

MARKET

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Abstract

The market is a complex network of (voluntary, peaceful and mutually beneficial) economic exchanges which, without being planned in advance, is the product of the social cooperation. In this respect, it is the social institution par excellence as a web of reciprocal dependence between actors who owe the possibility to pursue their own (economic) projects to the matching of the intentions and expectations that determine the actions of different individuals. The market system owes its origins to a series of circumstances occurred in late-Middle Age, a time characterized by the lack of a strong central power and by the birth of civil society, that society whose subjects benefit from a certain amount of liberty and rights while having the free use of their goods, their work, and their private life. There is, therefore, a historically inextricable link between the market, modernity and freedom: the "market economy" is thus equivalent, first and foremost, to an economic freedom and the economic freedom is the means to a higher end, i.e. freedom tout court.

1. Market and Economic Rationality

According to Max Weber the market is "the archetype of all rational social action" (Weber, 1978, vol. I, p. 635). In Weber's opinion "[a] market may be said to exist wherever there is competition, even if only unilateral, for opportunities of exchange among a plurality of potential parties. Their physical assemblage in one place, as in

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the local market square, the fair (the “long distance market”), or the exchange (the merchants’ market), only constitutes the most consistent kind of market formation. It is, however, only this physical assemblage which allows the full emergence of the market’s most distinctive feature, viz., dickering” (*ibid.*).

More to the point, the market is the combination of all voluntary and peaceful exchanges of goods which are property of those who exchange them. Such exchanges, which are based upon agreed prices, are both recurrent and mutually beneficial, having as their only purpose the satisfaction of a reciprocal demand. When the individuals decide to enter a temporary relation of exchange, they do it rationally, since they consider this very exchange, with its values and purposes, as the most proper way to acquire the possible quantity of resources. They could in principle achieve the same goods by adopting other courses: self-production, robbery, barter, gift, theft, distribution by the community, allocation by a central power, etc. And undoubtedly these are the methods that, for a long time, have been preferred by most of the world population. On the other hand, the choice of free exchange—characterized by its “purely economic and rational character” , (*ibid.*, p. 639)—is explained by its being “the most impersonal relationship of practical life into which humans can enter with one another. [...] The reason for the impersonality of the market is its matter-of-factness, its orientation to the commodity and only to that. [...] its participants do not look toward the persons of each other but only toward the commodity; there are no obligations of brotherliness or reverence, and none of those spontaneous human relations that are sustained by personal unions” (*ibid.*, p. 635). That is to say that the market’s order is a kind of cooperation which allows individuals to collaborate with each other regardless of their ends or personal attachments. As a matter of fact, the great value of the market lies precisely in this, that while it does not require the establishment of a shared hierarchy of goals, it nonetheless allows the collaboration of all members of a society to the fulfilment of other people’s goals, without requiring individuals to previously agree upon them—or even without any knowledge of what

they are—on the basis of the sole desire of each to pursue their own goals. At the same time, the choice of free exchange is explained by the fact that the relation of economic exchange—differently from, say, gift or robbery, in which the gain is entirely on one side and the loss entirely on the other—is beneficial for all participants, who advance from a condition of lesser gratification to one of higher gratification.² In fact, exchange “brings about an increase in the absolute number of values experienced”, since everybody “accepts in exchange what is relatively necessary [to them]” (Simmel, 2011, p. 315), while receiving an higher quantity of perceived utility—that very utility which every part is trying to achieve through the transaction, and which prevents cooperation from occurring against the interests of the counterpart. And this is precisely what preserves the continuity of social relations. Cooperation would indeed cease in the long run if exchange turned out to be a bad transaction for any of the counterparts. No social life would be possible unless the members of a society establish a mechanism of cooperation, each accepting to satisfy the conditions of those they need to cooperate with in order to accomplish their own goals. Conversely, cooperation would be extremely difficult, not to say impossible, if individuals, while trying to maximize their own utility, expected to attain other people’s collaboration without providing an adequate “compensation”.

