

CHAPTER FIVE

Evolution of the Market Pattern

The dominating part played by markets in capitalist economy together with the basic significance of the principle of barter or exchange in this economy calls for a careful inquiry into the nature and origin of markets, if the economic superstitions of the nineteenth century are to be discarded.*

Barter, truck, and exchange is a principle of economic behavior dependent for its effectiveness upon the market pattern. A market is a meeting place for the purpose of barter or buying and selling. Unless such a pattern is present, at least in patches, the propensity to barter will find but insufficient scope: it cannot produce prices.† For just as reciprocity is aided by a symmetrical pattern of organization, as redistribution is made easier by some measure of centralization, and householding must be based on autarchy, so also the principle of barter depends for its effectiveness on the market pattern. But in the same manner in which either reciprocity, redistribution, or householding may occur in a society without being prevalent in it, the principle of barter also may take a subordinate place in a society in which other principles are in the ascendant.

However, in some other respects the principle of barter is not on a strict parity with the three other principles. The market pattern, with which it is associated, is more specific than either symmetry, centrality, or autarchy—which, in contrast to the market pattern, are mere “traits,” and do not create institutions designed for one function only. Symmetry is no more than a sociological arrangement, which gives

* Cf. Notes on Sources, p. 280.

† Hawtrey, G. R., *The Economic Problem*, 1925, p. 13. “The practical application of the principle of individualism is entirely dependent on the practice of exchange.” Hawtrey, however, was mistaken in assuming that the existence of markets simply followed from the practice of exchange.

rise to no separate institutions, but merely patterns out existing ones (whether a tribe or a village is symmetrically patterned or not involves no distinctive institution). Centricity, though frequently creating distinctive institutions, implies no motive that would single out the resulting institution for a single specific function (the headman of a village or another central official might assume, for instance, a variety of political, military, religious, or economic functions, indiscriminately). Economic autarchy, finally, is only an accessory trait of an existing closed group.

The market pattern, on the other hand, being related to a peculiar motive of its own, the motive of truck or barter, is capable of creating a specific institution, namely, the market. Ultimately, that is why the control of the economic system by the market is of overwhelming consequence to the whole organization of society: it means no less than the running of society as an adjunct to the market. Instead of economy being embedded in social relations, social relations are embedded in the economic system. The vital importance of the economic factor to the existence of society precludes any other result. For once the economic system is organized in separate institutions, based on specific motives and conferring a special status, society must be shaped in such a manner as to allow that system to function according to its own laws. This is the meaning of the familiar assertion that a market economy can function only in a market society.

The step which makes isolated markets into a market economy, regulated markets into a self-regulating market, is indeed crucial. The nineteenth century—whether hailing the fact as the apex of civilization or deploring it as a cancerous growth—naïvely imagined that such a development was the natural outcome of the spreading of markets. It was not realized that the gearing of markets into a self-regulating system of tremendous power was not the result of any inherent tendency of markets toward excrescence, but rather the effect of highly artificial stimulants administered to the body social in order to meet a situation which was created by the no less artificial phenomenon of the machine. The limited and unexpanding nature of the market pattern, as such, was not recognized; and yet it is this fact which emerges with convincing clarity from modern research.

“Markets are not found everywhere; their absence, while indicating a certain isolation and a tendency to seclusion, is not associated

with any particular development any more than can be inferred from their presence.” This colorless sentence from Thurnwald’s *Economics in Primitive Communities* sums up the significant results of modern research on the subject. Another author repeats in respect to money what Thurnwald says of markets: “The mere fact, that a tribe used money differentiated it very little economically from other tribes on the same cultural level, who did not.” We need hardly do more than point to some of the more startling implications of these statements.

The presence or absence of markets or money does not necessarily affect the economic system of a primitive society—this refutes the nineteenth-century myth that money was an invention the appearance of which inevitably transformed a society by creating markets, forcing the pace of the division of labor, and releasing man’s natural propensity to barter, truck, and exchange. Orthodox economic history, in effect, was based on an immensely exaggerated view of the significance of markets as such. A “certain isolation,” or, perhaps, a “tendency to seclusion” is the only economic trait that can be correctly inferred from their absence; in respect to the internal organization of an economy, their presence or absence need make no difference.

