Towards an understanding of the global market system: a new perspective for economics

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Abstract

The paper proceeds from local economic systems which provide for the exchange of goods with currencies not convertible against any other currency. This implies, according the argument, that such systems constitute separate economic entities as distinct also from the world market system. Theoretically, they form an Archimedic Point which allows to analyse aspects of the evolution of this global system. Assuming a correspondence between actual historical development and the history of thought this perspective sheds new light on changes in consumer behavior; traditional consumption theory and „new economic approach” are interpreted as reflections of a reorientation in consumer behavior. This theoretical insight provides also a new interpretation of the appearance of the new local exchange systems. Taking account of both, the global and the local dimension, this is a contribution to the development of liberal economics as a theory of a dual economy.

"...non-equilibrium may be a source of order."
G. Nicolis, I. Prigogine

Prologue

The most significant impulse to the progress of scientific theory stems from the appearance of new phenomena. This introductory remark may appear trivial, however, it is meant to be a serious warning to readers with well-established research targets. Taking into account the constraint of a limited time budget it might be inefficient to deal with elements which do not allow to fit this paper into any existing research program. Furthermore, there is a message to those who consider „No trespassing” signals at the boundaries of economics as important—it is essential for the purpose of this paper not to observe such signals. On top of that some patience is required to deal with issues long thought to be resolved.

Those who are not deterred from embarking on the voyage described in the topic of this paper will be faced essentially with two elements: the theoretical element is the theory of consumer behavior, the cornerstone of liberal economics. The empirical element which will be taken up to shed some new light on existing theoretical understanding are „Local Exchange Trading Systems” (LETS; sometimes the abbreviation stands for “Local Employment and Trading Systems”). The theoretical element will be dealt with in the following chapters. In the remainder of this prologue LETS will be briefly described. The two threads will be tied together in the conclusion.

The first LETS was established in 1979 on Vancouver Island in British Columbia, Canada. The original model ceased to exist after some years but was copied at various times, it often appeared in modified versions, sometimes also under different names. It mushroomed, first, in other parts of Canada, then in various Anglo-Saxon countries, later also in continental Europe. Thus, they are well established in many of the so-called developed countries, although the turnover of these facilities remains rather limited. (For a survey see Baukhage and Wendl, 1998, as well as Douthwaite and Diefenbacher, 1998: 83-130.)

LETS and its successors are local associations of households, an institutional framework which provides for the exchange of goods (including services) between its members. The exchange is mediated not by ordinary currency, by Dollar, Yen, Deutsche Mark, Euro or whatever, but by a separate local currency. Already the
original LETS in British Columbia used a „Green Dollar” as tender which appeared only as credit and debit in the accounts of the participants. The use of bank or account money is a typical feature of these organizations.

An important variation is the Time-Dollar system; here the price is not freely negotiated, but corresponds to the time invested by the supplier. The value thus has an objective basis. This implies that the system has a very autonomous character; the exchange, for instance, of second-hand goods originally acquired in the established market system would be impossible. This feature would make it easier for the Time-Dollar System to campaign for tax-exemptions.

The issue of fiscal treatment leads to the discussion of the pros and cons of such models, something beyond the scope of this paper. According to the sociologists Offe and Heinze (1990: 43) such models would allow to overcome a deficiency of single household production—its diseconomies of scale. With its relatively labor intensive production in comparison to the established market sector, the local systems would fill a gap between this market system and household production. They would facilitate the production, for instance, of social services and thus create new employment—“employment”, of course, understood in a new way. In this context reference has to be made to the “dual economy” discussion which evolved since the seventies—one of the classic references in this field is Gershuny (1978) who argued on the basis of detailed empirical studies (in Britain) with which he showed fundamental changes in “informal” household production. Translated into the language of economics—with a new form of choice available on the supply as well as on the demand side, equilibrium would be established at a higher level.