The hypothesis of a “maximizing” individual is thus unrealistic, for it conceals the fact that man can exist and develop only within a society, being immersed from his birth in a reality which is populated by other people with whom he has to interact, mediate, compete, on the basis of his own purposes and dispositions, provided his interest in seeing his own life-projects fulfilled.³ This state of things is due to the condition of “anthropological ignorance”—defined as the “necessary and irremediable ig-

² In this regard, modern game theory draws a distinction between zero-sum games and positive-sum games. A zero-sum game is a game in which all that is lost by a participant in the exchange is gained by the other (or the others), while a positive-sum game is a game in which what is aggregately gained by all participants is more than what they have lost.

³ Accordingly, the theory of *homo oeconomicus*, i.e. the infallible calculator of the utilitarian tradition, who acts rationally by maximizing his own utility, cannot provide a plausible explanation of the formation of the social order. Cf. Fallocco (2012).

norance on everyone's part of most of the particular facts which determine the actions of all the several members of human society" (Hayek, 2013, p. 13)—and by that of "scarcity", i.e. the fact that "our physical existence and the satisfaction of our most ideal needs are everywhere confronted with the quantitative limits and the qualitative inadequacy of the necessary external means" (Weber, 1949, p. 64). These two conditions (gnoseological and economic, respectively) constitute the two fundamental logical premises of the modern conception of man as "a social being, not only as one whose material needs could not be supplied in isolation, but also as one who has achieved a development of reason and of the perceptive faculty that would have been impossible except within society" (Mises, 1951, p. 292). By the same token, if individuals were infallible and omniscient, and if they could count on unlimited resources (both material and symbolic), there would be no impediments to the fulfilment of their projects. Conversely, their fallibility and ignorance, not to mention the limited character of available resources, induce them to cooperate with each other and to satisfy the conditions imposed by the others in the very attempt to realize their own objectives.

In all economic relations the universal conditions of "scarcity" and "ignorance", far from being an impediment, are precisely what allows the establishment of that complex network of economic exchanges known as the market—which, without being planned in advance, is the product of that very cooperation which is essential to the pursuit of personal goals. The market, in this respect, is the social institution *par excellence*, organized as it is as a web of reciprocal dependence between actors who owe the possibility to pursue their own (economic) projects to the "matching of the intentions and expectations that determine the actions of different individuals" (Hayek, 2013, p. 35); this beneficial correspondence, in other words, is precisely what produces a collective utility through the pursuit of self-interest.

The "discovery that there exist orderly structures which are the product of the action of many men but are not the result of human design" (*ibid.*, p. 36), i.e. that most of

human institutions (not only the market but also society, the State, and the law as well) are the result of spontaneous development rather than design, is commonly ascribed to the tradition of methodological individualism. This tradition—inaugurated by Bernard de Mandeville and by eighteenth-century Scottish moralists (David Hume and Adam Smith), and further developed by political thinkers such as Benjamin Constant and Alexis de Tocqueville and sociologists such as Georg Simmel and Max Weber—found its most comprehensive expression in the work of the Austrian School of Economics (Carl Menger, Ludwig von Mises, Friedrich A. von Hayek) and of the philosopher of science Karl R. Popper.⁴ These thinkers were the first who argued that each individual acts in obedience to the need of pursuing his own ends; yet, since everyone is also in need of other's people cooperation, every individual is also supposed to provide them with the services they ask for in return. Hayek elaborated the notion of spontaneous "order" (*cosmos*)—which he conceived as a process of deployment of relevant dispersed knowledge, i.e. as the un-programmed outcome of a long process of aggregation of single actions, having as their purpose the solution to common and recurrent problems—as an explanation of the *invisible hand* of the market. This well-known metaphor was propounded in 1776 by Adam Smith (1811) to account for the spontaneous mechanism occurring in modern industrialized and secularized societies which results in public prosperity—that is, the generally advantageous adjustment among reciprocal exchanges conceived by Smith as the unplanned result of each one's attempt to accomplish his own ends by means of free cooperation.⁵

⁴ See Infantino (1998).

