ONE

Strange Economies

When the Bernard Madoff pyramid collapsed in late 2008, financial markets were falling and recessionary fears were growing. Over the preceding thirty years, Madoff had constructed the largest pyramid scheme the world has known. When he was no longer able to attract new funds for recycling to his earlier investors, he confessed to his swindle. As the remnants of his pyramid were uncovered, the fraud was estimated to be 65 billion dollars. Madoff investors dotted the map of the United States. Some European banks were drawn in, and one French financier took his own life. None of his participants seemed to realize that Madoff's unvarying returns of 10%–11% per year were improbable, but he carried on for several decades until the December day when his empire collapsed.

Some commentators explained that the scheme was fed by greed. Others thought Madoff's investors failed to observe best practices and were caught up by "irrational exuberance."[1] I view this "creative destruction" of wealth differently.[2] Situated in Wall Street with threads across the United States and elsewhere, the Madoff event exemplified the early twenty-first century wave of bubbles from housing, to complicated investment vehicles, to illegal deals. It typified the strange economy in which we live.

But I am an anthropologist and think that all economies are strange, including the ones anthropologists traditionally study. Economies are strange because they juxtapose self-interest and mutuality. Many of

Madoff's investors wanted to make money and to feel an ethnic relationship with him, which is the strangeness, because the two are different. We live with this tension everyday, however.

In this book, I offer my anthropologist's view of economy but amplify my discipline's terrain to include developed market economies. Anthropologists usually study small-scale economies whether in the South Pacific, Northern Canada, the margins of Asia, or the interior of South America, and they have developed many tools for analyzing their findings. But they have become rather enfolded in their local data, and remain largely speechless in the face of developed market economies. Conversely, economists scarcely look at the strange economies that attract anthropologists, except to proclaim that the people act like us but face constraints, which block their economy's growth. My perspective brings together what people do in their material lives with economists', anthropologists', and everyday views.

Economy has two sides. One is the high-relationship economy that is rooted in the house. Neglected by economic theory, it is prominent in small-scale economies, and hidden and mystified yet salient in capitalism. The other side consists of competitive trading. Anthropologists know one side of economy and economists know the other, but the two are intertwined. Neither side is complete without the other that influences it. Their balance varies across cultures and time. The tension lies within economies and within us. We calculate our relations to others, and we empathize with them. We measure some things and consider others to be incomparable. The tension is social and personal.

This argument rests within a larger one, that economies are made up of increasingly abstract spheres, which start with material life in the house and expand through the commercial, financial, and meta-financial spheres of markets. As these spheres and abstractions develop, markets colonize the house economy.[3]

The contrasting purposes of the house that aims for sufficiency and nurtures social relationships, and of markets, which are made up of separate actors focused on gain, run through economies from the small scale to the advanced capitalist. In high market economies, their imbalance and separation undermine the viability of the house economy on which markets paradoxically depend. The disparity between the house economy and competitive markets helps lead to our contemporary crises of inequality, environmental devastation, and cycles of growth and recession. To moderate the instabilities, a broader economics and economy must attend to both sides. At the end of my account, the reader will find suggestions for countering inequality and our use of the environment, but my larger aim is to present a different way of understanding economy that justifies changes.

I develop these themes by working back and forth between examples anthropologists have studied and contemporary situations. The book starts with the house economy to show how long-term connections provide the links through which this part of material life is conducted. Ensured by kinship and other bonds, the material ties are sealed through beliefs and rituals that close gaps in them. These local connections stretch into the broader space of communities where their sociability helps underwrite competitive trade.

Like house economies, markets draw on rituals, ceremonies, and spells (as in advertising) but here to bridge the gap between the thrifty householder and market sellers. These persuasions to buy ironically draw on the image of the thrifty house whose self-sufficiency is contradicted by market purchases.

Today the market realm dominates the house economy ideologically and through material practices. Whether at the margins of small-scale economies or at the center of high market systems, the house helps to subsidize markets. Rarely considered in standard theory, this support is exposed in the rural economies I know and occurs in markets where it is dispersed and veiled.

The abstraction of economic relations from the material world ascends from the house through the commercial sphere of goods and services, to the financial sphere where money is exchanged for money (over time), to the meta-financial circuit that uses calculations of risk-taking to secure money.

As this argument unfolds, the reader will find both familiar and strange material as well as a comparative view of economy. Just as economy is a shifting combination of competitive and mutual relationships, I continuously shift the focus between the smaller-scale economies that anthropologists study and market ones. The contrast of these economies mirrors what is in all economies, as do the contrasting analyses of economists and anthropologists.

