



**SOCIAL
EVOLUTION AND
DEVELOPMENT OF
ECONOMIC
INSTITUTIONS**

FACILITATOR: DIX SANDBECK

The Invisible Hand Meme

In his book “The Wealth of Nations” (1776), Scottish economist Adam Smith famously declared:

“Every individual...generally, indeed, neither intends to promote the public interest, nor knows how much he is promoting it. ... [H]e intends only his own gain, and he is in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention.”

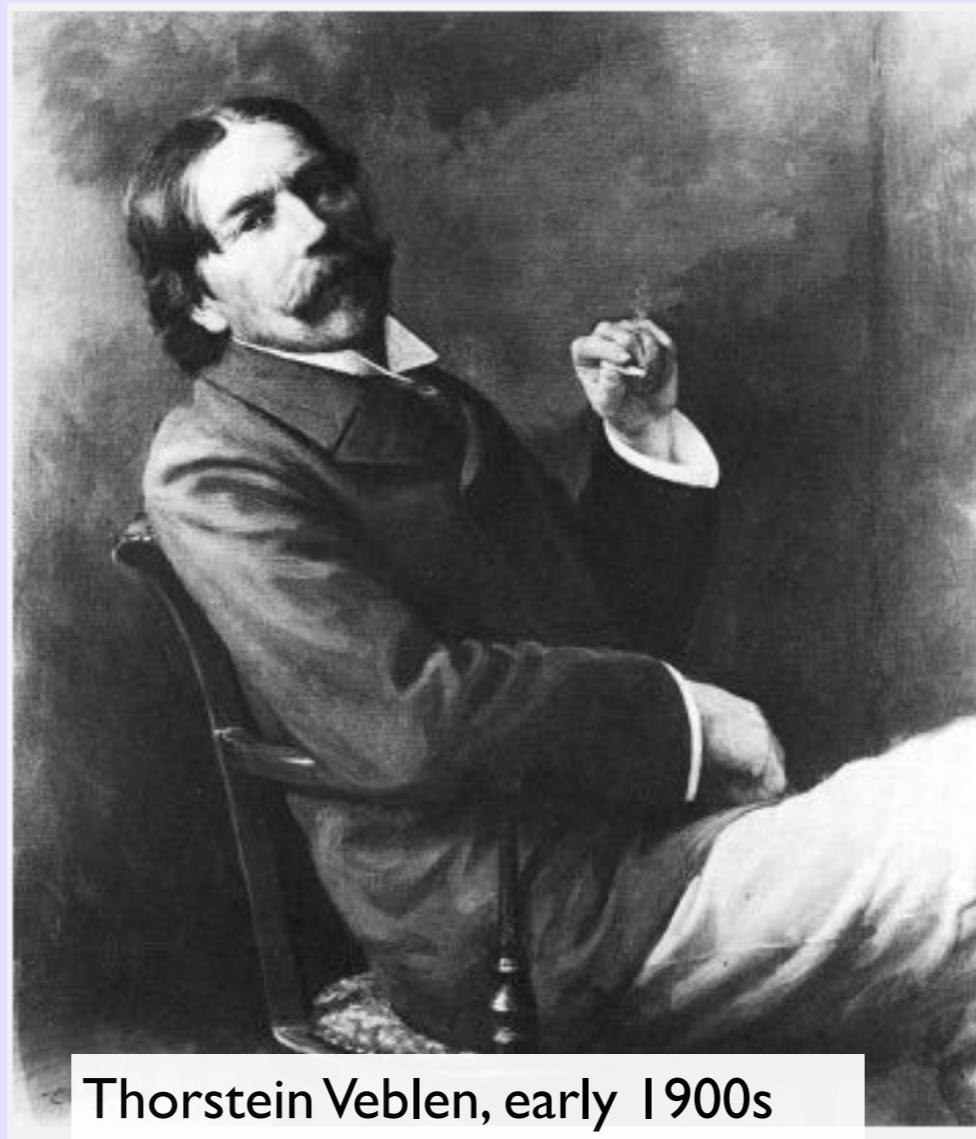
This idea of an invisible hand guiding markets and economic activities has had a lasting influence upon economics and underlies many strands of modern economics.

