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The Market as a Place of Rules

Abstract

A closer scrutiny of the market phenomenon shows some interesting properties, often neglected in the rather ideological „market alone" controversies. The article shows that markets are elaborate cultural establishments governed by precise rules, by far not as „spontaneous" as one might think at first. Second, social prerequisites or conditions of possibility of a market arrangement are briefly summarized. Third, we try to establish a „market paradoxon", i.e. the curious fact that, on the one hand, markets are the more efficient, the broader choice of goods and services are offered in this way, but that on the other hand, the market itself strictly requires that some things, e.g. money or the public officials, are excluded from the free play of market forces and put under strong legal control. Finally, the famous „invisible hand" of Adam Smith is shown to be the result not of the individual greed of the participants, but of their mutual need to exchange, i.e. to collaborate. The participants may try well to maximize their gains, but they are first of all interested in realizing their exchanges: there is no gain possible without a willing partner.

The market is the very focus of neo-liberal theories and thus is often viewed as a synonym for liberty – liberty itself being the mere absence of obstacles or limitations. The goal of this modest contribution is to challenge these rather common ideas. My basic theses would run approximately as follows:

1. The market is not a result of some spontaneous development, but a very ingenious cultural construction, probably dependent on some kind of public authority.
2. As such it displays a number of simple but ingenious and efficient rules which one expects to be enforced by such an authority.
3. It is exactly due to the presence of rules that a market can be a model prototype for a liberal arrangement of human interaction.

Spontaneous emergence or cultural establishment?

When speaking of the market, I mean the classical marketplace arrangement with vendors and buyers meeting at a certain publicly accessible place at a pre-established and commonly-known time. Ethnological evidence shows that this arrangement is not the most common one and can be found only in societies with a certain degree of political organization. In societies exhibiting a less complex degree of organization, the so-called „capillary exchange“ is common, but one finds no market as such. Thus, seashore fishermen regularly exchange their products with cultivators from the inland regions of an island, but only on a one-to-one (household to household) basis, with fixed traditional partners and at a fixed exchange rate.

The crucial step consists in concentrating the exchanges in a single place and time.[1] It is this step that brings about the relevant properties of a true market.

They could be briefly summarized as follows:

1. The concentration of supply and demand, probably introduced by an authority, improves the probability that the desired exchanges shall be realized. Otherwise, with the growing multiplicity of demand and supply, a capillary exchange would become less and less efficient.

2. Competition of vendors for buyers as well as the competition of buyers for offered commodities first creates what we usually call „price,“ not as a simple outcome of a single event, but as a more or less valuable economic parameter. By the way, the emergence of prices was probably concommitant with the introduction of some sort of commonly used money.

3. The existence of the market itself changes the nature of exchanges, because it promotes the possibility of substitutions: a buyer at a market has a broader choice of various goods to fulfil his needs than with the former one-to-one arrangement. This eventually led to the typically modern phenomenon of shopping, i.e. satisfying of „needs“, awakened randomly by their availability or by publicity.

4. Compared with what we know as the traces of capillary exchange in modern societies, e.g. peddlers and house-to-house selling, it should be clear that the market arrangement presents an efficient method of consumer protection: in a one-to-one negotiation, the professional seller has a huge psychological advantage over the occasional buyer.

The basic difference between the capillary and the market method of exchange consists in the fact that in the market every offer is a public one, made before the eyes of the others and valid for the general public. This is a simple but very important expression of what we call the principle of equality: All have to be treated in an equal way, no individual privileges are allowed.

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1 In many traditions, in Europe as well as e.g. in Western Africa, there is the iron rule prohibiting to sell on the road to the market and back home. Though rather queer at the first glance, it shows that people were well aware of the importance of the concentration of exchange. The fact that in medieval Europe markets were royal privileges points in the same direction.

Conditions of possibility

Let us now consider the necessary preconditions for a public market, as far as it is relevant to our topic. It is in the first place a certain level of affluence and well-being: No public market can exist in a country where many people are dying of hunger. A second self-evident condition is a certain level of personal security, which has to be assured. Only a fool would expose his valuable goods in a public place, if there exists a high probability that they would be stolen without punishment.