⁵ The saying "private vice, public virtue", formulated by Bernard de Mandeville (1988) in his well-known *Fable of the Bees* (1715), may be regarded as the first expression of the "mechanism" which Adam Smith later referred to as the "invisible hand". Mandeville, a Dutch scholar, had in mind the seventeenth-century mercantile society, which was held together and made prosperous neither by selfishness nor by individual benevolence, but rather by the reciprocal advantage of the individuals who took part in those interactions animating commercial activities. Cf. the Appendix in Moroni (2005, pp. 157-169).

2. Institutions and Modernization

Every existing society acknowledges the institution of the market as the place (both physical and symbolic) where all relations of exchange between buyers and sellers occur. Yet, not all the existing societies are also market systems. The customary relationship between buyers and sellers, in fact, does not suffice to the establishment of a “market system” or “market economy”. To make this possible, it is necessary that those relationships of exchange are left to the free interplay among parties and regulated solely by the promise of a future payment, rather than being coordinated by a central political authority.⁶ This, in turn, requires a political system which allows and protects from state-interference private property, free initiative, competition, and the free interplay of supply and demand—a system, in other words, in which the distinction between civil society and state as well as the boundary between private property and sovereignty are well defined. A system which is perfectly represented by Benjamin Constant’s “democracy of the moderns” since “[t]he aim of the moderns is the enjoyment of security in private pleasures; and they call liberty the guarantees accorded by institutions to these pleasures” (Constant, 1988, p. 317).

Accordingly, the “market”—considered as the mere place where exchanges occur—may be said to have existed since the beginnings of civilization: “since the introduction of agriculture, the most important actor of the economic life (beside the farmer) has been the merchant, i.e. that particular social actor that operates in the market” (Pellicani, 2007, p. 131).

On the other hand, the “market system” arose only at the beginning of the Modern Age with the birth of capitalistic society, soon becoming the engine of a liberal and democratic development of society itself. In fact, “it is only thanks to the capitalistic system of production that the market becomes the core of the economic life; that exchanges occurring in the market are regulated solely by the law of supply and de-

⁶ For an analysis of the difference between “market” and “market system” cf. Lindblom (2001).

mand; that the factors of production, including manpower, are paid in money, and that only money is accepted in return for both goods and services" (*ibid.*).

The key-role of money in a capitalist economy is explained by the fact that only through money the so-called "economic calculation", i.e. the calculation of costs and benefits, is conceivable. Money originated as an instrument to establish comparisons and to mediate the resulting exchanges: if scarcity is one of the conditions which favour exchange, it follows that things do not possess any value other than that they acquire when compared with each other.⁷

The market system owes its origins to a series of circumstances occurred in late-Middle Age, a time characterized by the lack of a strong central power. British noblemen easily took advantage of these circumstances, soon extorting from legislators concessions and exemptions which would become the institutional habitat of the civil society—that society whose subjects benefit from a certain amount of liberty and rights while having the free use of their goods, their work, and their private life. More specifically, "autochthonous towns—born after the communal revolution, which had been chiefly a class struggle between the bourgeoisie and the feudal lords—experienced the formation of a "protected free space" in which productive classes could employ their own resources in the most rational way, thanks to the establishment of the logic of catallactics" (Pellicani, 2011, p. 92).⁸

The politico-juridical sanction of private property and free initiative (whether economic or not) soon allowed the emerging entrepreneurial bourgeoisie to establish a self-regulated market system, based on the private property of the means of production,

⁷ Beside being "impersonal" in its freeing the relation of exchange from any specific object or person, money is "abstract" in its conveying the economic nature of things—that is, their exchangeability—being exclusively concerned with the quantitative aspects of reality rather than individual goals or specific contents. Money is intrinsically quantitative since it allows to express numerically the fungibility of things. Cf. Menger (2009) and Simmel (2011). For a synthesis see also Fallocco (2011).