However developed the local markets are—for the purpose of the argument put forward here, it is important to emphasize that they exist and, in a certain sense that they exist independently from one another and from the established market system. An economist could measure, not the Gross National nor the Gross Local but the Gross Product of any such local entity. An exchange of goods could only take place either on the established market against normal currency or within the local system. The currency of this system is not convertible against the established currencies; since the local tender exists only as money in account the possibility of a black market can be ruled out. This criterion became practically fulfilled only in recent years with the introduction of computer technology. In fact, also other barter systems would fulfill this technical criterion, and, as Baukhage and Wendl mention (1998: 104), the first founder of a LETS organization, Michael Linton, was inspired by barter clubs. To use the plural when speaking of economic systems is a novelty. According to economic thinking up to now the world-wide market constitutes a totality; only the components of this totality can be comprised. In order to appraise the described step beyond this totality also in the light of existing economic theory the roots of this theory have to be uncovered.

**Back to Basics—Some Elementary Definitions of Economics**

Certainly the saying „economics is what economists do” (Gary Becker (1976: 4) quotes K. Boulding (1966) Economic Analysis. New York: Harper and Row who again attributes this definition of economics to Jacob Viner) is a tautology, but it already indicates the complexity of the problem. In this chapter some very familiar stones will be turned around, although the subject will by no means be exhausted.

Most obviously economists analyse the various aspects of the existing market system in order to describe optimal courses of action. The latter function implies in particular advising governments in respect of their economic policies. The above refers to the substance of economics. It goes hand in hand with what covers the very first pages of almost all textbooks and what can be understood as the formal definition of economics: the allocation of scarce means for the satisfaction of competing ends. Economic theory is an edifice of models built on this fundamental assumption, models which enable the economists either to make statements about the development of the parameters of the economic system or to prescribe the optimal choices to be taken.

To avoid a misunderstanding of these essentials it has to be added that advising in respect of political decisions is not a value-free undertaking, but part of the dispute in the political arena. The various positions in the spectrum of this dispute can be derived from two basic principles: the liberal one emphasizes the „laissez-faire”, the freedom of individual actors in the market system. Their opponents do not trust in the forces of the market and therefore plead in favor of state interventions.

The controversy is also reflected in the roots of economic theory. Whereas according to the liberal view the subject of economic rationality is the individual, the critics of this way of thinking point to the non-rational aspects of individual behavior, and emphasize the superiority of collective decision-making. They see the laboratory of liberal model-building as too detached from the real world of economic processes. However, the attractiveness of this model lies in its rigidity with a very clear-cut conception of the market system’s economic
process. Where is the dividing line between the means and the ends of economic acting? Whereas others are caught in vicious circles the liberal economists just accept the distinction between production and consumption as set by the institution “market” as a basis for their theory. Proceeding from the idea of consumer decision-making as the ultimate purpose of economic acting they take their supply and demand model and enter their struggle for a free market. These economists are not really interested in the consumption process itself, or, as it is usually called, utility. All they want is, as illustrated in a famous analogy, “a photography of consumer tastes ... the individual may disappear”. (Georgescu-Roegen (1971: 343) quotes Vilfredo Pareto (1927). Manuel d’économie politique. Paris: 170; and Vilfredo Pareto (1955). Mathematical Economics. International Economic Papers 5: 61.) Whether egoist or altruist—the homo oeconomicus will always maximize utility. This may be called utility expectation or, as formulated by Samuelson (1950) „revealed preference“. In fact, the development of this theory can be interpreted as an attempt to detach itself from its substantial basis. Here, however, they never completely succeeded. Although the liberal economists are only interested in the head of the homo oeconomicus—the ideal personification of their model of rationality—they could not deny the existence of his or her belly. It has to be added that the advocates who defended the formal model by maintaining the link to the traditional empirical basis never vanished.

In a certain sense the „new economic approach“ appears to be the climax in the history of this theoretical development. Gary Becker (1976: 4) interprets „what economists do“ in a wider sense and suggests that the principle of economic rationality should also be applied to non-market behavior. This would include decisions, for example, about family size, the frequency of church attendance or the allocation of time between sleeping and working hours. Critics may see this as a justification of the early warnings against economics as a science “so prone to usurp the rest” 150 years ago—Edward Coplestone quoted in Schumacher (1974: 33). In the following it will be discussed whether this approach is a pure theory detached from any substance.

