


The Real Free Markets

The history of capitalism exposes its manipulative role in replacing the spontaneous coordination and balance of the market with rigid planning and managerial hierarchy that gives rise to the effects of 'Antimarkets'. Significant lessons in returning to the natural interactivity and coordination are drawn from living systems and institutional ecology which is the closest to multi-stakeholder economics or network economics.

Knowledge and information are the key ingredients of the new age industries. Electricity, computers and the internet, separate inventions in their own right, are the force behind this revolution.

Do we understand enough about the potential of this revolution to address issues of inequity and access or the risks of greater marginalisation and benefits to a few?

Manuel de Landa, a contemporary Mexican philosopher, raises the need for a set of new economic theories. He questions the extreme positions of Right wing and Left wing theorists and attempts to arrive at a model in between based on insights from certain philosophers of economics and from live examples of enterprises from the ground.

Markets, Antimarkets and Network Economics, by *Manuel de Landa*, 

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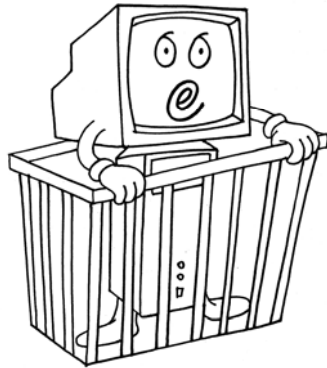
Civilization and Capitalism 15th-18th Century by *Danny Yee*. 1995, <http://www.riseofthewest.net/thinkers/braudel03.html> [C.ELDOC6008825]

Markets, Antimarkets and Network Economics

Manuel de Landa

Looking back to look forward

It is a very important task for today's intellectuals to create realistic scenarios of the world of twenty-first century economics. One of the several problems faced is that intellectuals on the right, center and left sides of the political spectrum are all trying to predict what a



twenty first century economy will be like on the basis of theories devised to explain the working of nineteenth century England. Whether one is using the conceptual machinery of Adam Smith or of Karl Marx (or of any combination of the two), whether one sees in the recent commercialization of the internet a new invisible hand that will magically benefit society, or whether one sees in this commercialization the commodification of the Net which will magically ruin

society, one is still trying to understand what is a radically new phenomenon in terms of obsolete categories belonging to bankrupt systems of thought.

It is time to go beyond both the invisible handers and the commodifiers and to attempt to construct a new economic theory that not only gives us a clearer picture of the future, but almost as important, of the past, since it is impossible to know where we are going unless we know how we got where we are. It is not as if we would need to manufacture a new theory out of thin air.

Alternatives such as the institutionalist school of the followers of **Thorstein Veblen** have existed in the past and new theories are flourishing today, such as the neo-institutionalist school and the growing field of non-linear economics. Also,

economic historians like **Fernand Braudel** and his followers have given us a fantastically detailed account of the development of Western economies in the last eight hundred years, and this research has generated a wealth of empirical data which simply was not available to either Adam Smith or Karl Marx when they created their theories.

Furthermore, the new data contradicts many of the foundations of those two systems of thought. Finally, not just economists and economic historians will be involved in developing the new ideas we need, philosophers will also participate: in the last twenty years the discipline of the philosophy of economics (that is the philosophy of science applied to economics) has grown at a tremendous pace and is today a very active field of research.

Main concepts of past economic theories

Perhaps the most dramatic new insight emerges from Fernand Braudel's history of capitalism. Unlike theorists from the left and the right who believe capitalism developed through several stages, first being competitive and subservient to market forces and only later, in the twentieth century, becoming monopolistic, Braudel has shown with a wealth of historical evidence that as far back as the thirteenth century, and in all the centuries in between, **capitalism has always engaged in anti-competitive practices, manipulating demand and supply in a variety of ways.** Whenever large fortunes were made in foreign trade, wholesale, finance or large scale industry and agriculture, market forces were not acting on their own, and in some cases not acting at all.