The Economics of Mechanical Dolls



Mechanical dolls: models of perfect economic men and women

- It particularly influenced neoclassical economics, which rose to the forefront by the end of the 19th century and still dominates mainstream economic views.
- It was held that interactions between humans work like mechanical dolls driven by the clockwork of economic self-interest. This was the invisible hand that guided the actions of people toward the best possible world of allocations and distributions.
- Inevitably, this version of economics was presented as a science of universal validity and therefore separated from history.



Thorstein Veblen, early 1900s

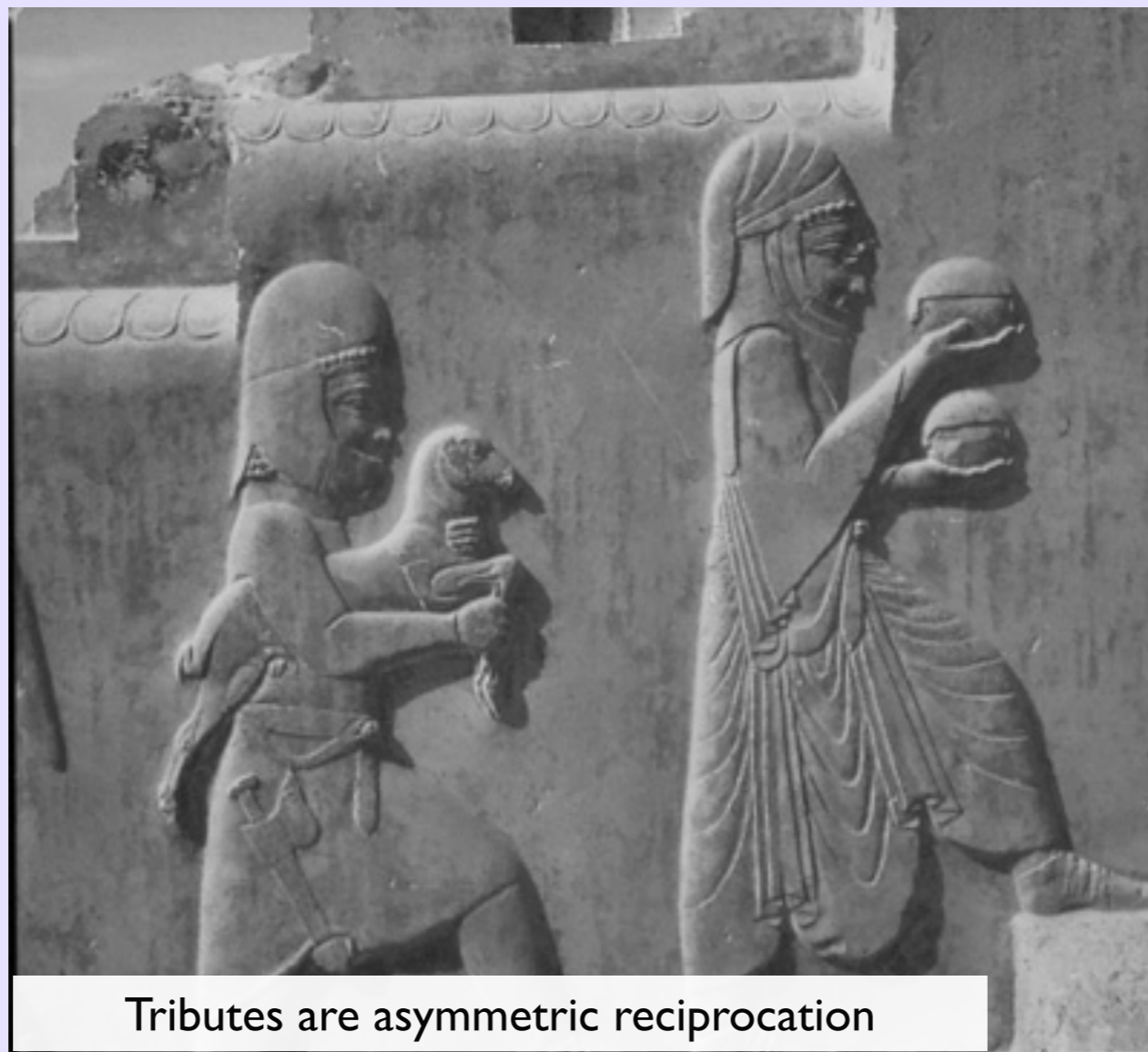
- One economist who rebelled against this mechanistic view was Thorstein Veblen. In 1898 he wrote an essay posing the question “Why is economics not an evolutionary science”. In it he stated (slightly paraphrased):
- “[In economics] the evolutionary point of view leaves no place for a formulation of natural laws, in terms of definitive normality...”
- “Evolutionary economics is a theory of process and cultural growth, determined by the economic interest, and expressed by a cumulative sequence of economic institutions...”

