary. Many have already argued that the meaning of the term "market" is often imprecise. As an example of how accuracy of exposition is compromised by lack of clarity in the meaning of "market", here is a paragraph from a recent (2008) book, with many excellent qualities, by George Cooper on the recent history of global financial markets. Cooper argued:

> If one subscribes to the Efficient Market Hypothesis and also happens to be cursed by intellectual rigour, the unavoidable conclusion is that central banks should be abolished. If markets are self-optimising, then free market forces should be allowed to set interest rates. Banks should be permitted to lend and borrow on whatever terms they deem appropriate, guided only by the market forces of the supply and demand for capital. (Cooper, 2008: 32).

In the course of three sentences Cooper uses the term "market" in four distinct ways. In order, they are:

- Efficient Market Hypothesis: a type of argument in economic theory;
- Markets: markets encountered in reality;
- Free market forces: a generalised basis for action which can be applied to all actual markets; and
- Market forces of the supply and demand for capital: a highly refined abstraction of financial markets.[10]

Cooper also uses these four distinct but overlapping meanings of "market" interchangeably. There is no distinction between "market" the concept and "market" the institution. Yet there is no attempt to investigate whether or not "market" the concept is an appropriate abstraction from "market" the reality.

Lack of precision in the use of the term "market" allows parties to the debate to sidle between the worlds of reality, concepts and ideals without hindrance or permission, notice or reason. Fact and theory are often inextricable interwoven in arguments about public affairs, leading directly to dual dangers. Fact is often paraded as theory so that instances are accorded an undeserved or unproven general applicability. Theory is also presented as fact and the facetious assertion that decision-takers never let a fact get in the way of good theory is all too often true in practice.[11]

The term "market" is enigmatic and conveys many meanings. Each meaning is associated with multiple cultural and economic connotations and each connotation is enlivened by different experiences and aspirations. Depending on context it may refer to a local market place or market time in a street or car park or to national or international markets for foreign exchange, financial securities or money or to a virtual system of exchange on the internet. It may be used to mean a generalised notion of economic activities like a labour market and may even refer to competition between people or ideas. It is far from certain that parties to a particular use of the term share the same understanding of it and it is often clear that not everyone in receipt of the term has a similar understanding of each of these meanings.

There is, moreover, no explanation of why markets exist and change. There are historical and anthropological studies which have described the history of individual markets. Fascinating though they are, none has so far managed to identify the conditions which must be satisfied for a market to come into being. Moreover, no study has examined the extent to which these conditions existed in the case at hand. Even monumental works, like those of Braudel, rely upon quite general tendencies or possibilities to explain the emergence of markets. Thus, while the existence of markets is essential to much social science and political decision-making, few, if any, have ever questioned whether market institutions actually function as market theory supposes.

Finally, many of the valued properties of markets, such as the operation of the price mechanism, arise not so much in individual markets but rather in market systems. Only in market systems, for example, is it possible for a price mechanism to lead to optimal allocations of resources between competing demands. However, the formation, maintenance and development of systems of markets has yet to be explained. They are generally assumed to exist for the purposes of argument and analysis. Rarely are the limits of market systems identified. Few draw boundaries beyond which arguments based upon the existence of market systems cease to apply.

So unquestioned is market the concept that students of economics are introduced to simplified versions of Marshall's corn market at an early stage of their instruction (Lipsey and Chrystal, 2007; McDowell et al., 2009), with little or no attempt to adapt these notions according to the results of new research. Such is the footing of their later economic education. The notion of market remains hidden, implicit and unexplored, like the decaying sewers of an ancient civilisation which lie unsuspected beneath the foundations of a modern town. Is it any wonder that Lie (1997: 342) stated that markets were the hollow core at the heart of economics?

This book attempts to clarify the nature of market by trying to answer three questions. They are:

- What does the concept of market mean?
- How are markets formed, maintained and developed?
- How are market systems formed?