The reasons are simple. Markets are not institutions functioning mainly within an economy, but without. They are meeting place of long-distance trade. Local markets proper are of little consequence. Moreover, neither long-distance nor local markets are essentially competitive, and consequently there is, in either case, but little pressure to create territorial trade, a so-called internal or national market. Every one of these assertions strikes at some axiomatically held assumption of the classical economists, yet they follow closely from the facts as they appear in the light of modern research.

The logic of the case is, indeed, almost the opposite of that underlying the classical doctrine. The orthodox teaching started from the individual’s propensity to barter; deduced from it the necessity of local markets, as well as of division of labor; and inferred, finally, the necessity of trade, eventually of foreign trade, including even long-distance trade. In the light of our present knowledge we should almost reverse the sequence of the argument: the true starting point is long-distance trade, a result of the geographical location of goods, and of the “division of labor” given by location. Long-distance trade often engenders markets, an institution which involves acts of barter, and, if

money is used, of buying and selling, thus, eventually, but by no means necessarily, offering to some individuals an occasion to indulge in their propensity for bargaining and haggling.

The dominating feature of this doctrine is the origin of trade in an external sphere unrelated to the internal organization of economy: "The application of the principles observed in hunting to the obtaining of goods found *outside the limits of the district*, led to certain forms of exchange which appear to us later as trade."* In looking for the origins of trade, our starting point should be the obtaining of goods from a distance, as in a hunt. "The Central Australian Dieri every year, in July or August, make an expedition to the south to obtain the red ochre used by them for painting their bodies. . . . Their neighbours, the Yantruwunta, organize similar enterprises for fetching red ochre and sandstone slabs for crushing grass seed, from the Flinders Hills, 800 kilometres distant. In both cases it might be necessary to fight for the articles wanted, if the local people offer resistance to their removal." This kind of requisitioning or treasure-hunting is clearly as much akin to robbery and piracy as to what we are used to regard as trade; basically, it is a one-sided affair. It becomes two-sided, i.e., "a certain form of exchange" often only through blackmail practised by the powers on the site; or through reciprocity arrangements, as in the Kula ring, as with visiting parties of the Pengwe of West Africa, or with the Kpelle, where the chief monopolizes foreign trade by insisting on entertaining all the guests. True, such visits are not accidental, but—in our terms, not theirs—genuine trading journeys; the exchange of goods, however, is always conducted under the guise of reciprocal presents and usually by way of return visits.

We reach the conclusion that while human communities never seem to have forgone external trade entirely, such trade did not necessarily involve markets. External trade is, originally, more in the nature of adventure, exploration, hunting, piracy, and war than of barter. It may as little imply peace as two-sidedness, and even when it implies both it is usually organized on the principle of reciprocity, not that of barter.

The transition to peaceful barter can be traced in two directions, namely, in that of barter and in that of peace. A tribal expedition may have to comply, as indicated above, with the conditions set by the

* Thurnwald, R. C., *Economics in Primitive Communities*, 1932, p. 147.

powers on the spot, who may exact some kind of counterpart from the strangers; this type of relationship, though not entirely peaceful, may give rise to barter—one-sided carrying will be transformed into two-sided carrying. The other line of development is that of “silent trading” as in the African bush, where the risk of combat is avoided through an organized truce, and the element of peace, trust, and confidence is introduced into trade with due circumspection.

At a later stage, as we all know, markets become predominant in the organization of external trade. But from the economic point of view external markets are an entirely different matter from either local markets or internal markets. They differ not only in size; they are institutions of different function and origin. External trade is carrying; the point is the absence of some types of goods in the region; the exchange of English woollens against Portuguese wine was an instance. Local trade is limited to the goods of the region, which do *not* bear carrying because they are too heavy, bulky, or perishable. Thus both external trade and local trade are relative to geographical distance, the one being confined to the goods which cannot overcome it, the other to such only as can. Trade of this type is rightly described as complementary. Local exchange between town and countryside, foreign trade between different climatic zones are based on this principle. Such trade need not involve competition, and if competition would tend to disorganize trade, there is no contradiction in eliminating it. In contrast to both external and local trade, internal trade, on the other hand, is essentially competitive; apart from complementary exchanges it includes a very much larger number of exchanges in which similar goods from different sources are offered in competition with one another. Accordingly, only with the emergence of internal or national trade does competition tend to be accepted as a general principle of trading.

