THE CONCEPT OF MODE OF EXCHANGE*

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The neoclassical economic concept of the market fails to consider social relations and structures. I present a sociological concept of "mode of exchange" as an alternative and distinguish four modes of exchange based on whether trade is open to popular participation and whether trade is primarily within a region or across regions. The social structural conditions that underlie each mode of exchange include the level of stratification and political centralization. The power struggle among groups for control over trade, rather than individual utility maximization, is a critical factor in commercial development. I apply this framework to commercial development of England and Japan.

Since Harrison White's (1981) pioneering work, a number of sociologists have investigated "the market" (for an overview, see Swedberg 1987). Most economic sociologists agree on the limitations of the market concept in empirical analysis, yet few challenge the concept. For example, Nee (1989), in a study of economic change in China, analyzed the shift from hierarchies to markets, but did not address the institutional grounding of market exchange. However, all economic activity and institutions are embedded in social relations and structures (Polanyi [1944] 1957; Granovetter 1985; Block 1990, chap. 3). Therefore, I propose a sociological alternative.

In the neoclassical framework, the market concept assumes, often through definitional fiat, a similarity among different types of commodity exchange. Yet, why should transactions between multinational corporations be equated with deals in weekend flea markets? Should independent shops and nationwide or international networks of retail chains be equated under a single conceptual rubric? Economic orthodoxy answers in the affirmative: The law of supply and demand applies wherever the "market" exists.

Furthermore, nonindustrial economies are viewed as natural economies destroyed by penetration of the world market — Third World economies seem devoid of economic exchange (Gudeman 1978). This idyllic image ignores the extensive commodity exchange networks in non-capitalist economies — trading networks among peasants are ignored while transactions between multinational corporations are treated as instances of market exchange (Hill 1986, pp. 54–60).

Although rarely expressed explicitly, the neoclassical concept of the market assumes a particular social organization of commodity exchange. When most economists discuss the sociological grounding of the market, they recall a modern stock market with an auctioneer and many bidders:

The markets which are best organized from the competitive standpoint are those in which purchases and sales are made by auction, through the instrumentality of stockbrokers, commercial brokers or criers acting as agents who centralize transactions in such a way that the terms of every exchange are openly announced and an opportunity is given to sellers to lower their prices and to buyers to raise their bids. (Walras [1874] 1954, pp. 83–84)

Walras recognized the existence of other types of markets but urged readers to assume "the stock exchange of a large investment centre like Paris or London" (Walras 1954, p. 84). However, even the U.S. securities market, the prototypical "market" in most economics textbooks, diverges from the neoclassical image — it is a social organization that limits the number and type of actors and operates under uncertainty and with political intervention. The existence of influential firms and the premium on "inside" information make a mockery of neoclassical assumptions of individuals maximizing utility under a condition of perfect information (Adler and Adler 1984; Baker 1984).

Although the market is abstracted from concrete social relations and contexts in the neo-
classical framework, this was not always so. For example, Palgrave ([1896] 1910) used a legal definition for the market: "A market . . . [is] defined as an authorised public concourse of buyers and sellers of commodities, meeting at a place, more or less strictly limited or defined, at an appointed time" (p. 13). The shift from the notion of a "marketplace" to a "placeless market" marks a major change. Jevons ([1871] 1911) wrote: "By a market I shall mean two or more persons dealing in two or more commodities, whose stock of these commodities and intentions of exchanging are known to all. . . . Locality is not necessary" (p. 85). The dominance of neoclassical economics sealed the separation of "locality" or institutions from the activity of exchange. Thus, Pearce's (1986) definition of the market is typical among contemporary economists: "Generally, any context in which the sale and purchase of goods and services take place. There need to be no physical entity corresponding to a market" (p. 263). Or, "a market exists when buyers wishing to exchange MONEY for a good or SERVICE are in contact with sellers wishing to exchange goods or services for money. Thus, a market is defined in terms of the fundamental forces of SUPPLY and DEMAND, and is not . . . confined to any particular geographical location" (Bannock, Baxter, and Rees 1978, p. 297).

While abstraction is necessary for theory construction, the problem with neoclassical economics is that the gulf between the concept and social reality is often bridged by fiat. For example, Becker (1976) declared: "A market in marriage can be presumed to exist" (p. 206). He does not ask whether the neoclassical market concept illuminates the reality of the marriage "market" — he simply assumes it is useful. Indeed, for most economic theorists, the market is posited as an analytical fiction in which the law of supply and demand operates. For example, The New Palgrave (Eatwell, Milgate, and Newman 1987), perhaps the most authoritative contemporary dictionary of economics, does not treat "the market" or "market exchange" (see also Creedy 1990; Spiegel 1991). Yet, the market remains the central concept in economics: "Modern economics can be said to have begun with the discovery of the market" (Cairncross 1976, p. 113). Sustained discussions of the market, however, occur primarily among critics of the orthodoxy (Chamberlin 1948; Robinson 1973).