Social proximity exchanges



Social proximity exchanges often evolve into reverse competition

- The neoclassical view, based on economic events driven by rational private maximization, are revealed as inadequate by a number of exchange phenomena that forsake the neoclassical expectation of self-interest maximization.
- One such exchange type is the social proximity exchange; that is exchanges among agents that are socially close, e.g. friends, relatives, neighbours, work colleagues, etc.
- Social proximity exchanges are bounded by the aim of maintaining good social relations. Thus, it is important to show generosity and avoid open economism, including precise weighing and counting exchange items.



- Another exchange form that departs from neoclassical system is power confirmation exchanges, which occurs as reciprocation between status holders in interconnected networks. Oftentimes, reciprocation is conflict support, etc.
- If relationships in a political system are asymmetric, the reciprocation can turn into tribute transfers.
- Modern lobby and election campaign donations are dealings in political influence. Reciprocating activities are typically not firmly defined but expected.



Kula expedition in Melanesia

- Social proximity exchanges were common in clan-tribal societies. An example is the *kula ring*, exchanges of symbolic gifts whose aim is to maintain friendly and peaceful relations with ‘neighbour’ clans living on other islands in the archipelago.
- In modern societies, social proximity exchanges are secondary to market events, and represents survival of an ancient institutional typology with roots in early clan-tribal societies.
- In clan-tribal societies, social proximity exchanges were major socio-economic institutions that grew up in parallel to non-economic subsistence activities.



- While the high status members of a *kula* expedition would present *kula* gifts to status members of the visiting island, low status members would engage in *gimwali*, or barter markets, on the beach where the expedition had landed.
- Since the *kula* expeditions were irregular, so were the *gimwali* markets. Thus, *gimwali* were opportunistic spot markets whose times and places were unpredictable.
- At *gimwalis*, economism prevailed, i.e. the bartered items were valued in a simple manner according to quality and quantities.



Garage sales can be considered modern-day *gimwalis*

- While economism were dominating during *gimwalis*, they tended to also be social events where news were exchanged and marriages discussed.
- Therefore, at this stage of development barter events remained closely tied to the overall socialization aspects for the involved communities.
- In modern societies, garage sales are likewise a kind of opportunistic spot markets where socialization play a role. They are seldom held purely for the money income they provide, but often occur as a street level social activity.



Reciprocating a standard wine with a grand cru, which the neoclassical self-maximizer would welcome, would fall outside of the social norm, and be seen as a show-off that is counterproductive to the goal of strengthening friendship.