These three types of trade which differ sharply in their economic function are also distinct in their origin. We have dealt with the beginnings of external trade. Markets developed naturally out of it where the carriers had to halt as at fords, seaports, riverheads, or where the routes of two land expeditions met. “Ports” developed at the places of transshipment.* The short flowering of the famous fairs of Europe was another instance in which long-distance trade produced a definite type of market; England’s staples were another example. But while

* Pirenne, H., *Medieval Cities*, 1925, p. 148 (footnote 12).

fairs and staples disappeared again with an abruptness disconcerting to the dogmatic evolutionist, the *portus* was destined to play an enormous role in the settling of Western Europe with towns. Yet even where the towns were founded on the sites of external markets, the local markets often remained separate in respect not only to function but also to organization. Neither the port nor the fair nor the staple was the parent of internal or national markets. Where, then, should we seek for their origin?

It might seem natural to assume that, given individual acts of barter, these would in the course of time lead to the development of local markets, and that such markets, once in existence, would just as naturally lead to the establishment of internal or national markets. However, neither the one nor the other is the case. Individual acts of barter or exchange—this is the bare fact—do not, as a rule, lead to the establishment of markets in societies where other principles of economic behavior prevail. Such acts are common in almost all types of primitive society, but they are considered as incidental since they do not provide for the necessities of life. In the vast ancient systems of redistribution, acts of barter as well as local markets were a usual, but no more than a subordinate trait. The same is true where reciprocity rules; acts of barter are here usually embedded in long-range relations implying trust and confidence, a situation which tends to obliterate the bilateral character of the transaction. The limiting factors arise from all points of the sociological compass: custom and law, religion and magic equally contribute to the result, which is to restrict acts of exchange in respect to persons and objects, time and occasion. As a rule, he who barter merely enters into a ready-made type of transaction in which both the objects and their equivalent amounts are given. *Utū* in the language of the Tikopia* denotes such a traditional equivalent as part of reciprocal exchange. That which appeared as the essential feature of exchange to eighteenth-century thought, the voluntaristic element of bargain, and the higgling so expressive of the assumed motive of truck, finds but little scope in the actual transaction; insofar as this motive underlies the procedure, it is seldom allowed to rise to the surface.

The customary way to behave is, rather, to give vent to the opposite motivation. The giver may simply drop the object on the ground and

* Firth, R., *Primitive Polynesian Economics*, 1939, p. 347.

the receiver will pretend to pick it up accidentally, or even leave it to one of his hangers-on to do so for him. Nothing could be more contrary to accepted behavior than to have a good look at the counterpart received. As we have every reason to believe that this sophisticated attitude is not the outcome of a genuine lack of interest in the material side of the transaction, we might describe the etiquette of barter as a counteracting development designed to limit the scope of the trait.

Indeed, on the evidence available it would be rash to assert that local markets ever developed from individual acts of barter. Obscure as the beginnings of local markets are, this much can be asserted: that from the start this institution was surrounded by a number of safeguards designed to protect the prevailing economic organization of society from interference on the part of market practices. The peace of the market was secured at the price of rituals and ceremonies which restricted its scope while ensuring its ability to function within the given narrow limits. The most significant result of markets—the birth of towns and urban civilization—was, in effect, the outcome of a paradoxical development. Towns, insofar as they sprang from markets, were not only the protectors of those markets, but also the means of preventing them from expanding into the countryside and thus encroaching on the prevailing economic organization of society. The two meanings of the word “contain” express perhaps best this double function of the towns, in respect to the markets which they both enveloped and prevented from developing.

If barter was surrounded by taboos devised to keep this type of human relationship from abusing the functions of the economic organization proper, the discipline of the market was even stricter. Here is an example from the Chaga country: “The market must be regularly visited on market days. If any occurrence should prevent the holding of the market on one or more days, business cannot be resumed until the market-place has been purified. . . . Every injury occurring on the market-place and involving the shedding of blood necessitated immediate expiation. From that moment no woman was allowed to leave the market-place and no goods might be touched; they had to be cleansed before they could be carried away and used for food. At the very least a goat had to be sacrificed at once. A more expensive and more serious expiation was necessary if a woman bore a child or had a miscarriage on the market-place. In that case a milch animal was necessary. In addition to this, the homestead of the chief had to be puri-

fied by means of sacrificial blood of a milch-cow. All the women in the country were thus sprinkled, district by district.”* Rules such as these would not make the spreading of markets easier.