This simple fact leads to what might be called the Market paradox: On the one hand, there is a general tendency to extend the market arrangement to any commodity whatever; due to the fact that money exchanges are the more efficient the broader variety of commodities is offered on the market. But, on the other hand, this tendency has to be sharply stopped at a certain limit. There are things which cannot be bought on the market under a simple supply and demand mechanism. The first of them is obviously the money itself: Not everybody can be authorized to produce and sell money. But the same limitation is valid for those who should guarantee the above-mentioned security: No policeman, no magistrate and no judge can be available for a market price, as this would destroy the market as such. Should a policeman be willing, for a reasonable sum of money, to confiscate the goods needed, few buyers would resist to the temptation. On the other hand, no seller would dare to expose his good under such conditions – and there is no market without sellers.

It is important to notice that this limitation is required „by the market itself", by its own logic and for its own sake. There is no external moral rule which would prohibit free printing of banknotes, but it is the very nature of money – and of a policeman, a magistrate, a judge – which exempts them from the free play of supply and demand. There is an intrinsic necessity to limit the extension of the market as a condition of its own functioning.

The next necessary condition of market efficiency is the rough comparability of its participants. No participant, neither seller nor buyer, should be able to substantially influence the market as a whole. Too large a player can destroy the market by his ability to develop and to realize a longer-term buying or selling strategy based on the very limitedness of any real marketplace. Anyone able to buy out a commodity to sell it afterwards as a monopolist puts the whole market principle out of gear.

The rules of the Market

As we have seen, the fundamental characteristic of a market is its open, public character; the more efficient it is, the broader is the market and its attendance. The most elementary rule for market bargaining says that any offer has to be equally valid for anyone present. This is a very palpable form of the principle of civic equality, of the conviction that all humans are not only equal, but as well equally trustworthy partners etc. – of course in a rather limited, say commercial, sense.

To be able to assess the radicality and practical efficiency of this seemingly obvious rule, let us have a look at all the ingeneous methods of unscrupulous sellers to avoid precisely this rule. There are always plenty of „special conditions", offered „to you only," etc. But there is much more. If a publicity campaign announces that the firm XX intends to introduce a new product YZ „on the market", it is in reality a rather dirty trick to bypass any market competition at all. The buyer should be brought to a firm conviction that YZ alone is what he needs and that he should not look around for what is on the shelves.

Precisely because it is so rudely open and public, the true market is a remarkable exercise in fair play, if compared to all sorts of „special deals", backstage negotiations and so on. In the bargaining process itself the two parties are clearly in an antagonistic relation: the one's win is the other's loss. There is no place for any sort of altruism. But this evidence should not obscure the equally evident fact that this antagonism is not a mutually destroying life-and-death fight. The difference consists precisely in the presence of rules.

Though each of the bargaining parties follows its own interest, they have another, perhaps less visible but the more fundamental interest in common: to realize the exchange. Even if each of them looks greedily after his own gain, they both know very well that there would be no gain without an actual exchange. Thus, the antagonistic players are not opposing each other as in a duel or in a war, but they are in a way dependent upon each other. Their success is always – at least partially – in the hands of the other: It is the good or the money of the other. It is not upon the greed or the egoism of the butcher that I rely for my dinner, as Adam Smith thought, but upon his need to exchange with me. There is no „invisible hand", but the careful and ingenious arrangement of the market and of its rules, which permits mediation between people's individual needs or wishes in a civilized way. It steers the exchange – and thus both the production and the consumption of goods – in such an inconspicuous and flexible way that even very careful observers can overlook it.

Conclusion

The three mistakes we mentioned, i.e. the false idea of freedom as the mere absence of obstacles, the idea of market as a spontaneous and trivial, almost mechanical device and the idea of the „invisible hand" have something in common. All of them seem very simple and natural, as if self-evident. All of them are reductionist and mechanist, neglecting the „human factor" and replacing human relations by blind „forces". Their success proves that there is something to each of them. They were extremely successful and they are still shaping much of our thinking, not only in economy. It is only fairly recently that at least some people have begun to feel the impasses they lead into and the distortions they impose on our value judgements. It is not an „invisible hand“, but the social character of human life, the mutual dependency among all of us, controlled by well-proven rules, which is the very kernel of any free society.