Ironically, Polanyi (1957), perhaps the most trenchant critic of neoclassical economics, accepts this disembodied market concept for the study of capitalist economies. While advocating an embedded approach to the study of economic actors and institutions, the organizing principle for his view of market society is the disembodied notion of market exchange. "A market economy is an economic system controlled, regulated, and directed by markets alone; order in the production and distribution of goods is entrusted to this self-regulating mechanism" (Polanyi 1957, p. 68). Thus, Polanyi's embedded approach does not extend to the study of contemporary "market" economies (Lie 1991).

My sociological alternative draws on several insights from classical sociological theory. First, Durkheim ([1893] 1933, pp. 200-206) emphasized the structure of trust necessary for repetitive social interactions. In any mode of economic exchange, the sociological basis of trust must be analyzed (see also Macaulay 1963; Field 1981). Second, Weber ([1922] 1978, pp. 341-48) stressed the roles of power and competition among different classes of traders, whereas neoclassical economists are silent on the question of power (Bartlett 1989, p. 3; cf. Lindblom 1977, pp. 43-51). Third, Braudel ([1979] 1981, pp. 415-30) suggested that technological capabilities of a given historical epoch are critical, e.g., transportation and communication facilities. Finally, Marx ([1867] 1976) highlighted the importance of examining the structured inequality underlying the formal equality of the market and analyzing relationships between people rather than things. Instead of the neoclassical emphasis on the prices and quantities of goods traded, the focus should be on tangible social relationships among actors engaged in commercial exchange. Marx also pointed out the historically transient nature of economic structures and categories: The analysis of economic exchange must account for changing historical circumstances.

Thus, the neoclassical concept of the market is oblivious to the Durkheimian consideration of trust, taking individual transactions for granted. It neglects the Weberian concern with power and group conflict, while concentrating on individual utility maximization. The core of neoclassical theory is also silent on information and transportation constraints (for exceptions, see Spence 1974; Lösch [1940] 1954). Finally, the Marxist critique of commodity fetishism strikes at the heart of neoclassical economics in which the focus on the relationships between economic variables ignores the relationships between people and institutions. In summary, neither so-
Social relations, institutions, nor social structures matter in the realm of the market. All the achievements of classical sociology are jettisoned when one analyzes the “economic” realm of the market.

Some limitations of the orthodox neoclassical approach have been overcome by introducing “institutional” considerations in the form of “transaction costs” (North 1990, pp. 27-35, 108-109; Coase 1960). However, neoclassical institutionalist theory neglects the roles of power and conflict in shaping economic activities and institutions — its focus remains on individual actions rather than on social relations and groups, and markets are not differentiated.

In the project of empirical economic sociology, it is problematic to use a nonsociological, disembedded concept of the market (Friedland and Robertson 1990; Hirsch, Michaels, and Friedman 1987). I propose the concept of “mode of exchange” as an alternative to the disembedded concept of the market offered by neoclassical economics.

THE CONCEPT OF MODE OF EXCHANGE

The concept of mode of exchange is a heuristic device for investigating exchange relations. It is not intended as a master concept that provides an a priori understanding of the different forms of commodity exchange. My goal is to provide a prism through which social relations and social structures become visible.

Mode of exchange denotes an ensemble of traders engaged in commodity exchange under historically specific technological and socioinstitutional constraints. Exchange relations among traders, while central in this framework, stem from the underlying dynamic of macrostructural change. Macrostructural changes create opportunities for groups to construct exchange networks and to establish social organizations with an infrastructure, rules, and norms. In other words, the creation of trading networks is not a purely voluntary phenomenon; its success depends on the existence of an opportunity structure (Tilly 1978).

In dynamic terms, macrostructural changes lead to the appearance of groups which struggle for their economic interests and thereby create new modes of exchange. A particular mode of exchange may in turn transform the macrostructure. I provide guidelines for distinguishing between four modes of exchange and a social structural foundation for each.

Social Relations and Means of Exchange

Modes of exchange are characterized along two dimensions: social relations and means of exchange. Social relations of exchange are either “open” or “closed.” Open trade refers to popular participation in commodity exchange, in which the social boundaries of traders are permeable. Closed trade refers to the lack of popular participation in exchange — a tendency toward closure and barriers to participation. Freedom to trade occurs in a particular social context; it is always a privilege and a source of conflict. Thus, the emphasis is on power struggles among different groups for control of commodity exchange.

Means of exchange refers to the technological infrastructure available for economic exchange, usually transportation and communication facilities. Transportation refers to the condition of roads
and other routes by which commodities and traders move. Communication refers to information flow. These constraints are imposed by a given historical epoch and provide an historical anchor for the idea of mode of exchange.