The typical local market on which housewives depend for some of their needs, and growers of grain or vegetables as well as local craftsmen offer their wares for sale, shows as to its form indifference to time and place. Gatherings of this kind are not only fairly general in primitive societies, but remain almost unchanged right up to the middle of the eighteenth century in the most advanced countries of Western Europe. They are an adjunct of local existence and differ but little whether they form part of Central African tribal life, or a *cit * of Merovingian France, or a Scottish village of Adam Smith’s time. But what is true of the village is also true of the town. Local markets are, essentially, neighborhood markets, and, though important to the life of the community, they nowhere show any sign of reducing the prevailing economic system to their pattern. They are not starting points of internal or national trade.

Internal trade in Western Europe was actually created by the intervention of the state. Right up to the time of the Commercial Revolution what may appear to us as national trade was not national, but municipal. The Hanse 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 Hanse 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. So-called nations were merely political units, and very loose ones at that, consisting economically of innumerable smaller and bigger self-sufficing households and insignificant local markets in the villages. Trade was limited to organized townships which carried it on either locally, as neighborhood trade, or as long-distance trade—the two were strictly separated, and neither was allowed to infiltrate into the countryside indiscriminately.

Such a permanent severance of local trade and long-distance trade

* Thurnwald, R. C., *op. cit.*, pp. 162–64.

within the organization of the town must come as another shock to the evolutionist, with whom things always seem so easily to grow into one another. And yet this peculiar fact forms the key to the social history of urban life in Western Europe. It strongly tends to support our assertion in respect to the origin of markets which we inferred from conditions in primitive economies. The sharp distinction drawn between local and long-distance trade might have seemed too rigid, especially as it led us to the somewhat surprising conclusion that neither long-distance trade nor local trade was the parent of the internal trade of modern times—thus apparently leaving no alternative but to turn for an explanation to the *deus ex machina* of state intervention. We will see presently that in this respect also recent investigations bear out our conclusions. But let us first give a bare outline of the history of urban civilization as it was shaped by the peculiar severance of local and long-distance trade within the confines of the medieval town.

This severance was, indeed, at the heart of the institution of medieval urban centres.* The town was an organization of the burgesses. They alone had right of citizenship and on the distinction between the burgher and the non-burgher the system rested. Neither the peasants of the countryside nor the merchants from other towns were, of course, burgesses. But while the military and political influence of the town made it possible to deal with the peasants of the surroundings, in respect to the foreign merchant such authority could not be exerted. Consequently, the burgesses found themselves in an entirely different position in respect to local trade and long-distance trade.

As to food supplies, regulation involved the application of such methods as enforced publicity of transactions and exclusion of middlemen, in order to control trade and provide against high prices. But such regulation was effective only in respect to trade carried on between the town and its immediate surroundings. In respect to long-distance trade the position was entirely different. Spices, salted fish, or wine had to be transported from a long distance and were thus the domain of the foreign merchant and his capitalistic wholesale trade methods. This type of trade escaped local regulation and all that could be done was to exclude it as far as possible from the local market. The complete prohibition of retail sale by foreign merchants was designed to achieve this end. The more the volume of capitalistic wholesale

* Our presentation follows H. Pirenne's well-known works.

trade grew, the more strictly was its exclusion from the local markets enforced as far as imports were concerned.

In respect to industrial wares, the separation of local and long-distance trade cut even deeper, as in this case the whole organization of production for export was affected. The reason for this lay in the nature of the craft guilds, in which industrial production was organized. On the local market, production was regulated according to the needs of the producers, thus restricting production to a remunerative level. This principle would naturally not apply to exports, where the interests of the producers set no limits to production. Consequently, while local trade was strictly regulated, production for export was only formally controlled by corporations of crafts. The dominating export industry of the age, the cloth trade, was actually organized on the capitalistic basis of wage labor.