But let the reader beware. Just as I locate a tension in economy, the reader may find a tension in my approach. Some economic anthropologists have admonished me for being too interpretive and too interested in local meanings and explication, and a few economists have told me that I should construct models, specify variables, and look at their interactions. From the other side, some anthropologists say that my interest in economic theory leads to the wrong kind of anthropology because it is too economistic. In today's language I am both a "foundationalist" (there is a bottom line because economy is composed of self-interest and social relationships) and a "postmodernist" (there is no bottom line because the relation of the two shifts). This friction between believing in a stable foundation and denying it is woven into economy as well as this book.[4]

Some readers may be wary for a different reason. My view does not fit a political economy or modes of production approach to distribution as some anthropologists and others employ it. For Adam Smith, David Ricardo, and Karl Marx, economy was set within a class structure. Smith and Ricardo spoke of landowners, capitalists, and laborers. Marx addressed the struggle between capital and labor. This class analysis was largely set aside by the development of marginalist analysis in the late nineteenth century and after, which has led to the model of the perfect market that allocates resources in the most efficient way.

In contrast, I see economy by its institutions or spheres, ranging from the house to meta-finance. Each sphere secures and distributes wealth distinctively from sharing to risk-taking, although the spheres and distributional modes may be combined. The spheres might be likened to a division of labor. The power of capital as well as closely held knowledge and social relationships takes place within this structure. In the market spheres (when there is perfect market information, a plethora of sellers and buyers, and open competition), resources are allocated efficiently, but holding and controlling assets provides for rent taking in all parts of economy.

Rent refers to a return independent of labor.[5] Originally, rent (or ground rent) referred to the receipts of a landowner who did no more than possess a plot of land. In Chapter 6, I draw on the Ricardian idea of a differential rent by which more and less fertile plots of land are distinguished by their returns. (Ricardo used the idea to argue against tariffs and the unproductive takings of landowners.) In the twentieth century the Schumpeterian return or what accrues to the innovator, especially when elongated over time by patents and other protections, was distinguished as another form of rent. The term rent now is used more broadly and refers to what a "rentier" receives for an asset in excess of his labor. Market rents include interest, dividends, ground rent, capital gains, royalties, profits, and arbitrage returns enabled through use of financial tools. Rents can be established in all economies, however. Social divisions such as gender asymmetry, chieftainship, and slavery may be used to secure rents. Tribute and tithes are rents. The free use of environmental resources is a kind of rent. In these ways rents, which are a part of distribution, fall outside a pure market analysis and a mode of production approach. They depend on asset control, social relationships, and closely held knowledge from the mathematical to the sacred. At the book's end, I shall suggest that inequality in market economy is related to rent taking within and between its spheres. Rent is like a subsidy and perhaps is akin to a "free gift," which is an oxymoron for anthropologists, as I shall discuss in Chapter 3.

I focus as well on local models. By local model, I refer to a people's models of economy, to the incomplete and sometimes contested views of these models, and to their contextual or limited nature. In fact, I often see the models of economists as cultural models, because they are built on local assumptions and practices.

Throughout the book, I use many examples from anthropological studies including my own. They are taken from nearly a century of work; however, I present them in current terms. Of course, the situations have since changed including ones from the recent past in the United States. In many cases, I try to locate the times and the ethnographer. Even so, many of the situations were never so stable or separate from national and global influences as may be suggested by their recounting. In all the cases I have stayed true to the ethnographer's report but assembled and analyzed the data to exemplify the major themes of this book. The reader will find numerous examples from the United States, because it represents a very high market situation that is low on economic mutuality, such as welfare and educational supports.

Puzzles

I have a broad puzzlement about our economy. When I plant and rake my yard, fix the plumbing in the house, or change a light bulb, my work is not considered to be part of "The Economy" as most people define it, but if a gardener, plumber, or electrician does the work, it is. The same physical movement can be differently classified. An economist peering over my shoulder might interject that in one case the work is part of a market exchange and in the other it is for myself. One is priced and included in the GNP, whereas the other is not. He might add that we could put a price on my household labor by comparing it to my "opportunity foregone" in the market or what I could earn with the

Cambridge University Press
978-1-107-13086-9 - Anthropology and Economy
Stephen Gudeman
Excerpt
More information

same time spent; or we could value my labor at the price I would need to pay others to do the same work. So, all is right. But I am not convinced, because I don't earn money I "forego," and no matter how high we value my household labor, I don't receive money for it.

I think the economist's answer reflects a deeper problem about how we think about economy. I have lived in Latin American cultures where unpaid work at the house – building it, repairing it, cleaning it, extending it, and maintaining it – is considered to be the heart of "The Economy." Why is use of the word "economy" reversed between the two situations, and why does "The House Economy," which I describe, have no place in standard economics?

My perplexities do not end with the erasure of The House from The Economist's Economy. Most of us exchange money for goods we want, and we work for that money. Exchanging different things and skills is said to be the heart of economy and exemplifies the division of labor, which is the efficient way to do things. In some cultures, however, people exchange similar things or even the same thing with one another, and sometimes at the same moment. We exchange dinners, drinks, gifts, greeting cards, and clothes. Whether in other cultures or our own, these exchanges require a lot of effort. Are they part of economy? A helpful economist might cross his arms and say something about the fruits of modernization that eliminate irrational behavior. But if the customs that anthropologists report are irrationalities, why do people continue doing them? Even more perplexing are practices that anthropologists regularly report. In some cultures successful hunters set out an animal's bones and smoke a pipe to respect the spirits of the game they have caught. Beforehand they may have tried to divine where animals can be found. These ceremonies make little sense when viewed through the lens of economic reason.

