

Understanding Markets: An Overview

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Markets as an object of study

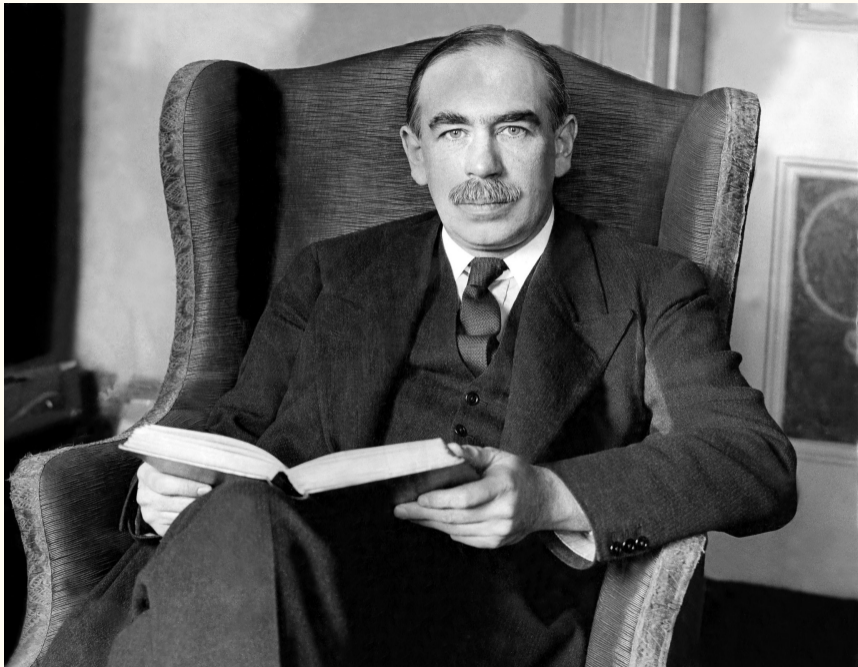
A change in history

- Before the mid-19th century, disputes within humans had been about:
 1. Resources (e.g., land for hunting, later for cultivation, mineral resources, ...).
 2. Ideology (e.g., religious disputes, imperial views, ethnic conflicts, ...).
 3. Power (e.g., the War of the Roses).
- After c. 1870, disputes have become about economic systems (market economies vs. socialism, fascist regimes,...).
- In fact, we can argue that the main struggle in the 20th century was: how do we organize our economies?



Our present times

- After a period of “market optimism” following the collapse of the Soviet Union, the financial crisis of 2007 re-opened fundamental questions about how we organize our economies.
- And even in a time of “culture wars,” most elections are decided by economic issues.
- Thus, thinking about markets, their strengths, and their weaknesses is still vital.
- At the same time, this task is hard: arguments from economics, history, philosophy, ...



A famous quote

John Maynard Keynes, *Essays In Biography* (1933)

“The master-economist must possess a rare combination of gifts ... He must be mathematician, historian, statesman, philosopher—in some degree. He must understand symbols and speak in words. He must contemplate the particular, in terms of the general, and touch abstract and concrete in the same flight of thought. He must study the present in the light of the past for the purposes of the future. No part of man’s nature or his institutions must be entirely outside his regard. He must be purposeful and disinterested in a simultaneous mood, as aloof and incorruptible as an artist, yet sometimes as near to earth as a politician.”

Markets vs. capitalism

- The title of this course is “Markets & their Critics,” not “Capitalism & its Critics.”
- “Capitalism” is a polysemic term: too many meanings make it difficult to use neutrally.
 - Popularized by Pierre-Joseph Proudhon (1809-1865) and Louis Blanc (1811-1882).
 - Immense literature on the “origins of capitalism” or the “history of capitalism.” I do not find that literature very useful.
 - It leads to misleading policies (e.g., the “primitive accumulation,” the “role of slavery” in economic growth).
 - Some historians, in particular Fernand Braudel, have argued that capitalism is the system of the antimarket (“contre-marche”).