Figure 1 presents a typology of four modes of exchange that reflect qualitatively different ways of organizing commodity exchange. One axis distinguishes between “open” and “closed” exchange relations; the other axis distinguishes between “intraregional” and “interregional” trade. “Region” refers to the area within which regular exchange transactions are possible for the bulk of the populace. The means of exchange, i.e., the prevailing transportation and communication technology, determine the size of the “region.” The more advanced the technology, the larger the region.

Intraregional exchanges encounter no physical impediments. The region is the bounded area within which “market exchange” is possible. In interregional trade, regular transactions are possible for only a subset of the populace. The shift from intraregional to interregional exchange alters the interactive character of trading activity, and also affects who traders are: Intraregional trade is physically possible for most people in the region, while interregional trade requires specialists in commodity exchange. International trade can be viewed as a special case of the two interregional modes (see Chaudhuri 1985, 1990).

There are no necessary relationships between social relations of exchange and the means of exchange — the means of exchange generally constrain possible arrangements. I do not imply a technological determinism, however — the development of transportation capacity, for example, does not necessarily cause change in the prevailing exchange relations. To the contrary, changes in the social relations of exchange frequently bring about change in the means of exchange.

Social Structure and Power

In contrast to the neoclassical scheme, in which individual striving leads to market expansion, the mode of exchange approach highlights the role of power conflicts in the making and unmaking of social organization of exchange.

The explanatory typology in Figure 2 highlights the social basis of the four modes of commodity exchange. “Open trade,” which presupposes commercialization from below or popular participation in commodity exchange, implies the existence of a relatively egalitarian social structure. “Closed trade,” which refers to commercialization from above or the existence of unequal power configurations, implies elite control of the important exchange activities. These categories are qualitative because of their macrostructural embedding — they highlight distinct social classes or groups struggling for control over exchange activities.
The explanatory typology presented in Figure 2 has two axes: local stratification and national centralization. Local stratification refers to the power configuration or level of inequality within a region. Low stratification describes a relatively egalitarian region; high stratification refers to a more polarized, inegalitarian region. Thus, the more stratified the region, the greater the power of the elite. This may manifest itself in the contrast between town and country, where the greater the stratification, the greater the power of the town over the country.

National centralization refers to the power of the central authority over society. Under low centralization, the national elite lacks infrastructural power, i.e., "the capacity of the state actually to penetrate civil society, and to implement logistically political decisions throughout the realm" (Mann 1986, p. 113). With low centralization, the region tends to be less integrated into the national polity. With high centralization, the national elite holds greater infrastructural power and the region tends to be integrated into the national polity. Centralization may be manifest in the emergence of major cities, which are consumption centers as well as loci of sociopolitical power.

The distinction between open and closed trade also implies an underlying difference in power configurations. The presence of open trade indicates that most people have access to primary exchange activities. The less stratified the region, the less powerful the elite, and therefore open trade prevails. The more stratified the region, the more powerful the elite, and closed trade prevails.

In a similar vein, the proliferation of intraregional modes depends on a relatively decentralized national polity. Intergional modes require the internal pacification and political integration achieved by the central political authority. Therefore, the more centralized the polity, the more likely the dominance of interregional over intraregional modes.

In any given polity, several modes of exchange may coexist because social organizations tend to outlive their structural foundation. The underlying social structure provides the parameter within which modes coexist, dominate, or disappear. Once in existence, however, the success or failure of these modes of exchange may affect the larger social structure.

There is no determinate trajectory of change from one mode to another (cf. Unger 1987, pp. 3–112). Each transformation in mode occurs through the emergence of a new group of traders. As particular groups gain control over the means of exchange, they construct a new mode of exchange.

For each period into which our economic history may be divided, there is a distinct and separate class of capitalists. In other words, the group of capitalists of a given epoch does not spring from the capitalist group of the preceding epoch. At every change in the economic organization we find a breach of continuity... (Pirenne [1914] 1966, p. 97)

In certain periods, struggles for popular or elite control are expressed through competing modes of exchange. I stress the qualitatively distinct nature of modes of exchange to highlight the role of class dynamics in changes in the social organization of commodity exchange.

The Market Mode

The market mode is an intraregional social organization of open trade. Market exchange, which neoclassical economists assume to be the universal form of exchange, is simply a limiting case of one mode in the mode of exchange framework. Although the market mode can take a variety of institutional forms, it usually takes place in a specific site like a marketplace — this is the basis of the conventional historical definition of the market. "A market is generally understood as a regularly-recurring assembly of sellers and buyers in a fixed locality and for a fixed period for purposes of trade" (Glamann 1977, p. 266; see also Braudel [1979] 1982, pp. 28–30).