The puzzle about the presence of sociability and rituals in material life multiplies when we turn to market economies. Consider the purchase of a "big ticket" item in the United States, such as a car, a house, or a household appliance. It is tension provoking. We are uncertain about how much to spend, about the quality of the item, about how others will view it, about our taste or desire, about comparative prices, and whether to buy it. At these moments of hesitation, the salesperson inserts himself. He is attentive and filled with conversation, sometimes showing interest in the details of one's life to a greater extent than desired. I once had a car salesman remark about my clothes and watch. Another clearly signaled that he did not think I could afford the car (which was at the low end of the price range). I also have learned about the salesperson's life. One invited me to Las Vegas for a weekend where I could spend the "grand" that I was saving on the car he was trying to sell me. Other car dealers assure me that my choice is right for me and my family and claim that their service department is the best. My new car friend remains with me until she leaves to plea with the boss for a special price for me, but after I sign the contract, my friend disappears. Why is it that we rapidly gain and then lose a friend in these big purchases?

Car purchases are one example in which sociability and competitive trade are mixed together; however, the interpretations of this intertwining are several. Some people think the mingling is good, for it shows that people humanize their market relations and make them enjoyable. Trade brings sociability. By this argument, I should feel good that every waitress, waiter, and sales person seems happy to see me, and that every telephone caller who wants my donation, help, or purchase always asks "how are you doing?" Why do we respond appreciatively when the waiter asks if our meal or wine was good, especially when it was not? Our over-the-shoulder economist might observe that the time spent on being friendly is inefficient for customer and seller, because each could maximize more by shortening the transaction and turning to another taste or using one's scarce stock of affection on a friend. Other economists might say that both seller and purchaser are maximizing their preferences that include both monetary gain and friendship. Their actions "reveal" their tastes.

I am not convinced by these just-so stories and theories. In my view, the car dealer maximizes his return by donning the cloak of friendship. Using sociality, he draws the buyer closer and feigns concern to further his market interests. The buyer, being uncertain about the purchase, needs reassurance, which is supplied by the patter of the salesperson who seemingly acts in his behalf. Both sides are complicit in the friendship for different reasons. One wants to achieve a monetary gain; the other may be trying to get a good deal and avoid thinking about the cost. The overlay of friendship hides the antagonistic transaction in which each seeks an advantage from the other. The ritual of sociability supports yet opposes the market transaction, while the contractual connection is seemingly independent of the rapport but requires it.

Mystifying market trade as mutuality often happens when transactions stall. When interests remain divergent or potentially hostile, people frequently turn to sociability for assurance about the other's intentions and completion of the exchange. Through words and rituals (such as "wining and dining"), one or the other pays to shift the market trade to a context of sharing, even if the moment is fleeting and surrounded by its opposite. Sociability, which on the large underwrites market transactions through legal and political frameworks, emerges on the small to cloak ambiguity and antagonism in purchases and sales. Mutuality becomes a ritual of economy, expressing that people connect, and plugging gaps in market relations. As in the case of my car salesman, economic transactions often are filled with sociability from going to Las Vegas together to displaying the bones of an animal a hunter has captured.

Economic theory and common sense offer a compelling understanding of market transactions. Economists do find fault with the picture of ideal markets. They know that people are not always rational and operate with imperfect information. For example, some suggest that experimental games, such as the "Ultimatum Game," shake our traditional assumptions about optimizing behavior.[6] Others, following

"Prospect Theory," show how we can be wildly wrong in our estimates and use of risk calculations.[7] But even for these dissenters, the starting point for analysis is calculated behavior in markets from which we deviate. Most non-economists share this view that economy means markets, and that theories about markets are theories about economy.

I call this perspective the 50% view, because it omits many aspects of economic action. An over-the-shoulder economist might say that practices "outside" formal markets can be described by maximization theory, because social relationships have attractions and detriments that we try to balance. Standard economic theory is universal. This market-centric view – from the microeconomics of pricing to the macroeconomics of saving, consumption, investment, growth, and employment – is impressively developed. But it is limited, because economic transactions are contained within larger social commitments that they use and subvert, and are influenced by sociality on the small scale. The shifting, sometimes antagonistic and sometimes supportive relation between competitive pricing and mutuality affects all economies. I hope to show how it creates economy, affects personal interactions in markets, and helps shape the expansion of markets.

Anthropology's Lens

My anthropological journey into strange economies has been guided by the idea that if we can understand the material practices of others, we can better understand our own. Anthropology's examples offer us a critical mirror, because some of the ethnographic puzzles that anthropologists find tell us about patterns in our social and economic life. But first, let me explain what I do.

Like other anthropologists I gather information about local behaviors and voices by living with a people, watching what they do, listening to what they say, and describing what happens in daily life. Often, anthropologists carry out these studies in distant places outside market