**УДАРНИКИ
ПОЛЕЙ.
В БОИ
ЗА СОЦИАЛИСТИЧЕСКОЕ
РЕКОНСТРУКЦИЮ
СЕЛЬСКОГО
ХОЗЯЙСТВА!**

**ЗА ОРГАНИЗАЦИОННО-
ХОЗЯЙСТВЕННОЕ
УНРПЛЕНИЕ
КОЛХОЗОВ!**

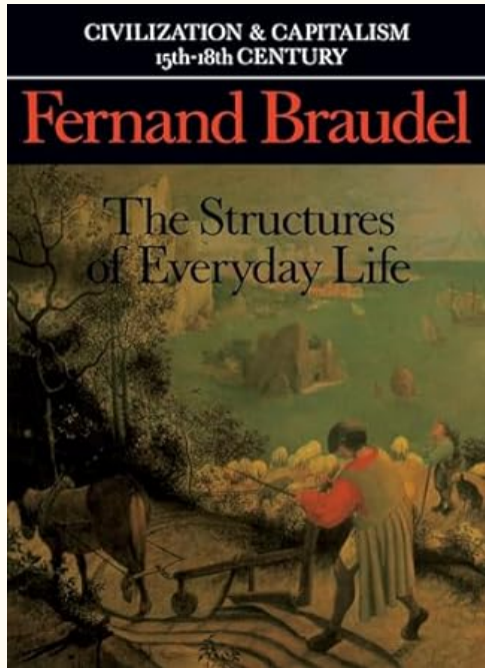
**ЗА РЕШИТЕЛЬНОЕ
ПОВЫШЕНИЕ УРОЖАЙНОСТИ
КОЛХОЗНЫХ ПОЛЕЙ!**

**ЗА ПРОВЕДЕНИЕ В НИЖНЬЕ
ШЕСТИ УКАЗАНИИ Т. СТАЛИНА.
УСЛОВИЯ НАШЕЙ ПОБЕДЫ!**

**К КОНЦУ ПЯТИЛЕТНИ
КОЛЛЕКТИВИЗАЦИЯ СССР ДОЛЖНА
БЫТЬ В ОСНОВНОМ ЗАВЕРШЕНА:**
(И. СТАЛИН)

**РАБОЧИЙ КЛАСС Советского
Союза твердо и уверенно
ведет вперед дело технического
переворужения своего союзника-
ТРУДОВОГО КРЕСТЬЯНСТВА.**
(И. СТАЛИН)





Markets everywhere

- Furthermore, one can have markets in situations where there is no private ownership (e.g., proposals for market socialism by Oskar Lange and others, allocations within firms and universities).
- In fact, markets have overlapped with all types of economic systems, often in opposition to the legal system.
- And often, markets are informal.
- Nonetheless, we will mainly focus on economies that are primarily organized around markets.



A

"Measured, highly accessible, and most of all *compelling*."
— Samuel Bowles

FUTURE FOR SOCIALISM

JOHN E. ROEMER



GOL

CAMPEONATO DE LIGA
1984/85

R. MADRID

35

DELANTERO
SANTILLANA

Carlos Alonso González
Nació en Santillana del
Mar (Cantabria)
el 23/8/52

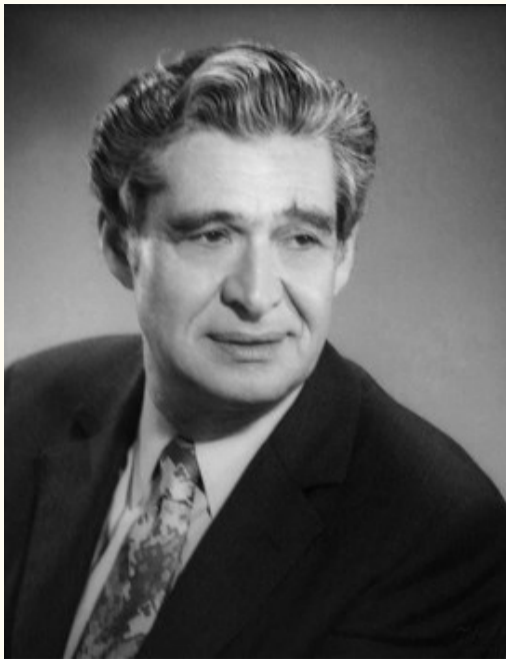
HISTORIAL DEPORTIVO
Racing, Real Madrid.