However, the existence of a marketplace does not necessarily denote the existence of the market mode. For example, the manorial mode, under the control of local elites, often uses physical marketplaces. Also, Blackwell Hall, the famed marketplace for English cloth dealers, and Wall Street, the center of world finance capital, are on fixed sites but they are instances of closed interregional trade among select groups of traders.\(^2\)

Interactions in the market mode presuppose recurrent face-to-face exchanges among buyers and sellers. The market mode serves a largely autarchic economic region in which production

\(^2\) On a speculative note, the market mode could exist in a context of highly advanced technology, e.g., a global marketplace in which everyone may participate through electronic media and in which regulations ensure an equitable distribution of goods (see the discussion in Wolff 1970).
is geared toward household consumption or the local market. Retail trade typifies the market mode — wholesale trade does not exist and there are no specialists in trade.

The market serves a fairly self-sufficient community, and economic exchange is closely tied to other needs of the community. The market provides an important locus of socializing for community, and economic exchange is closely tied to other social activities ranging from carnivals to political rituals (Agnew 1986, chap. 1). Occasional “fairs” provide interregional trade opportunities for the populace.

The region served by the market mode is relatively impermeable because of low national centralization; this assures a stable set of actors. Recurrent social interactions ensure that traders know each other and a sociological basis of trust is created. Furthermore, the visibility of marketplace transactions deters fraud or other attempts to undermine the marketplace. Thus, the market mode has a relatively undifferentiated role structure and a normative basis of trust between producers and consumers who engage in face-to-face interactions.

The market mode tends to encourage a division of labor and to increase productivity. However, it is confined to the region in which it operates; otherwise, it becomes one of the interregional modes because the market region cannot expand beyond an area defined by contemporary technology.

The market mode, which is characterized by low local stratification and low national centralization, lacks both a strong local elite and a strong national political authority. Increased stratification and the emergence of local elites lead to the manorial mode in which economic activities are aligned with dominant interests and local economic activities are oriented to an interregional division of labor.

The multiplication of weekly markets and fairs in small towns and villages... can be seen all over western Europe... in the tenth century; but in the eleventh century the early growth of urban economy drew the main traffic in agricultural commodities into the towns and quickly allowed the village markets to atrophy. (Duby [1962] 1968, p. 131)

1 Stratification within a major group may actually mean less stratification within the region. In thirteenth-century England, “rich peasants built up sizeable holdings... They found that seigniorial restraints and jurisdictional rights hindered their development, and this is why the rich peasants took the lead in the fight for free status and local autonomy” (Hilton 1973, p. 94).

Thus, the market mode of the tenth century was supplanted by the mercantile mode of the eleventh century.

The Manorial Mode

The manorial mode refers to an intraregional trading system in which buying and selling are restricted to or controlled by local elites. Although the manorial mode may use a physical marketplace, its salient distinction is the nature of participation in trade. A historical example is the crop lien system in the ante-bellum American South in which large landholders controlled the shops from which tenant sharecroppers bought their provisions (Goodwyn 1978, pp. 22–27).

The monopoly of exchange activities is sustained by squelching competition within the region and repelling interregional economic organizations that are not in symbiotic relations with local elites. Since local elites need to sustain their monopoly, this mode exhibits static tendencies. Profit comes from extracting greater surplus from the populace or extending the sphere of operation by creating or merging with the mercantile mode. The intraregional dominance of the manorial mode may operate in conjunction with the interregional dominance of the mercantile mode.

The structural foundation of the manorial mode is high local stratification and low national centralization. The greater the concentration of political and economic power in a dominant class, the less autonomous economic activity by the bulk of the populace. Perpetuation of the manorial mode also depends on the absence of antagonistic interregional modes because local elites may lose control over exchange in the face of competing national elites.

The manorial mode may also engender a bastard form of the market mode — the black market or underground economy. Where local trade is controlled by the political authority, the populace may turn to “illegal” trade. This underground...
economy may become institutionalized and even overcome the controls on popular trade. A historical example is the rise of the "black market" in the United States during World War II (Cillnard 1952; see also Portes and Sassen-Koob 1987). The "informal" economy may be seen as an instance of the market mode when it emerges against close regulation of economic activity. State intervention or power is the key variable defining "informal economy" (Castells and Portes 1989). An underground economy can also emerge in the market mode but it tends toward a very closed form of organization that usually is transformed into the manorial or the mercantile mode.

The Mercantile Mode

The mercantile mode is an interregional network of closed trade in which resources support interregional transportation and minimize uncertain outcomes. Mercantile elites dominate interregional trade by maintaining rules of the game that protect their monopoly and suppress competition. Mercantile elites tend to be connected to the central political authority, which also ensures their control over interregional trade. Braudel (1982) wrote: "Trade circuits and communications were regularly dominated by powerful groups who appropriated them and might forbid other groups to use them" (p. 153). Such actions were dictated by the difficulties of interregional trade and the negative effect of competition on the mercantile mode. Because the basis of profit is the exploitation of regional price differentials, mercantile elites are dependent on political protection that guarantees their monopoly. To maintain their privileged position, merchants often exchange financial services for political prerogatives; in turn, political authorities become dependent on the wealth of merchants of the mercantile mode. The tendency is toward collusion, not competition. As Adam Smith ([1776] 1976) suggested: "The interest of the dealers . . . is always in some respect different from, and even opposite to that of the publick. . . . To narrow the competition, is always the interest of the dealers" (p. 267; see also McNally 1988, pp. 221–22).

