A PROPOSED DEFINITION OF MARKET

Over several posts, I have criticized standard economic textbook definitions of market, here and here. I neglected to mention one, the idea that markets are an emergent phenomenon; here's a discussion of that lunatic definition. Here's my proposed definition:

> A market is the set of social arrangements under which people buy and sell specific goods and services at a specific point in time.
>
> Social arrangements means all of the things that constrain and organize human action, including laws, regulations, social expectations, conventions, and standards, whether created or enforced by governments, institutions or local traditions.

The point of this definition is that it focuses attention on the actual attributes of our intuitive understanding of the term.

1. All buying and selling is done in a social setting. The image of the lone white male creating a business all by himself in the face of monolithic government resistance is just as brainless as the image of the perfectly free individual moving in a consumer wonderland picking and choosing the things that will provide the greatest happiness. All businesses are social activities with social ramifications, and all require the actions of others than the towering ego of one person.

2. Each act of buying and selling is a separate act, done separately in time and space. The act of aggregating purchases and sales is thus left out of the definition. That is a political act, and by separating the definition from the aggregation, we force the statistics users to state their principles of aggregation. That puts

us into a position to evaluate both principles and purposes behind the statistics, and to judge the success of the endeavor.

3. The principle constraints on buying and selling are set up by people. They don’t evolve out of the mists of time, or come to life in the mind of someone contemplating the natural order of things, or emerge from the underlying acts of buying and selling, and they don’t have to stay the same from time to time. We don’t have to live with the rules inflicted on us by the people who create the monopolies, oligopolies, patent restrictions, right-wing courts, captured agencies, and all the other tools of neoliberalism for making the rich even richer at our expense.

4. In the definition, I purposefully chose to insert the words “conventions” and “standards”. These words expose the fact that people have expectations about how things are supposed to work, and are angered when they don’t. In our neoliberal world, we aren’t supposed to notice that the CEO class takes all the rewards of the hard work of thousands of other people. We’re supposed to be cynical and say that society isn’t entitled to such expectations. We’re supposed to call the screwing of the public in the Great Crash greedy but not illegal. We aren’t supposed to be angry. But, as Whiner-In-Chief Jamie Dimon has dimly noticed, the anger is white hot, and isn’t going away, even as bank profits and greed go through the roof.

I think the most important thing this definition does is to demonstrate what markets can’t do. They won’t solve any of the important problems facing our society. Mainstream textbooks talk about several kinds of market failure: externalities like pollution and noise and fracking water dumped into the aquifers that provide irrigation and drinking water; monopolies and oligopolies sanctioned by the courts and administrations of every neoliberal variety, for example. These are different from market imperfections, for example, where there are large economies of scale, or high barriers to entry. See Samuelson and Nordhaus, *Economics*, Ch. 9, 2005 ed. Economists offer some vague and unimpressive government solutions to these problems, but the neoliberals reject them, saying that only markets can solve our problems, and us idiots need to step aside and let them work.

As my definition shows, markets operate on a case by case basis. They make no provision for the future. To the extent that they do, it’s because individuals themselves give some thought to their future. This point did not escape the sharp mind of William Stanley Jevons, who devotes a section of his discussion of utility to dealing with the obvious fact that an individual’s ability to enjoy pleasure and escape pain requires a regular and continuing supply of various commodities. He gives a clever illustration of using the available resources when future supplies are uncertain. Jevons, *The Theory of Political Economy* III.47-49, 59 et seq.

In this post I try to show that there is no reason to think that markets even meet the limited test of utility maximization set up by Jevons; and we haven’t even discussed the problems with his definition of utility. With my definition of market we can see why. Each transaction happens in a moment. At most, it can come close to maximizing utility for that point in time for the persons transacting. It says nothing about the future.

Perhaps some of the people buying or selling are thinking about their future needs closely and carefully. But the point is that they only are maximizing their personal utility at a point in time. Jevons makes this clear in his definition of utility when he adds this qualifier:

> This perfectly expresses the meaning of the word in Economics, provided that the will or inclination of the person immediately concerned is taken as the sole criterion, for the time, of what is

> or is not useful.

Let’s remember that for Samuelson and Nordhaus, modern economics as taught to college students flows from Jevons and other neoclassical economists. See the back inside cover of *Economics*, 2005 ed. Neoclassical economics is the foundation of neoliberal economic theory as well, and the latter is nourished by both the training given in college to non-economics majors and all of the public discussion of economics by trained and untrained people. Again, the claim is that markets will solve any and all problems.

But they obviously won’t. Whatever else we know about markets, and it isn’t much beyond a few obvious general ideas, we know that markets are reactive, responding to news or immediate needs. They have nothing to do with long-term problems. They have no predictive capacity. Which market predicted that the oceans would fill up with plastic crap? Which market predicted that the earth would warm up to the point that it became uninhabitable to humans? What fixes do these wizard markets offer?

They offer nothing. In the end, the only thing these ideological markets do is give the richest people control over the outcomes. The Koch brothers with their John Bircher background hate democracy, and use their money to influence the social arrangements that create and constrain buying and selling to benefit themselves. In the end, they and their ilk are the people who decide how we will deal with poisoning the oceans, the aquifers, the fresh water lakes and the atmosphere. And they’ll do it with their markets. And they’ll do it with the praise of the majority of citizens who believe in their foolish theories of markets. And the only people, if any, who will benefit are the filthy rich.

That’s why we need to stop talking about the markets in the terms defined by the rich and their pet academics, and start focusing on reality.