⁸ Adam Smith (1811) was the first to call attention to the so-called "feudal anarchy", although in this regard he owed a certain debt to Montesquieu and Hume (see Infantino, 2008, p. 43 n.). The same thesis was later defended by other distinguished scholars who studied the origins of capitalism, e.g. Baechler (1975), Weber (1978), and more recently Pellicani (1988, 2011).

on free work, on competition, and on the dialectics between supply and demand. The consequences of this process went far beyond what could be expected: the change undergone by such “right-distributing society” (*société distributrice de droits*)⁹ was not limited to its unprecedented economic development, involving on the contrary a broad transformation of institutions, beliefs, and values which would eventually create a secularized society governed by individualism and scientific rationalism. As a matter of fact, the market—by allowing the encounter with the Other (if not the radically Different), the exploration of new worlds and cultures, and ultimately the rejection of all exclusive philosophical or religious worldviews imposed by an oligarchic power seeking for its own legitimization—was the chief instrument of this process of “modernization”.

There is, therefore, a historically inextricable link between the market, money, and modernity. In market society all payments are expressed in money, which due to its impersonal nature, its neutrality, and its abstract character “is free from any quality and exclusively determined by quantity” (Simmel, 2011, p. 301). Beside its economic value, money is thus what best exemplifies the rationality, calculability, and impersonality of modern times, as opposed to the old worldview, based on the primacy of traditions.

3. Market Economy and Freedom

The preconditions of such “modern and almost endless network of exchanges, i.e. the market” (Rothbard, 1993), made possible by the existence of money, are private property, individual autonomy, and the resulting web of interactions which unintentionally gives life to the price system. Prices—whose utility lay in disseminating information on the preferences of customers, and which thus constitute a reliable index of the abundance or insufficiency of goods—are neither imposed nor deliberately decided, being rather the spontaneous result of the demand of a certain commo-

⁹ The expression recurs in Maalouf (1983, p. 301) and is adopted by Pellicani (2011, p. 88).

ty. In Hayek's words: "The Marvel is that in a case like that of a scarcity of one raw material, without an order being issued, without more than perhaps a handful of people knowing the cause, tens of thousands of people whose identity could not be ascertained by months of investigation, are made to use the material or its products more sparingly" (Hayek, 1996, p. 87). In a money-based economy, therefore, each good has its own price, and this implies that those who sell a good can then put their gain at the service of whatever purpose they like. The same freedom is symmetrically achieved by the buyer, as soon as he is able to pay for that good the price demanded by the market. Accordingly, we generally provide to each other the means to pursue each one's goals—goals of which the others are not aware, and which they could in principle even disapprove. Since no acceptance of each other's goals is required, the system of exchanges is perfectly free to develop, increasing in turn the extent of social cooperation.¹⁰ The market is thus to be regarded as a mechanism for the dissemination of knowledge by means of the essential information provided by prices—a mechanism which has as one of its outcomes "that someone is induced to fill the gap that arises when someone else does not fulfil the expectations on the basis of which a third party has made plans" (Hayek, 2002, p. 18). The actors in the market, therefore, are constantly trying to capitalize on such "dispersed" knowledge in order to fill the positions which will best allow them to satisfy other people's needs (whether in terms of goods or services). Moreover, since the ability to explore and discover the unknown becomes effective precisely within such relationship of exchange and social cooperation, competition—and catallactic competition in particular—can be regarded as the best instrument to realize human projects in general; for only where decisions and projects—modes of production and products—are both comparable and testable, it is reasonable to expect the development of society and the advancement of civilization allowed by the ceaseless selection of

¹⁰ Cf. Hayek (2013, pp. 269-271).

what each time proves most satisfactory.¹¹ In other words, it is only through the market that numberless activities may concur to the achievement of certain goods.