An increasingly strict separation of local trade from export trade was the reaction of urban life to the threat of mobile capital to disintegrate the institutions of the town. The typical medieval town did not try to avoid the danger by bridging the gap between the controllable local market and the vagaries of an uncontrollable long-distance trade, but, on the contrary, met the peril squarely by enforcing with the utmost rigor that policy of exclusion and protection which was the rationale of its existence.

In practice this meant that the towns raised every possible obstacle to the formation of that national or internal market for which the capitalist wholesaler was pressing. By maintaining the principle of a non-competitive local trade and an equally noncompetitive long-distance trade carried on from town to town, the burgesses hampered by all means at their disposal the inclusion of the countryside into the compass of trade and the opening up of indiscriminate trade between the towns of the country. It was this development which forced the territorial state to the fore as the instrument of the "nationalization" of the market and the creator of internal commerce.

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.

The mercantile system was, in effect, a response to many challenges. Politically, the centralized state was a new creation called forth by the Commercial Revolution which had shifted the center of gravity of the Western world from the Mediterranean to the Atlantic seaboard and thus compelled the backward peoples of larger agrarian countries to organize for commerce and trade. In external politics the setting up of sovereign power was the need of the day; accordingly, mercantilist statecraft involved the marshalling of the resources of the whole national territory to the purposes of power in foreign affairs. In internal politics, unification of the countries atomized by feudal and municipal particularism was the necessary by-product of such an endeavour. Economically, the instrument of unification was capital, i.e., private resources available in form of money hoards and thus peculiarly suitable for the development of commerce. Finally the administrative technique underlying the economic policy of the central government was supplied by the extension of the traditional municipal system to the larger territory of the state. In France, where the craft guilds tended to become state organs, the guild system was uniformly extended over the whole territory of the country; in England, where the decay of the walled towns had weakened that system fatally, the countryside was industrialized without the supervision of the guilds, while in both countries trade and commerce spread over the whole territory of the nation and became the dominating form of economic activity. This also accounts for the often puzzling domestic trade policy of mercantilism.

State intervention, which had freed trade from the confines of the privileged town, was now called to deal with two closely connected dangers which the town had successfully met, namely, monopoly and competition. That competition must ultimately lead to monopoly was a truth well understood at the time, while monopoly was feared even more than later as it often concerned the necessities of life and thus easily waxed into a peril to the community. All-round regulation of economic life, only this time on a national, no more on a merely municipal, scale was the given remedy. What to the modern mind may easily appear as a shortsighted exclusion of competition was in reality the means of safeguarding the functioning of markets under the given

conditions. For any temporary intrusion of buyers or sellers in the market must destroy the balance and disappoint regular buyers or sellers, with the result that the market will cease to function. The former purveyors will cease to offer their goods as they cannot be sure that their goods will fetch a price, and the market left without sufficient supply will become a prey to the monopolist. To a lesser degree, the same dangers were present on the demand side, where a rapid falling off might be followed by a monopoly of demand. With every step that the state took to rid the market of particularist restrictions, of tolls and prohibitions, it imperiled the organized system of production and distribution which was now threatened by unregulated competition and the intrusion of the interloper who “scooped” the market but offered no guarantee of permanency. Thus it came that although the new national markets were, inevitably, to some degree competitive, it was the traditional feature of regulation, not the new element of competition, which prevailed.* The self-sufficing household of the peasant laboring for his subsistence remained the broad basis of the economic system, which was being integrated into large national units through the formation of the internal market. This national market now took its place alongside, and partly overlapping, the local and foreign markets. Agriculture was now being supplemented by internal commerce—a system of relatively isolated markets, which was entirely compatible with the principle of householding still dominant in the countryside.

This concludes our synopsis of the history of the market up to the time of the Industrial Revolution. The next stage in mankind's history brought, as we know, an attempt to set up one big self-regulating market. There was nothing in mercantilism, this distinctive policy of the Western nation-state, to presage such a unique development. The “freeing” of trade performed by mercantilism merely liberated trade from particularism, but at the same time extended the scope of regulation. The economic system was submerged in general social relations; markets were merely an accessory feature of an institutional setting controlled and regulated more than ever by social authority.

* Montesquieu, *L'Esprit des lois*, 1748. “The English constrain the merchant, but it is in favour of commerce.”