The “New Economic Approach”

A cornerstone of the „new economic approach“ is Gary Becker’s theory of the allocation of time. Becker (1965) departs from the traditional consumption theory with his understanding of consumer behavior. In his theoretical framework the consumer is not considered to be a passive maximizer of the utility of market goods; instead, he/she proceeds from the idea of private households as producing units which combine market goods and (non-working) time to produce so-called „basic commodities”—commodities to be consumed directly.

Thus the „new economic approach“ (also labeled as “household production model”) does not make use of the market system to define „products“ in a traditional sense. However, with the newly introduced element „time“ Becker’s theory remains closely connected with the institution „market system“. In fact, his distinction between working and non-working time provides a new mode to divide the totality of the economic process; i.e., to differentiate between means and ends. Since working-time refers to labor in the productive sector of the economic system, the residual non-working time comprises various, very different activities. Becker (1965: 495) does not restrict himself to pure leisure time activities. Activities covered by his theory comprise for instance housework, the seeing of a play, or just sleeping. The last example would imply the input of market goods such as a bed, a house, possibly pills and time.

The new theory makes it possible to investigate, for instance, the impacts of income variations, or the effects of changes in the prices of the input goods. It allows to study the mutual substitution of input factors by measuring their opportunity costs, or the causes of the higher productivity of time. This last point refers in particular to the increased importance of household technology which is highlighted by the “new economic approach”.1

Gronau (1977) attempted to make the theory more „realistic“; for instance, bydifferentiating between (beside labor in the market system) housework, and leisure. It appears to make sense not to put housework, sleeping, and the seeing of a play into the same box. In practice, however, such concepts run into problems of defining clear dividing lines—is cooking always housework or might it not sometimes be a leisure time activity? The question would lead to the output of the model—the „basic commodities“. Here, however, as with regard to utility in the traditional theory, the economists have very little to contribute. What can already be established is the process (of cooking, eating etc.), not the product which matters as output. Within the framework of the “new economic approach” there is no clear-cut distinction between production and consumption of, say, a “home cooked meal” (Pollak and Wachter, 1975: 270 provided this unfounded case).

Since, after all, the output is determined by the input, it is quite illuminating to take a deeper look at the element “time” newly introduced by Becker. It was a real innovation to understand “time”, time in the non-working sphere, as scarce and thus subject to economic analysis. It may appear to be a paradox that scarcity of non-
working time focuses attention, although its quantity has increased due to the significant reduction of working hours. But scarcity does not mean a lack or shortage. It is the framework as set by the institution (global) market and not the conditio humana, as Moore (1963) maintains, which explains the phenomenon “scarcity of time”. Scarcity means, as Sichtermann (1978: 165) emphasizes, that something is there, although not in infinite quantities—therefore, it has to be quantified, divided, made subject to rational planning; time can be utilized or it is wasted, it polarizes, as Scitovsky showed, between stimulation and boredom. But stop! The last remark again refers to the output which will be dealt with in detail in the following chapter.

In a more general sense the theoretical cornerstones described so far will be integrated into the framework of their economic and social origin. Of course, the limited scope of this article allows to highlight only some of the most salient empirical elements which explain the process of model building in economics.

Aspects of the Evolution of the Global Market System

Becker (1965: 505-508) is aware that scarcity of time is a rather new phenomenon. (For surveys of the empirical literature on time-use studies see Juster and Stafford, 1991, and Offe and Heinze, 1990: 26-36.) He explains it with the increase in productivity mainly of working time but also of consumption time which led to a change in the relative prices of commodities; i.e., the input commodity “time” has become more precious in relation to that of other input commodities. Thus Becker admits the existence of a socio-economic process, but apart from this short description makes hardly any attempt to elaborate this matter. Neither he nor the scientists following his footsteps ever ask for the causes of this process.

Fred Hirsch (1970: 111) also proceeds from the notion that with the increasing output of material goods the time for using them remains constant and in relation to these goods becomes scarce—the goods’ intensity of time increases. In his „Social Limits to Growth“ he criticizes the negative implications of this development. According to him scarcity of time implies that social relationships are also economized: to do a favor to somebody might not be economical. A vicious circle is triggered off: the need for social contacts remains more and more dissatisfied. The „rat race“ (Hirsch, 1980: 115) continues: income has to be generated to acquire the goods offered in place of what had once been free. This vicious circle undermines the social foundations of the market system.