The mercantile mode tends to be static because of its monopolistic character. Efforts are made to routinize the flow of revenues and decrease risk and uncertainty as elites seek to maintain their privileged position (Roover 1948). Thus, mercantile organizations often assume corporate characteristics:

Whatever the form of agreement or cooperation between merchants, it required loyalty, personal confidence, scrupulousness and respect for instructions. There was quite a strict code of behavior among merchants. (Braudel 1982, p. 150)

Merchants mobilize intimate personal networks to enhance trust so that business networks based on kinship or ethnic ties predominate (Mauro 1990). Because of its monopolistic tendency, the physical setting of the mercantile mode tends to avoid public and open marketplaces. Finally, the conservative tendency of this mode often converts mercantile capital into usury capital.

Nonetheless, there are two outliers in this mode. First, an extremely powerful mercantile organization may emerge as a political power in its own right, as in the case of the Medici (Roover 1965). Second, a powerful state may subsume mercantile activities under its operations. Thus, a dominant social group may render a particular mercantile mode dynamic and expansionist.

The structural foundation of the mercantile mode is a highly stratified regional structure and a centralized national polity. National and local elites control the means of exchange in their respective arenas. The particular form of the mercantile mode depends on the relation of commerce to state power and the regional power structure.

The similar structural basis of the manorial and mercantile modes permits them to coexist, but the market mode and mercantile mode are incompatible. For example, in eighteenth-century France, in response to villagers' own markets (an instance of the market mode), town residents "asked that the state intervene to suppress this free development of local markets" (Dewald 1987, p. 33). Abu-Lughod's (1989, pp. 51–60) analysis of the Champagne Fairs also suggested the inextricable relation between state power and long-distance trade and the concomitant supplanting of local markets.

The Entrepreneurial Mode

The entrepreneurial mode refers to an interregional organization of open trade constructed by a specialized class of traders. It is "open" because entrepreneurial traders are essentially simple commodity traders connecting producers to consumers or other producers beyond their region. Its common institutional manifestation is shops, which are essentially permanent "open markets," usually linked by middlemen (Braudel 1982, pp. 60–67).
The entrepreneurial mode tends to be dynamic and expansive. Artisan-traders or farmer-traders drawn from the market mode become specialized traders in a network of artisans or agricultural operations. Pecuniary gain comes through expanding or intensifying their previous operations. In so doing, entrepreneurial traders transform the process of production and bring it under their control. Entrepreneurial traders drawn from the manorial mode intensify the existing social structure of the region by trading specialized produce across regions. For example, itinerant merchant communities, such as the Banjaras and the Banyas of precolonial India, are instances of the entrepreneurial mode (Habib 1990, pp. 372-88; Steensgaard 1974, pp. 22-59).

The structural basis of the entrepreneurial mode is low local stratification and high national centralization. It requires widespread access to the means of exchange on the local level, coupled with the more integrated polity characteristic of high national centralization. Because stratification varies in different localities, the entrepreneurial mode is frequently in competition with the mercantile mode. Thus, its success presupposes weak or absent local elites since a deeply ensconced mercantile mode may absorb the entrepreneurial mode through its superior capital endowment and political privileges.

“Putting out” networks of traders in, for example, contemporary Third World economies, may simulate the entrepreneurial mode. However, they are often controlled by multinational corporations, which makes them instances of the mercantile mode (Chapkis and Enloe 1983). The crucial factor is the structure of power relations.

In summary, the notion of “market exchange” is disaggregated into four modes of exchange based on a characteristic structural foundation that underscores distinct social groups and their power struggles. In the course of commercial development, the mode of exchange approach highlights distinct organizations of commerce, rather than a homogeneous market, and stresses conflict among social groups, rather than consensus.

HISTORICAL CASE STUDIES

Commercial development in England and Japan illustrates the utility of the concept of mode of exchange. England is a crucial case study that has been used frequently, from Adam Smith to Karl Marx to Karl Polanyi. Japan, the classic case of late or state-led development, is often considered the polar opposite of England. Yet, because the market concept is usually employed to explain Japan’s development, Japan is a challenging case study for the proposed framework.

The Making of “Market Society” in England, c.1550 to 1700

Starting with Adam Smith, the received view of English economic history presents homogeneous and consensual process of integrating local marketplaces into a single national market. The market expands in a continuous and evolutionary manner, as long as obstacles put up by the state are overcome and the entrepreneurial energy of the populace released. “Economic growth will occur if property rights make it worthwhile to undertake socially productive activity” (North and Thomas 1973, p. 8). Or, as Rosenberg and Birdzell (1986) argued: “The quantitative expansion of markets was important because it made possible greater specialization... In Adam Smith’s time-honored dictum, ‘the division of labor is limited by the extent of the market’” (p. 72). These historical narratives usually mention population growth, urbanization, improvements in transportation, and so on, but the master narrative is one of continuous and consensual market expansion once the government has secured property rights and unleashed the entrepreneurial energy of the populace (Rosenberg and Birdzell 1986, pp. 74-92). In contrast, the mode of exchange approach highlights distinct organizations and conflict in the course of English commercial development.

