

THE GREAT TRANSFORMATION PART 2: MORE ON MARKETS

The first two posts in this series are:

The Great Transformation: Mainstream Economics
and an Introduction to a New Series

The Great Transformation Part 1: The Market

In Part 1 I discussed the definition of markets in *The Great Transformation*, and noted that Karl Polanyi gives a definition, while mainstream neoliberal economic theory doesn't. The absence of a definition in neoliberal theory is crucial to its success. Neoliberal economists do not have to account for the vast differences among markets: they can treat all markets as identical for purposes of their mathematical edifices.

Polanyi's simple definition enables him to discuss the differences among markets and the different purposes they serve in different societies. In the Mercantilist era, say up to about the early 1800s, Polanyi identifies three different kinds of markets: external, internal and local. Local markets serve the local community as in the case of householding societies. Polanyi says they are not intrinsically competitive, nor are they focused on gain. P. 61

External markets are for long-distance trade, what Polanyi identifies as the carrying trade. They form at natural stops along the trails of transport, at river crossings and ports. They do involve gain, and the propensity of some people for truck and barter, but they are limited to specific sites and specific goods. They are not essentially competitive, Polanyi says. Over time, long-distant market sites turn into towns, and their principle purpose is to manage external trade. They are not a function of the nation state, but of those towns, which work to keep their long-distance markets apart from the

lives of those in the countryside.

The [Hanseatic League] were not German merchants; they were a corporation of trading oligarchs, hailing from a number of North Sea and Baltic towns. Far from “nationalizing” German economic life, the [Hanseatic League] deliberately cut off the hinterland from trade. The trade of Antwerp or Hamburg, Venice or Lyons, was in no way Dutch or German, Italian or French. London was no exception: it was as little “English” as Luebeck was “German.” The trade map of Europe in this period should rightly show only towns, and leave blank the countryside—it might as well have not existed as far as organized trade was concerned. P. 66.

The third kind of market, the internal market, is a deliberate creation of the nation-state. As Polanyi explains it, the towns worked to maintain the separation between long distance and local markets, as a matter of self-protection of the town and of the town officials and elites. They feared the destructive impact of mobile capital on their existing institutions, and on their prerogatives and status.

Deliberate action of the state in the fifteenth and sixteenth centuries foisted the mercantile system on the fiercely protectionist towns and principalities. Mercantilism destroyed the outworn particularism of local and intermunicipal trading by breaking down the barriers separating these two types of noncompetitive commerce and thus clearing the way for a national market which increasingly ignored the distinction between town and countryside as well as that between the various towns and provinces. P. 68-9.

This classification of markets by their reach is convenient for the story Polanyi is telling, but there are modern counterparts. In many cities around the country, but especially in Europe, say Paris, there are local market streets, where you can find your daily food and your minor needs, like a plate to replace the one that mysteriously broke. There are weekly or bi-weekly markets where you can find all sorts of things, from a sweater to a giant vat of choucroute garnie, with nearly black juniper berries punctuating the Toulouse sausages and the hunks of pork. These are just like the local markets Polanyi describes, and just as important to daily life in these otherwise impersonal cities.

Scattered throughout the city, there are stores focused on specific area of France, Auvergne butchers, stores selling Charolais beef, Perigord stores, with their jars and cans of confit du canard, and many others, wine shops specializing in Champagnes or wines from Burgundy. These stores connect people to their roots in the country, and might be regarded as internal markets.

In the wealthier parts of the city there are other kinds of markets. You can find African, Indian and Near Eastern textiles and jewelry, and lots of similar things. There are shops selling Italian shoes and clothes, branded and unbranded. There is fantastic jewelry and jeweled pieces from world makers, and at prices that bug out the eyes. Each of these kinds of stores are grouped together, so that a person searching for antique French furniture only has to visit a few streets to get a good sense of what is available. This view of consumer culture reinforces Polanyi's view that a market is a place.

Of course, standard economics rejects this simple definition. Here's a typical reaction, from Santhi Hejeebu & Deirdre McCloskey (H/T commenter Alan)

■ ...Polanyi never got over the

noneconomist's inclination to think of markets as literal marketplaces, rather than relationships among people in many different places...

The authors are both economists, so this is not a mistake. Their definition of a market is "relationships among people in many different places. Let's try an example. In *BKB Properties, LLC v. SunTrust Bank*, (MD Tenn. 2011) the owners of the plaintiff wanted a fixed rate loan from SunTrust Bank to build a new building for their car dealership. SunTrust would only agree to a floating rate loan, and offered to sell plaintiff an interest rate swap to create a synthetic fixed rate. Plaintiff agreed. Several years later, when interest rates fell in the wake of the Great Crash, BKB's owners wanted to refinance the note, and when SunTrust refused, plaintiff exercised its right of prepayment. SunTrust refused to accept the prepayment and release the mortgage on the land unless the plaintiff paid a stiff penalty to cancel the interest rate swap, which had a 10 year term, while the note was prepayable. The Court ruled for SunTrust, saying that this is just a routine contract case, and that the parties are assumed to understand the terms of the documents they signed.

Note that SunTrust could have purchased a swap to protect its interests more intelligently than BKB Properties, Ltd., a shell corporation set up by a car dealer. SunTrust could have canvassed offers from several banks and hedge funds, which at least sounds like a market.

But on the given facts, was this a market transaction? In the world of Hejeebu and McCloskey it certainly is. After all, these are two parties with some kind of relationship who are in different places. Swap creators don't post prices, don't disclose transactions in any usable way, and according to the Court don't have any duties to their customers. The relationships that Hejeebu and McCloskey talk about are limited to Buyer Beware, and that's

good enough for them.

In Polanyi's world, maybe not. At that time, there was no physical place one could go to buy and sell swaps, at least if you were a car dealer in a suburb of Nashville, TN. Specifically, there was no analogue to the stock market, or an electronic exchange. There was no place to find data, no place to find alternative bids, no quote sheets, and there was often negotiation over the terms of a swap which affected its value to both parties, again with no transparency to outsiders who might have learned of its existence. In sum, there was no place for any activity that sounds market-like.

Definitions matter. Polanyi's definition gives us a good idea of what he is talking about, and his three kinds of markets are useful and convenient in his analysis. How do we talk sensibly about the "swaps market"? In what way is it like the market for choucroute garnie?