Hahn (1987: 127, 128) observes an increasing discrepancy between abstract linear time and actually experienced event time. The compulsion to make choices (also to avoid false choices) widens the gap between punctualization of the presence on the one hand and rationalization of time input on the other. “Event time” or „punctualization of the presence” are again terms which refer to the output of the economic process, the „black box” for economists. As with „utility” of the homo oeconomicus, it is already outside the reign of economics—but economics cannot avoid to name these cornerstones of its edifices. This, in particular, since two models now coexist. It can be considered as certain that the essential difference of the „output” of the “new economic approach” as distinct from „utility” is the incorporation of the input factor „time”. For the purpose pursued in this paper it is essential to establish the fundamental reorientation in consumer behavior. The actual objective of present economic behavior can only be circumscribed. As utility (Robinson, 1983: 48) the “basic commodities” of the “new economic approach” is a metaphysical concept. To seal economics off from these “black boxes” would make a theory, as Albert remarks in respect of utility, irrefutable (1965). To the author of this article Hahn’s notion of an individual who is working on his or her biography (1987: 128) appears to be quite illuminating. Today’s self-orientation of the ideal consumer means that the market-good orientation is subsumed under this new orientation. The „new homo oeconomicus” pursues his or her objective; the material or social environment constitutes, depending on the stage of acceleration or deceleration, a passing experience. The argument does not imply that such patterns of behavior cannot be traced in the past, say, the 19th century. The thesis put forward here is that it became the determinant feature of consumer behavior (and thus consumer demand) during the 20th century.

Taking a look at the development of the theories which reflect the different orientations of consumer rationality will provide further illustration of this fundamental turn in consumer orientation. Clearly, the integration of the utility concept into the supply and demand model (i.e. the development of the centerpiece of neo-classic economic theory) coincided with the take-off of mass consumption. At the end of the 19th century, consumption of goods provided by the institution „market” ceased to be just of marginal importance; it replaced the subsistence economy of the traditional „oikos”. Goods, one has to add, in the sense of material goods, although the market system also accommodates for the exchange of services. This explains why for economists at the beginning of this century, economic problems were identified as material problems—foresighted the view of Maynard Keynes (1931) in his „Economic Possibilities for our Grandchildren” when he predicted the end of this economic problem. A few years later Rosenstein-Rodan (1934) remarked that in Cockaigne goods may be free
but man would not have the time to satisfy all needs. Many other economists began to think about the issue
“time”, but they remained too fixed to the traditional substance of economics.

Meanwhile, the neo-classic consumption theory became more and more refined. The scholars of the Chicago
School of Economics took a very radical stand—on one hand they further developed the very formal
understanding of their science, on the other—and here they deserve credit in comparison to other schools of
liberal economics—they kept the window to the outside world open and managed to integrate empirical findings
into their models. One prominent member of the Chicago school, Gary Becker (1976) shows no appreciation for
the old definition in terms of material goods. He goes beyond mere market decisions and considers, as shown, all
human behavior to be the subject of an economists’ analysis, which remains linked, apart from its concept of
time, through prices (real or as-if) with the market system.

This comprehensive understanding of rational behavior provides a synthesis of traditional consumption theory
and the views of the numerous opponents of this theory who had maintained the non-rational aspects of
consumer behavior. Economists who defended the traditional model explained the strong empirical evidence
provided by psychologists and other social scientists with changes in tastes. According to a fundamental axiom
of traditional consumption theory changes in tastes over time as well as differences in tastes between people
were ruled out from the model. The newly developed tool reconciles these contradictory positions: a consumer
choice might not be rational in the traditional sense, i.e. with regard to a market good, but is nonetheless rational
with regard to a “basic commodity” as defined by the “new economic approach”2. This point will be further
illustrated in the following chapter.