As Weber (1978, pp. 1276-81) argued, guilds were not as dominant in English medieval towns as they were in continental Europe. Instead, marketplaces proliferated in late medieval England (Britnell 1981). By the mid-sixteenth century, there were about 760 marketplaces, or one every 70 square miles (Everitt 1967, pp. 467-80; Dyer 1979, pp. 125-26). Peasants and artisans brought their produce to trade in what was called the open market on a regular basis. “Many of the new markets and extended franchises of the sixteenth century owed their origin to the spontaneous action of local people” (Everitt 1967, p. 476). This organization of trade, a market mode, presupposed simple commodity production geared toward local consumption and recurrent face-to-face interactions among producers and consumers. The “freedom to trade” was a right won through popular demand and struggle (Hilton 1990, pp. 123-24), although in some regions,
seigniorial reaction deprived the populace of this right (Tittler 1980).

Unlike the abstract neoclassical view of automatic economic mechanisms, these marketplaces required informal and formal regulations. Informally, traders in a region knew each other, which created the sociological basis of trust. Formally, a market court, usually overseen by the local political authorities, resolved conflicts and punished transgressions.

Everywhere marketing was subject to more or less strict regulation. Each town had its own company of market officers. . . . Virtually every town had its toll-gatherers, sweepers, and bellman, and many appointed a couple of “market lookers” for the general inspection of the market. Aleconners and bread-testers enforced regulations and statutes governing the price and quality of bread and beer, leather searches carried a hammer with a die or seal in its head and stamped skins and hides; “aulnagers” performed similar functions for various types of cloth; and “appraisers” were appointed to settle the value of goods in event of dispute. (Everitt 1967, p. 486)

The most important regulations prohibited attempts to corner the market or to bypass trade in the marketplace. Commodity speculation and trade outside the marketplace were prohibited. Regulations were intended to restrict the activities of middlemen merchants, who were believed to cause high prices (Tawney and Power 1924, pp. 144–45, 152–56). Thus, although the Tudor open market approached the neoclassical imagery of the market, it depended on popular rights as well as social and political regulations.

The entrepreneurial mode emerged from the market mode as a result of the increasing division of labor in the market region. It was in many ways a continuation of the market mode, with emphases on face-to-face contacts and regular trading. However, it broke from the market mode in that the number of participants in interregional trade was limited by technological constraints. National centralization, represented by increased urbanization in a context of low local stratification, provided the structural basis of the entrepreneurial mode. Specialization in trade led to the establishment of permanent marketplaces, shops, and the emergence of specialist traders or traveling merchants. Many traveling merchants also owned shops. Provincial or country shops, which evolved from the stalls of the open market, were crucial nodes of commerce (Shammas 1990, chap. 8). This nexus of provincial shopkeepers and traveling merchants constituted the entrepreneurial mode.

By the late seventeenth century, therefore, England had a well-established network of hawkers and peddlars, which covered the country. They worked seasonally, on credit terms, and they specialised in a multiplicity of cheap goods and fabrics to suit the pockets of the poor. The overall cheapness of the goods carried by the peddlars means that chapmen who appeared to be poor were carrying a considerable amount of stock. . . . It is a mistake to underestimate the volume of trade in the hands of these men. (Spufford 1984, p. 145)

Traveling merchants and shopkeepers used kinship networks to ensure the smooth operation of the commodity circuit (Rowlands 1975, p. 13). The oral nature of business transactions emphasized traditional cultural norms so that prices continued to be dictated largely by communal expectations based on cost, rather than by the “law of supply and demand.”

Traveling merchants surveyed the leading products of the industrial revolution of the eighteenth century. The state also encouraged “industries in the countryside” (Thirsk 1978). Low technological and capital requirements made these products appropriate for simple rural commodity production and distribution by traveling merchants.

Rural craftsmen had other loyal allies in pedlars and chapmen. Walking the length and breadth of the Kingdom, selling their wares from door to door, they enlarged the market for country crafts to an unprecedented extent. (Thirsk 1978, p. 122)

The iron industry in the Midlands and the Birmingham region relied on traveling merchants to distribute its products (Mann 1971, chap. 3). “The essential link between the producer and his market was the chapman, or wholesale ironmonger, who specialized in marketing products at a distance” (Rowlands 1975, p. 9).