In short what Braudel shows is that we must sharply differentiate between the dynamics generated by many interacting small producers and traders (where automatic coordination via prices does occur), from the dynamics of a few big businesses (or oligopolies, to use the technical term), in which prices are increasingly replaced by commands as coordinating mechanisms, and spontaneous allocation by the market replaced with rigid planning by a managerial hierarchy.

These new historical findings suggest that all that has existed in the West since the fourteenth century, and even after the Industrial Revolution, is a heterogeneous collection of institutions, some governed by market dynamics and some others manipulating those dynamics, and not a homogeneous, society-wide capitalist system. In the words of **Fernand Braudel**: "*We should not be too quick to assume that capitalism embraces the whole of western society, that it accounts for every stitch in the social fabric...that our societies are organized from top to bottom in a 'capitalist system'. On the contrary, ...there is a **dialectic still very much alive between capitalism on one hand, and its antithesis, the 'non-capitalism' of the lower level on the other.***"

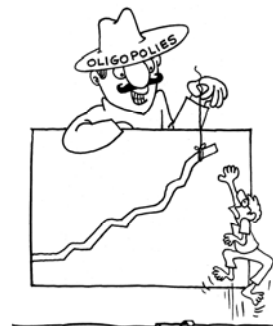
And he adds that, indeed, *capitalism was carried upward and onward on the shoulders of small shops and "the enormous creative powers of the market, of the lower storey of exchange...This lowest level, is the one readiest to adapt; it is the seed bed of inspiration, improvisation and even innovation, although its most brilliant discoveries sooner or later fall into the hands of the holders of capital. It was not the capitalists who brought about the first cotton revolution; all the new ideas came from enterprising small businesses."*

Insidious ideological manoeuvre

These days generally, an ideological manoeuvre is performed through several operations.

First one uses the word competition as if it applied both to the anonymous competition between hundreds of small buyers and sellers in a real market (the only situation to which Adam Smith applied his invisible hand theory) as well as to the competition between oligopolies, say, General Motors, Ford and Chrysler.

The problem is that, these two forms of competition are completely different, with the competition between oligopolies involving rivalry between opponents which must take each other's responses into account when planning a strategy. As economist John Kenneth Galbraith has shown, oligopolies are structures as hierarchical as any government bureaucracy, with as much centralized



planning, and as little dependency on market dynamics.

Unlike the small buyers and sellers in a real market, who are price-takers (that is, they buy and sell at prices that set themselves), oligopolies are price-makers, that is, they create prices by adding a mark-up to the costs of production.

In short, when one confuses these two types of competition one fails to distinguish between markets and antimarkets.

Then, oligopolies, and their power to absorb smaller competitors through vertical and horizontal intergration, are eliminated from the picture, and the landscape now contains only markets and the government, with monopolies being now the only antimarket force left, but one that can be easily dismissed.

Thus it is agreed that there are such things as monopolies, like those of the Robber Barons of the nineteenth century, but the enormous profits that these monopolists generate are seen as transitory, and therefore the menace they represent is dismissed as largely imaginary. Microsoft is today playing a similar role as the Robber Barons.

In short, the core of the ideological manoeuver is to lump together small producers and oligopolies in one category, and to call that the market, and to focus exclusively on government regulation as the only real enemy, dismissing monopolies as chimerical.

Markets – Antimarkets

Several things follow from Braudels' distinction between **market and capitalist institutions** (or as he calls them **antimarkets**).

- For people on the right and center of the political spectrum all monetary transactions, even if they involve large oligopolies or even monopolies, are considered market transactions.
- For the Marxist left, on the other hand, the very presence of money, regardless of whether it involves economic power or not, means that a social transaction has now been commodified and hence made part of capitalism.

Braudels' empirical data forces us to make a distinction which is not made by the left or the right: that between market and antimarket institutions.

In fact, we can already see the kind of dogmatic responses that the lack of this distinction promotes on discussions in the internet. As it became clear that digital cash and secure crypto-technology for credit card transactions were going to transform the Net into a place to do business, some intellectuals became euphoric about the utopian potential of digital free enterprise, while others began to denounce the internet as the latest expression of international capitalism or claim that the Net was becoming commodified and hence reabsorbed into the system.