EDITORIAL MAGA

Markets as a cooperative arrangement

A working definition

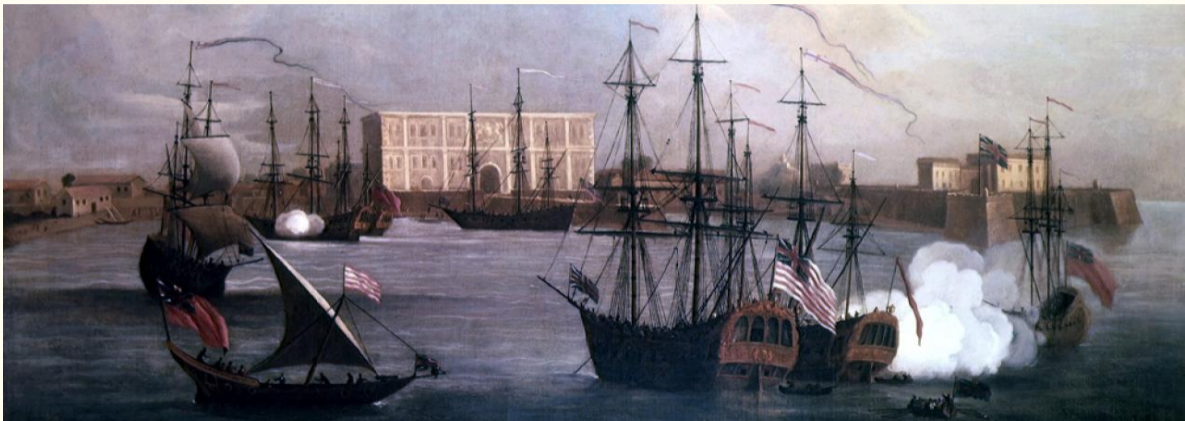
- We need a working definition of a market.
- Market: an environment in which two or more agents freely exchange goods or services.
- Three points here:
 1. Two or more agents. Market power?
 2. Exchange goods or services. What about a family? Or friends?
 3. Freely.



Moses Finley, *A Peculiar Institution* (1976)

“In the context of universal history, free labour, wage labour, is the peculiar institution.”

- Notice that Finley is referring to “coerced labor.” Why?
- But many other forms of coercion: imperialist extraction of commodities.
- And why is this important for us?
- Being pro-market does not mean being pro-business.



Markets in history

Markets in history

- When do markets appear in history?
- Most likely extremely early.
- Laskaris et al. (2011): obsidian artifacts in the Aegean region found outside their source locations and dated back to layers deposited around 12,000 years ago. Late Pleistocene/Early Holocene seafaring and long-distance exchange were present in the Aegean well before the emergence of agriculture and cities in the region.
- In fact, some paleontologists argue that indications of exchange can be traced back as far as 300,000 years ago (Brooks et al., 2018).

Adam Smith, *The Wealth of Nations* (1776)

“The propensity to truck, barter and exchange one thing for another ... is common to all men, and to be found in no other race of animals.”

How Basic Are Behavioral Biases? Evidence from Capuchin Monkey Trading Behavior

M. Keith Chen

Yale University and Cowles Foundation

Venkat Lakshminarayanan and Laurie R. Santos

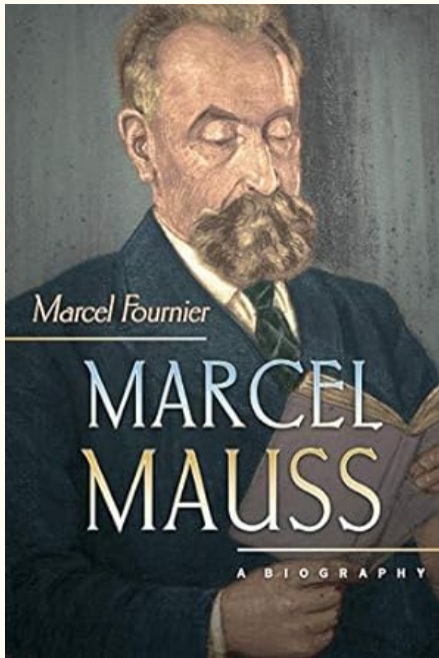
Yale University

Behavioral economics has demonstrated systematic decision-making biases in both lab and field data. Do these biases extend across contexts, cultures, or even species? We investigate this question by introducing fiat currency and trade to a colony of capuchin monkeys and recovering their preferences over a range of goods and gambles. We show that capuchins react rationally to both price and wealth shocks but display several hallmark biases when faced with gambles, including reference dependence and loss aversion. Given our capuchins' inexperience with money and trade, these results suggest that loss aversion extends beyond humans and may be innate rather than learned.