Consumer Rationality and the Global Market System

Becker departs from the essential assumption of the traditional neo-classic model of complete information.
Collecting information is—according to Becker (1976) who refers here to Stigler (1961)—a cost factor and thus
subject to optimization. It is quite interesting to contrast this view with the traditional assumption: complete
information was a realistic mirror of consumer behavior at a time when goods spoke for themselves without
further communication between supply and demand. Generally, Becker sees no contradiction between his
approach and traditional consumption theory and emphasizes its wider possibilities. He does, however, not avoid
the issue of irrational consumer demand. Becker (1976: 156) defends the neo-classic case by underlining that the
demand curve always proved to be negatively inclined. All this would not be denied by the critics of the liberal
demand theory; in essence, their point had always been that the assumption of rational consumer behavior as the
foundation stone and justification of the laissez-faire ideology was false. Sure, the consumer (according to
Becker) is not manipulated; he/she is behaving quite rationally, but on an elaborated level which does not always
make it opportune to spend much time and effort for a complex decision process when it comes to, say, making
the choice for a chewing gum. This in particular when the consumer in question is just preoccupied with, to use
some examples of Beckers analysis, the intricate issue of marriage, the (dis)advantages of crime or, if things go
terribly wrong, committing suicide (Becker, 1976: 9f). But again, to avoid a misunderstanding of this illustration,
mother, crime, and suicide had been serious issues a hundred years ago, but under conditions such as the
relative scarcity of market goods and the non-commercial character of social relations, the assumptions of the
traditional model were well founded.

Becker (1976: 161) comes to the conclusion that despite consumer irrationality markets may be quite rational.
The lack of testability of the consumption theory makes it difficult, if not impossible to refute this position just
by looking at consumer behavior. If, however, the thesis put forward in this paper, that rational consumer
orientation is less and less directed towards market goods, then this should also be reflected in the manner the
supply side can react in a rational way. It has to be conceded that this line of argument is not absolutely
unequivocal: The effect of other parameters beside consumer demand cannot be ruled out, but, on the other hand,
it would be hard to deny the impact commercialization of all aspects of human behavior had on the production
side. Economic model building reacted by integrating uncertainty, ignorance and complexity into elaborate
theories. Simons (1957) turned homo oeconomicus into REMM (resourceful, evaluative, maximizing man).
REMM is not always acting rationally, but as optimally as a given situation allows. This implies procuring
information and pursuing multiple targets. This is just one among many examples of a theoretical development
which is not only the consequence of the ever growing scholarly wisdom, but a reaction to fundamental changes
in the subject of the analysis. Instead of providing new variations in explaining “imperfect markets” this macro-
economic issue can only be tackled by taking account of the fundamental reorientation on the micro-economic
level.

It would be beyond the framework of this essay to elaborate the issue of market rationality. However, the above
suffices to envisage research programs which trace the evolution of the market system by analysing the
theoretical reflections of this process. It would, for instance, be interesting to contrast the way business and business environment were organized in a rational way as depicted by the sociologist Max Weber a century ago with the present situation. As in Max Weber’s academic work also today the capital account might be considered as the centerpiece of a “hard” rational structure, complemented, however, by equally important “soft” disciplines such as marketing. The bridge between “hard” and “soft” describes not only the task of today’s business economics, but also between production and consumption; the latter being orientated rather towards the product image and less towards the actual product. The micro-economic considerations presented here would have to be supplemented: it would be necessary to integrate concepts specifically designed for the macro-level, as, for instance, monetary theories.

Conclusion

It was shown that the definitions of economics as presented in chapter II all have their relevance. Drawing a line from an understanding of economics as the subject concerned only with the fulfillment of material needs to a discipline which reflects the almost complete integration of all aspects of human life into this system provides a new perspective. Underlying this theoretical development is the evolution of the market system. This also concerns the traditional consumption theory and with it the whole edifice of neo-classic economics built on it. Chapter 4 and 5 highlighted some links of the interwoven process of socio-economic and theoretical development. The evidence provided so far is of course only a starting point: it will be a great challenge to study both past and future trends of this evolution.