- A common modern social custom is that friends who come to dinner bring a bottle of wine along. If one is invited to dinner at their house at a latter date, one will reciprocate by also bringing a bottle of wine along.
- This is a social institution confirming friendship through a symbolic gift exchange.
- Money cannot substitute in such exchanges. If one were to present money in an amount corresponding to the value of a bottle of wine—an action that the rational actor in the neoclassical universe would be indifferent to—in the real world of social relations it would be considered absurd and profusely insulting.

Spot Markets - the Birth of Markets



Street spot market. Chengdu, West China, 1980s

- In emerging economies, one often sees farmers trekking in from nearby farming communities and sell their produce at street corners. In this way, they create opportunistic spot markets.
- As more farmers join in, the tendency will be to return to certain locations. With time, informal markets with recurrent sessions and relatively fixed locations emerge. This have affinities to how fixed trading places emerged in places that came to form proto-city developments in advanced tribal economies.



Fur traders in early colonial Canada

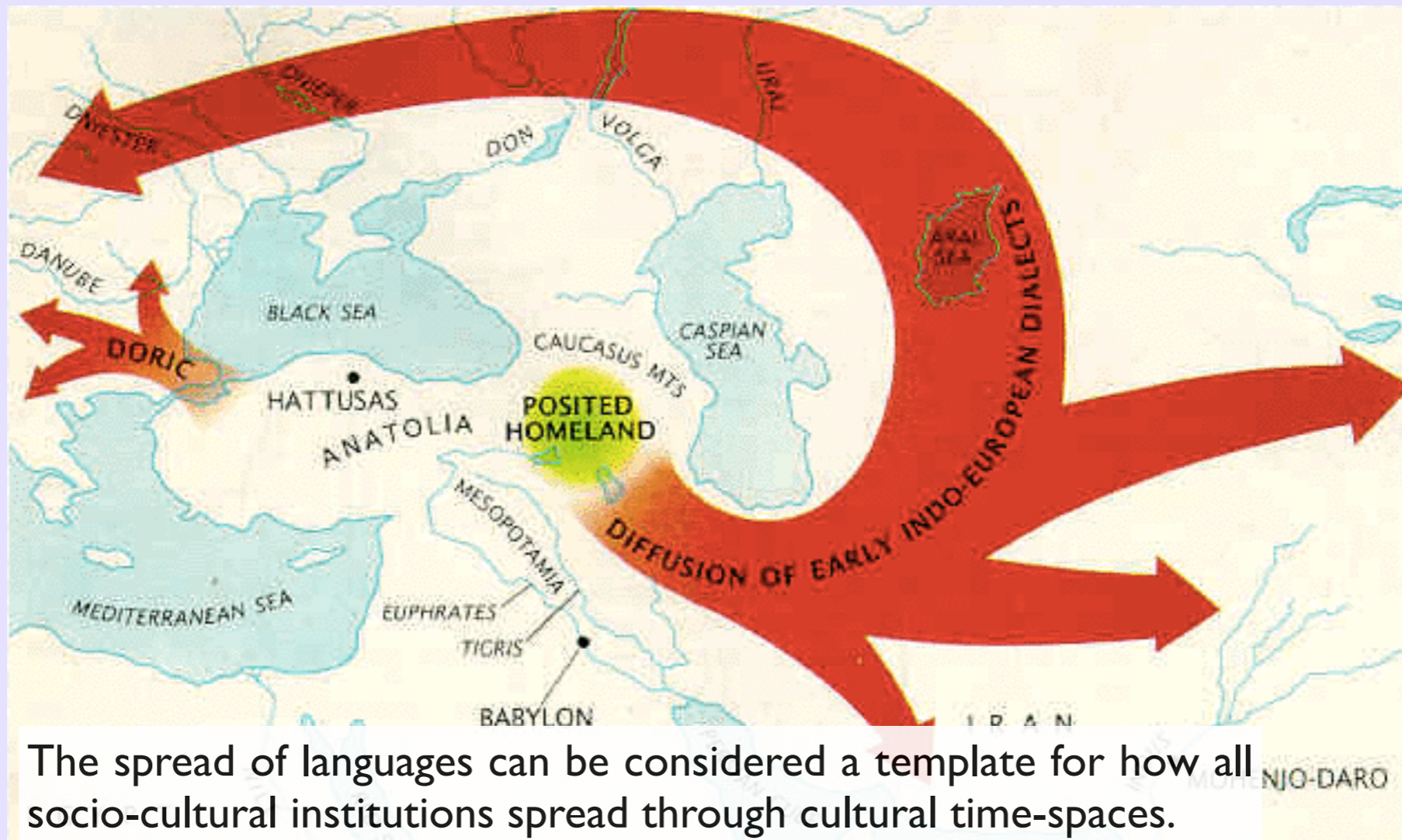
- Similar processes also occurred when the early French traders penetrated the tribal hinterlands of New France. At first, all activity was spot exchanges.
- Over time, exchange locations became fixed and trading posts emerged, in some cases growing into considerable communities such as Detroit.
- This followed the anthropologically well-attested pattern of tribal traders returning to places that were strategically located with regards to tribal power centres and trading routes, the first step in city formation.