Nobody ever saw a dog make a fair and deliberate exchange of one bone for another with another dog. Nobody ever saw one animal by its gestures and natural cries signify to

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[*Journal of Political Economy*, 2006, vol. 114, no. 3]
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A few interesting examples

- As an introduction lecture, I do not have enough time to review all historical examples of markets.
- In my undergraduate course on Global Economic History at Penn, I have 26 full lectures, and even then, I need to be selective.
- So, instead, I will talk about three examples of societies where markets played a large role:
 1. Ancient Rome.
 2. European Middle Ages.
 3. Song China.

The market economy of Ancient Rome

- Ancient Rome developed a sophisticated market economy.
- High income per capita, widespread international trade, and a vibrant urban life.
- Also, it witnessed the appearance of Roman law.
- Yet, the economy of Ancient Rome relied on slave labor, and the political system it sustained became progressively more centralized and authoritarian.



PETER TEMIN

THE ROMAN
MARKET ECONOMY

THE CAMBRIDGE
ECONOMIC HISTORY OF THE
GRECO-ROMAN WORLD

Edited by
Walter Scheidel, Ian Morris and Richard P. Saller



CAMBRIDGE





Examples of well-developed industries

- Industrial fishing (for production of fish oil).
- Probably a whaling industry.
- Iron and brass.
- Education.
- Entertainment.

- Roman law is one of humanity's most amazing intellectual accomplishments.
- Perhaps the best proof of the sophistication of Roman economic life.
- Foundation of Western legal systems (both Civil and Common law).
- Through indirect transmission, of other legal systems (i.e., Civil Code of Japan).

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BORKOWSKI'S TEXTBOOK ON
ROMAN LAW

SIXTH EDITION

PAUL J. DU PLESSIS



TAMAR HERZOG

A Short History of European Law

THE LAST TWO AND A HALF MILLENNIA



The market economy of the Middle Ages

- Most market exchanges ended with the collapse of the Western Roman Empire.
- Commercial revolution after 1000.
- Economic life starts to be organized again around markets (Champagne fairs).
- Lex mercatoria is developed, and Roman law is rediscovered.
- It leads to the revival of cities, creation of universities, and Renaissance.



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FRAMING THE EARLY MIDDLE AGES