In common usage, market the concept is regarded as real so market reality works like conceptual markets. However, such a usage is inconsistent with the task of discovering whether or not markets are indeed an accurate representation of reality. Proper exploration of this question means that it is not possible to presume that market the concept always bears a close relationship with market the phenomenon. This means that market phenomenon must be separated from market concept. For the purposes of this analysis only, two terms are employed: Market for the concept and mercantifer for the phenomenon.

Market, invariably capitalised, means the theoretical concept analysed by economists, sociologists and anthropologists. It consists of the forces of demand for and supply of a commodity brought into convergence by the mediation of price. We adopt the convention, introduced by Carrier, to spell the concept with a capital (Carrier, 1997b) and to eschew the use of the definite or indefinite article in connection with it. In the following, when the term Market is encountered it refers to the concept which will be defined later.

We use the term "mercantifer" to refer to the social structures by which trade and exchange actually take place. Mercantifer is taken from Latin: *mercato*, to trade, and *ferre*, to convey. A mercantifer is a social structure which facilitates the distribution of things, ideas and actions[12] through society, albeit usually confined to trading and exchange. We shall not offer a precise definition until much later. For the time being, we shall use mercantifer as a collective noun to refer to the market places and market times described by geographers and historians, the securities markets analysed by sociologists and economists, the multitude of exchange systems identified by anthropologists and the myriad structures and ideas that fall under the heading of "market" in common parlance.[13]

This book examines concepts which are taken for granted, considers the cultural and historical context of economic precepts, accepts that economic knowledge may arise in the very social processes it is attempting to analyse and explores how knowledge of the market is constructed in the course of choosing and acting. The argument it contains has all the features of social constructionism identified by Burr (Burr, 2003: 2–5). However, our approach is not social constructionist because it is an enquiry into how Market and mercantifers actually work and reach observable configurations (Vickers, 1995: 88). Implicitly, therefore, we reject the social constructionist proposition that observed reality is a creation of language and language-making. Nevertheless, we will show that societies have been subjected to upheaval as they are brought into conformity with Market. So in this sense it might be argued that Market has "self-fulfilling potency" (Berger and Luckmann, 1991: 145). Part I of this book shows that Market is implicated in the dialectic about how society is to be organised. However, we also show, in Parts II and III, that, within the limits set by that dialectic, it is not through Market the concept but through mercantifer the institution that economic systems develop as persons act and behave. Market, therefore, has no more "self-fulfilling potency" than the dream of perpetual motion, with which it has much in common.

This book is in three parts. Part I (Chapters 1 to 6) analyses the various meanings of Market and demonstrates why Market is inadequate both as a scientific theory and as a model for political economy. Part II (Chapters 7 to 13) describes a theory of mercantifers. Part III (Chapters 14 and 15) illustrates how systems of mercantifers form and operate.

Part I defines Market, explains how it works and describes implications which result. In its simplest, neo-classical, form,[14] Market is a theoretical confrontation between demanders and suppliers mediated by price. Equilibrium price is set where demand equals supply at the going price. Market space is created as trading occurs but Market time is dictated by suppliers. Market does not itself use resources and is in infinite supply, so that if demanders confront suppliers in any sense, Market invariably comes into being. In this sense, Market is often regarded as "natural".

Market presumes the prior existence of a political system to define property rights; but the emergence of such a political system relies upon the prior existence of Market processes. Thus, the origins of Market are equivocal and logically circular. Market also requires the prior existence of a legal system to enforce property rights, yet Market is often used to justify adjudications concerning property rights. Market itself does not generate sufficient information for demanders and suppliers to participate in it; price alone is insufficient and must at least be accompanied by sympathy for others. In order for Market to function, therefore, it is necessary to presume the existence of information useful to demanders and suppliers. However, Market says nothing about the form, production and dissemination of the information consistent with it. Market has been influential in inculcating beliefs such as that reciprocity is equated with fairness and revolutionary change is aberrant but does not provide adequate reasons for holding those beliefs.

Commodities may also be distributed through social relationships organised communally, which we label Politas. Market is, therefore, entwined in an eternal dialectic with Politas. If Market dominates