The entrepreneurial mode, with its own actors and institutions, rules and trading practices, and consumers and commodities, was qualitatively distinct from the market mode. The entrepreneurial mode expanded simple commodity production associated with the market mode. It also encouraged the putting-out system, which evolved into the factory system in the course of the eighteenth century and stimulated industries by enlarging the set of potential consumers. “The existence of a substantial middle-class, even lower-class market at home . . . provided the basis for continuing growth” (Brenner 1985, p. 327). Since
the entrepreneurial mode was intimately tied to production, profit tended to be invested in the production process as petty traders became merchants who controlled the putting-out system. Thus, the entrepreneurial mode aided in the transformation of the mode of production and served as the seedbed of industrial capital.

In the late seventeenth century, the mercantile mode emerged from a nexus of rural elites and London-based middlemen. The mercantile mode led to the demise of the market mode because it prospered by doing what the open market forbade: speculation across time and space. London-based middlemen merchants sought direct deals with rural elites, bypassing the onerous regulations of the open market and wedging themselves between producers and consumers.

The structural basis of the mercantile mode was the increased national centralization — represented by the growth of London — and high local stratification. The emergence of the enclosure movement contributed to increasing stratification in the market regions. The Star Chamber had provided the chief bulwark against enclosures. However, enforcement depended on the very landlords or local notables who were advocating further enclosures (Tawney 1967, part 3). Enclosures encouraged agrarian capitalism by creating a group of dispossessed rural wage-earners on the one hand and enriched landlords on the other (Spufford 1974, part 1). One consequence was the upward mobility of the rural gentry who, in the absence of a national bureaucracy, gained control of local regions (Lachmann 1987, chaps. 4–5). The gentry merged with traditional local aristocracies, who increasingly turned to commercial pursuits. Furthermore, national and local elites allied with local Justices of Peace, who abdicated their responsibility to uphold the rules of the marketplace in favor of the commercial interests of traders (Landau 1984, pp. 245–46). Consequently, petty producers lost access to the means of exchange.

The different underlying structural bases of the two modes manifested themselves in various social struggles. For example, “in the earlier period the rioters’ attacks were almost all directed at carriers of corn, and scarcity was occasionally blamed on the dealings of millers and other middlemen” (Sharp 1980, p. 35). The mercantile mode arose in opposition to the market and entrepreneurial modes: Closed trade was pitted against open trade.

The merchants of the mercantile mode traded in new sites and under new regulations. Trade shifted from the open market to inns, which became sites for collecting information and trading among middlemen. Merchants also began to sell by sample and extending credit (Everritt 1973). Merchants garnered greater profit than was possible in the open market by trading directly with rich local notables. The earlier limitation on trade outside the marketplace was eroded by slackening enforcement of antimonopoly rules. The authorities whose responsibility it was to ensure an open market were now the ones who undermined it (Landau 1984, pp. 245–46). Large landholding farmers dealing directly with London-based middlemen also undermined the market mode.

The mercantile mode represented a radical departure from the operation of the open market. It entailed a shift from intraregional to interregional trade, as well as a transformation in the social relations of exchange. Whereas the market and entrepreneurial modes entailed “open” relations, the mercantile mode curtailed the range of participants in trade. The organization of trade did not lead from the gemeinschaft of the local economy to the gesellschaft of the national economy. Traders shifted the scale of operation from the locality to the national level and from retailing to wholesaling, yet they remained a relatively small group trading in common sites and under a clear set of rules. Indeed, the closed network of London merchants belies the rhetorical claims about the blind force of the market or the specter of the invisible hand.

The new social class of domestic merchants and gentry affected national and local policy. For example, a spate of parliamentary acts improved transportation. Between 1660 and 1689, there were 15 such acts, while between 1720 and 1749, there were 130. Navigable river mileage doubled. Demands for the freedom of contract increased (i.e., the repeal of legislation against middlemen merchants), and by the end of the seventeenth century, these regulations were repealed (Chartres 1977, chap. 3; Westerfield 1968).

Thus, the mercantile mode emerged from the struggle of new classes for their economic interests — there were new actors, different social relations, new trading sites, and new rules. Unlike the entrepreneurial mode with its direct ties to production, the mercantile mode depended on the existing mode of production and the prevailing means of surplus extraction. London-based merchants were transformed into gentry and served as the source of finance capital.

The struggles between the entrepreneurial and mercantile modes highlight their conflicting
structural bases. London-based middlemen in the mercantile mode tried to stop the traveling merchants of the entrepreneurial mode. In fact, information about traveling merchants comes from efforts by London merchants and the state to curtail their activities (Thirsk and Cooper 1972, pp. 328, 389–402, 417–21). The royal grant of patents gave London merchants the right to hire "agents" to harass and crush local manufacturers and peddlars who threatened their monopoly (Thirsk 1978, pp. 58ff; Willan 1976, pp. 50–54). The mercantile mode eventually dominated significant spheres of exchange, and the process continues to this day with the disappearance of independent retailers at the hands of corporate networks (Alexander 1970).