It should also be emphasized that both exchange and social cooperation can work exclusively on the basis of the private property of the means of production. "When two goods are indeed exchanged, what is really exchanged is the property titles in those goods. When I buy a newspaper for fifty cents, the seller and I are exchanging property titles: I yield the ownership of the fifty cents and grant it to the news dealer, and he yields the ownership of the newspaper to me" (Rothbard, 1993, p. 638). Consequently, "the key to the existence and flourishing of the free market is a society in which the rights and titles of private property are respected, defended, and kept secure" (*ibid.*). As Hayek pointed out in his *The Road to Serfdom*: "Whoever controls all economic activities controls the means for all our ends and must therefore decide which are to be satisfied and which not" (Hayek, 1972, p.91).

The "market economy" is thus equivalent, first and foremost, to an "economic democracy"; and the latter is what provides the most solid foundation of the freedom of citizens. In other words, economic freedom is the means to a higher end, i.e. freedom *tout court*: "As soon as the economic freedom which the market economy grants to its members is removed, all political liberties and bills of rights become humbug. [...] Freedom of the press is a mere blind if the authority controls all printing offices and paper plants. And so are all the other rights of men" (Mises, 1963, p. 287).

After all, given both the condition of "anthropological ignorance" and the "dispersion of knowledge", any project of centralized planned economy would be substantially impracticable in the long run. Adam Smith was the first to advance the idea that hu-

¹¹ The competition between the actors of the market, conceived as a procedure of discovery of the unknown, is not dissimilar to the condition of the scientist who is trying to solve a scientific riddle: in both cases, since not all the relevant information is available, different solutions (e.g. products) are proposed and then submitted to critical judgment (e.g. that of customers). For an analysis of the analogy between the competitive logic of the market and the logic of scientific research, see Kirzner (1973), Popper (2002), and Hayek (2002).

man knowledge is necessarily partial, fallible, and “dispersed” among millions of individuals, and thus unlikely to be gathered by one or few people. And this amounts to an unassailable criticism against all forms of protectionism or interventionism by an administrative welfare-State, which presumes to know what “every individual [...] can in his local situation judge much better than any statesman or lawgiver can do for him” (Smith, 1811, vol. II, p. 243). It was on this very bases that in the early twentieth century Ludwig von Mises (1951) could diagnose the failure of socialist regimes.

In fact, at the core of socialism lays the public property of the means of production, namely land and capital goods. Here, a real market for either lands or capital goods is basically impossible. While in a money-based economy the information conveyed by the price system allows the calculation of costs and benefits, in a planned economy in which private property is abolished such calculation—and thus the very possibility of a rational economy—is impossible. To authoritatively impose prices, to shield them from the law of supply and demand, means to suppress both competition and the market, thus favouring the social conditions historically connected to the rise of totalitarian regimes. By necessity, as already mentioned, those who possess the means also control the ends, and they can arbitrarily decide which ones deserve to be realized and which ones do not. Therefore, any centralized planned economy, having the presumption of controlling all human activities, “removes all freedom and leaves to the individual merely the right to obey” (Mises, 1963, p. 287). Nevertheless, the presumption of assuming full control of the price system is inevitably doomed to failure. Such system would in fact require the most perfect knowledge of the information influencing the preferences and choices of the economic actors. As a matter of fact, such knowledge is just impossible. As human knowledge is necessarily partial, fallible, and dispersed among millions of individuals, no centralized planning will ever be able to foresee with absolute certainty the future developments of knowledge, let alone being effectively able to centralize an immense amount of in-

formation concerning specific circumstances of time and place. And this—as history teaches us—explains the recourse to widespread campaigns of propaganda, having as their purpose to instil into people the idea of a common prevailing goal as well as the conviction that the means chosen by those who are empowered are the most desirable. Not to mention the recourse, against the “enemy” who does not share the same “truth”, to the indiscriminate use of violence and coercion.

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