It is clear, however, that if we reject these two dogmatic positions, our evaluation of the economic impact of the Net (its potential for both decentralization and empowerment of the individual producer and for centralization of content production by a few large firms) will have to become more nuanced and based on more complex models of economic reality.

Network Economics and Institutional Ecology

Besides the distinction between markets and antimarkets our models of network economics must take advantage of recent discoveries in **non-linear science** and **theories of self-organization**. Basically, these theories may be used to explain the emergence of wholes that are more than the sum of their parts. Real markets are, in a sense, such synergistic wholes since they emerge as a result of the unintended consequences of many independent decision makers. In this sense, *markets are quite similar to ecosystems in many respects.*

The internet is one such self-organized entity, despite its origins in the hands of military planners.

One thing markets, ecosystems and decentralized networks have in common is that their synergistic properties emerge spontaneously out of the interactions among a variety of elements, plants and animals, sellers and buyers, or computer servers and clients.

To understand the processes that lead to such emergent, synergistic wholes, we need to create new ways of modeling reality. In particular, instead of beginning at the top, at the level of the whole, and moving down by dissecting it into its constituent parts, we need to *create models that proceed from the bottom up*.

For example, instead of creating a computer model of a market, ecosystem or computer network, by using a small set of mathematical functions (that capture the behaviour of an idealized whole), we need to create virtual environments in which we can unleash a population of virtual animals and plants, buyers and sellers, or clients and servers, and then to let these creatures interact and allow the self-organized whole to emerge spontaneously.

In this way the bottom-up modeling strategy compensates for a weakness of the top-down strategy.

The emergent properties are of complex interactions between heterogeneous elements, but top-down analysis dissects and separates elements, that is, eliminates their original interactions, and then adds them back together. This operation necessarily misses any property that is more than the sum of the parts. Hence analysis needs to be complemented with synthesis, as is done today, for example, in the discipline of Artificial Life and in the branches of Artificial Intelligence known as connectionism and animats.

This switch in modeling strategy would have a significant impact on the shape of the new paradigm of economics. Instead of postulating a whole, a capitalist system, for instance, and then attempting to capture in some mathematical formulas its basic dynamics, we would unleash within a virtual environment a population of institutions, including virtual markets, antimarkets and bureaucratic agencies. Only if we can generate from the interactions of these virtual institutions, something like a capitalist system, would we feel justified in postulating an entity like that.

Heterogeneity may be crucial not only when thinking about network economics but, more generally, when analysing the oppressive aspects of today's economic system, that is, those aspects that we would want to

change to make economic institutions more fair and less exploitative.

We need to think of economic institutions as part of a larger institutional ecology, an ecology that must include, for example, military institutions. Only this way will we be able to locate the specific sources of certain forms of economic power, sources which would remain invisible if we simply thought of every aspect of our current situation as coming from free enterprise or from exploitative capitalism.

In particular, many of the most oppressive aspects of industrial discipline and of the use of machines to control human workers in assembly line factories, were not originated by capitalists but by military engineers in eighteenth century French and nineteenth century American arsenals and armouries. Without exaggeration, these and other military institutions created many of the techniques used to withdraw control of the production process from workers and then exported these techniques to civilian enterprises, typically antimarket organizations.

Not to include in our economic models such processes occurring within this wider institutional ecology can make invisible the source of the very structures we must change to create a better society, and **hence diminish our chances of ever dismantling those oppressive structures.**

Left and Right are wrong!

But we would be wrong to think that the only ones to be ideologically biased in this debate are right-wing invisible handers. Left-wing commodifiers are equally simplistic in their assessments, although perhaps disguising their methodological biases a little bit better.



My conclusion is that neither side of the political spectrum can be trusted any more in their economic analyses, and that a new economic theory, one that respects the lessons of economic history and that assimilates the insights from non-linear dynamics and complexity theory, should be created.

As I said in my introduction, the elements for this new theory are already here, not only from institutionalist economists and materialist historians, but from philosophers of economics that are now more than ever participating in dispelling the myths that have obscured our thought for so many centuries. ▶