Europe and the Mediterranean, 400–800

CHRIS WICKHAM



The Commercial Revolution of the Middle Ages, 950-1350

ROBERT S. LOPEZ

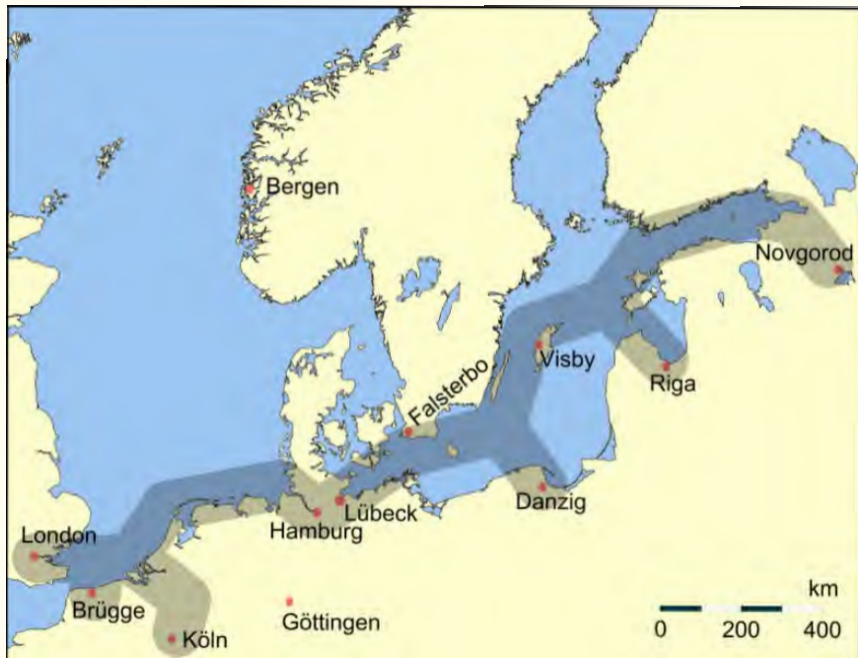




The Economy
of
Renaissance
Florence



Richard A. Goldthwaite



A fundamental transformation

- Also, the commercial revolution leads, a bit later, to the voyages of discovery, which changed history as nothing had done since the Neolithic Revolution.

Adam Smith, *The Wealth of Nations* (1776)

“The discovery of America, and that of a passage to the East Indies by the Cape of Good Hope, are the two greatest and most important events recorded in the history of mankind. Their consequences have already been very great: but, in the short period of between two and three centuries which has elapsed since these discoveries were made, it is impossible that the whole extent of their consequences can have been seen.”

The market economy of the Song dynasty

- Song dynasty (960-1279) was a moment of economic flourishing in China.
- In fact, one of the most important questions in global economic history is why China didn't take off during the Song.
- Large expansion of rice cultivation.
- Cash crops: tea, sugar, mulberry, and indigo.
- Vibrant urban markets and small industry.
- Large business firms.
- Delicate ceramics.
- First paper money.

DIETER KUHN

A portrait of a Chinese official, likely a scholar or official, wearing a large, ornate, grey and blue headdress and a blue robe with red and gold patterns. The background is a warm, golden-brown color.

THE AGE OF
CONFUCIAN
RULE

THE SONG TRANSFORMATION
OF CHINA



The
Chinese
Market
Economy
1000-1500

William Guanglin Liu







大壹會子

稅銀壹兩

與補進義校

無若徒中

家解自告

亦支上件

願補前項

料

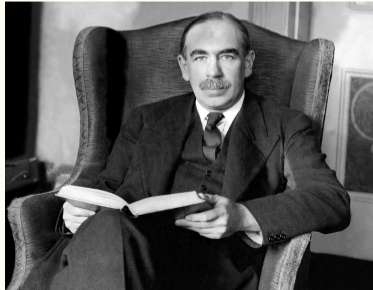
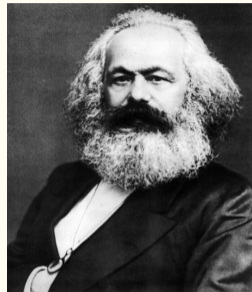
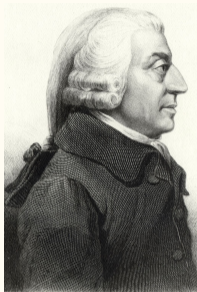
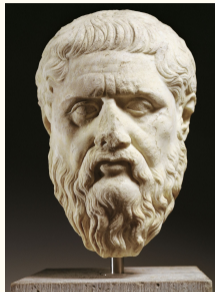
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Outline of the course

What do we want to cover?

- Are markets moral?
- Are markets stable?
- Are markets' outcomes fair?
- Are markets efficient?
- Alternatives to markets.
- The role of the state.
- The future of markets.

Some people we will meet



Our teaching philosophy



ON

L I B E R T Y

BY

JOHN STUART MILL.

LONDON:

JOHN W. PARKER AND SON, WEST STRAND.

M.DCCC.LIX.

J.S. Mill, On Liberty (1859)

“He who knows only his own side of the case, knows little of that. His reasons may be good, and no one may have been able to refute them. But if he is equally unable to refute the reasons on the opposite side; if he does not so much as know what they are, he has no ground for preferring either opinion.”

An ideological Turing test

- You probably have heard about the Turing test in computer science.
- Ideological Turing test proposed by Bryan Caplan:
https://www.econlib.org/archives/2011/06/the_ideological.html.
- Advice, back in my law school years, from my much admired Law Professor Juan Fernández-Armesto: for moot court, always pick the side you think is in the wrong!
- Our goal: by the end of the course, you can pass the ideological Turing test either as a “fake” defender or critic of markets.