The point has been arrived at where the circle described in this essay can be closed. The ultimate question which remains to be answered is why, despite obvious evidence, it was not possible to develop the „trans-economic criticism” as Niessen (1988: 78) demanded in his discussion of the “new economic approach”. Certainly, one explanation is the non-historic attitude of most of the economists who are, as Niessen remarks, unable to reflect the attachment of their theory to a specific period in history. In this paper it was possible to go beyond this limit because the Archimedic point described in the prologue opened a new perspective. So far, all economics is economics bound to one system, the “global market system”. As shown in chapter I, modern technology makes it possible to have systems independent from this global market. The decisive deficit of all economics so far is that it remains entangled in the great dispute over the right policy within this “global market system”. Regulation versus deregulation—ultimately all economists take their places in the trenches of this contest following either the mercantilists or Adam Smith. The “new economic approach” makes no exception.

The descriptive models built by Becker and others generate predictions only seemingly detached from the great battles of economic policy. Their claim not to state “what ought to be” (Becker, 1976: 9) appears to be justified. Taking a look at the assumptions of such models, however, shows that the distinction between normative and descriptive economics is never absolute—“the economic approach assumes the existence of markets that with varying degrees of efficiency co-ordinate the actions of different participants—individuals, firms, even nations—so that their behavior becomes mutually consistent” (Becker, 1976: 5). Becker himself concentrates very much on micro-economic issues which affect political decision making concerning the framework of economic activity. But at least indirectly his contribution also forms a basis for macro-economics. An economic adviser committed to the goal of maximizing, say a nation’s Gross Domestic Product will, if he uses the “new economic approach” as a tool, plead in favor of deregulation or lower taxes. On top of that Becker’s studies are used for suggestions concerning social policy, something which critics consider as “economic imperialism” (discussed by Pies, 1998: 21-26).

Certainly, the “new economic approach” is not a value-free undertaking; it is part of the ultra-liberal crusade for deregulation which again creates the framework for an acceleration of the commercialization process. The critics of this development tend to overlook the explanatory value, the insight this theory gives into the process which penetrates all aspects of human live. Systems like LETS indicate that there is a need for new exchange mechanisms beyond the one offered by the global market system. The option of economic activity in local exchange systems is a response to the deficits inherent in the evolutionary process of the market system. Economics itself is—as in the past—part of this process; it contributes to change and it will be changed. Whether by historic analysis as in the rather conventional approach presented here or by adopting other methods—at the end “economics” will not be bound to one reference system only.

Endnotes

1. It should be added that the so called “new economic approach” is—with Becker’s pioneering article being published in 1965 - not really new. Since then a great number of models based on this approach have been
developed (for an overview of this literature see for instance Juster and Stafford, 1991: 486-492), the approach has repercussions outside the small field of consumer economics (see for instance Pies, 1998). This success also triggered criticism and attempts to establish alternative approaches. Fuller (1996), for instance, criticizes Becker from a Post Keynesian position. Also to be mentioned is Niessen (1988). Other schools of neo-classic economics reacted as, for example, Kahneman, Wakker, and Sarin (1997) with an attempt to give the old concept of utility new prominence.

2. The threshold between consumer good and consumption process oriented approach is made apparent by Becker and Stigler (1977) in their article “De Gustibus Non Est Disputandum”: in contrast to traditional consumption theory tastes are not considered to be different between people and/or over time. Also for Lancaster (1977: 134) the structure between goods and consumer preferences is of an objective kind. This fundamental switch in assumptions indicates that, like Becker, Lancaster is breaking away from the traditional view of market goods as direct objects of utility. Like Becker, he considers consumption as a process, an “activity” (Lancaster, 1977: 133). Lancaster focuses on the properties of market goods. With his emphasis on the variety of characteristics a good or a combination of goods possesses he achieves to comprehend quality variations, an issue only unsuccessfully tackled within the framework of traditional economic theory. (For a discussion of this development see Schröder, 1992: 44-61).

3. This closes the circle to the introductory quotation from Nicolis and Prigogine “...non-equilibrium may be a source of order.” For an adoption of methods developed in the natural science see for instance Georgescu-Roegen (1971) or Waldrop (1992).

References