Flea Markets - Ancient Retentions



Weekend flea market along canal in Delft, Holland

- Flea markets mostly deal in items similar to garage sales, but have fixed locations and times. They thus represent an intensification in institutional efficiency that have affinities to how fixed tribal trading markets emerged.
- It is worth noting that modern flea markets often retain archaic traits such as bargaining and the use of cash in transactions instead of the plastic card payment methods that otherwise are common in the current post-industrial societies.



- As cultural-organic forms, economic institutions spread through cultural time-spaces.
- Newer forms will emerge from originating cores, and push older forms to the periphery. Forms pushed into peripheral roles can however often continue to exist as archaic phenomena, catering to niche social aspirations for a long time.
- In complex societies we therefore see that different economic forms can exist side by side, exhibiting mixes of motivations that oscillate between economism and other social aspirations.

Eurodollars and Financial Alchemy



Wall Street: Financial alchemy of converting illiquidity to liquidity.

- An example of the spread of new economic institutions is the spread of the institution of eurodollars*. It originated in London, a financial core location, by soviet dollar deposits, but quickly spread and became a principal institutional feature of the tax havens and an important constituent of neoliberal globalization.
- Sometimes an institutional form will exist with low level impact in the periphery for considerable time and first spread after it is picked up by a centre activity.
- A case in point is the securitization of illiquid debt, which existed for several decades before it rose to the forefront as a primary tool of the housing bubble in the 2000s.

* eurodollars = any currency held in financial institutions outside of its homeland, but primarily dollars.

The Alternative Paradigm of Cumulative Causation



Myrdal at Princeton, 1941

- Nobel laureate Gunnar Myrdal rejected the neoclassical equilibrium and its premisses. In his words*: “The notion of a stable equilibrium is a false analogy built on the assumption that a change will regularly call forth a reaction in a system which on the whole go in the opposite direction to the first change.”
- “Social systems are not inherently moving towards any sort of balance between opposing forces, but are constantly trending away from previous positions, often in acceleration driven by forces in cumulative causation.”

*From “Economic Theory and Underdeveloped Regions,” (1957) slightly abridged and paraphrased.

Institutions Confirming Communities



Book exchange box. An affirmation of community

- We can never know for sure what changes in institutions and social relationships the future will bring. But it is clear that the current domination of the economy by large corporations and centralized public organs has run its course.
- The institutional features capitalism imprint on the economy and culture of societies are increasingly counterproductive relative to the basic human goals of creating broad economic welfare and cultural liveability by sustainable means.
- We need to turn the direction of our economic culture around and develop institutions that confirm and strengthen communities and common welfare goals.



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