In sum, two distinct interregional modes of exchange emerged from local marketplaces in mid-sixteenth-century England. The entrepreneurial mode represented commercialization from below — it connected petty producers with an increasing number of consumers. The mercantile mode represented commercialization from above — it created an exchange network independent of producers and consumers. Thus, unlike the continuous and consensual market evolution posited by the neoclassical framework, the mode of exchange approach illuminates the distinct social organizations and their conflicts in the course of commercial development.

The Case of Japan, 1600 to 1900

The dominant view on Japanese commercial development emphasizes the early construction of the national market and its continuity. "During the lifetime of Ieyasu (1542–1616), an economy basically composed of local and regional markets was replaced by a highly integrated national market" (Yamamura 1981, p. 327). Despite the stress on the state's importance, the market concept is still used to account for Japan's commercial development. My revisionist account reveals the stress on the state's importance, the market concept is still used to account for Japan's commercial development. My revisionist account reveals the distinct social organizations involved in commodity exchange and points to discontinuities in the economic history of Japan from the Tokugawa to the Meiji period, roughly from 1600 to 1900.

Under Tokugawa rule, Japan consisted of over 200 relatively independent fiefs, overlaid by an absolute ruler. In spite of its claim of absolute rule, the Tokugawa state lacked infrastructural power — it did not even possess a standing army. In seventeenth-century Japan, each village consisted of extended families employing nago, or serf, labor (Smith 1959, chap. 2). Commerce was restricted to rural elites and town dwellers; farmers were barred from commodity exchange (Iwashashi 1988, pp. 99–101). High local stratification and low national centralization led to the predominance of the manorial mode. Unlike the peasants and artisans of Tudor England, their Japanese counterparts in the mid-seventeenth century lacked the freedom to trade.

Toward the end of the seventeenth century, Japan underwent a rapid national centralization, represented most strikingly by urbanization. For example, the population of Edo, the capital of the Tokugawa regime, grew to 1,000,000 by the mid-eighteenth century — making it the largest city in the world at the time — from practically zero in the sixteenth century. Peace and agricultural growth stimulated the economy. In addition, the rise of merchants involved in interregional commerce in Osaka, which had been established by the state as the commercial center of the country, was critical (Takeuchi 1969, pp. 161–62).

The national commerce was controlled by the bakufu through licensed associations of merchants in the key cities to maintain adequate supplies of essential goods to Edo and other large cities at stable prices while restricting the growth of incomes and purchasing power in the countryside. (Crawcour 1989, p. 587)

The state policy toward commerce, then, enhanced the growth of mercantile organizations. The mercantile mode in Japan was developed by the Osaka-based tonya merchants, who increased in number from 256 in 1677 to 5,538 in 1711. Tonya were essentially trading houses that formed trade organizations, called kabu nakama, based on a monopoly over a particular commodity. Each kabu nakama acted as a protective association overseeing the needs of its members, extending credit and support, and establishing commodity price and standards. As in England, tonya merchants used inns, called kaiyado, along interregional roads to collect information and trade. They also established rules and regulations and punished transgressions while maintaining their monopoly. The state granted monopolistic privileges to kabu nakama organizations from the early eighteenth century, and they were heavily dependent on state patronage and protection (Miyamoto 1938).

Tonya merchants of the mercantile mode monopolized interregional trade and reaped windfall profits. Legally barred from engaging in international trade or becoming landlords, these merchants transformed their gains into finance.
capital and amassed spectacular wealth. Over the course of the eighteenth century, their relations with the state became increasingly symbiotic: The state relied on merchants for finance while perpetuating the merchants' monopolistic privileges.

During the eighteenth century, the social structure of Japan began to change: Nuclear families replaced the system of nago labor and on a national level, state power declined vis-à-vis local han governments. The large cities also declined in population (Shinbo and Saitō 1989, pp. 10–12, 17–18). The position of the samurai class declined relative to that of merchants, while the lower peasantry gradually became wealthier (Shinbo and Saitō 1989, pp. 55–61). Peasants rebelled to gain the “freedom to trade,” or kateshida shōbai (Aoki 1985, pp. 291–94). The local power structure resisted, and the peasant’s struggle did not lead to open marketplace trading as it did in Tudor England.

The weakening of the local power structure in tandem with an opening of economic opportunities on the national level led to a transformation from the manorial mode to the entrepreneurial mode. In particular, the efforts of local lords to stave off fiscal crisis led to the encouragement of specialized production in the countryside, especially from the late eighteenth century (Nishikawa and Amano 1989, pp. 204–206). “By the early nineteenth century, many domains . . . were actively encouraging new crops and industries” (Crawcour 1989, p. 579). As in England, rural industries with low technological and capital requirements arose (Yoshinaga and Yokoyama 1975). Goods from these industries were distributed by merchants from castle towns as well as by farmers-turned-merchants who had benefited from local economic growth and government encouragement of industry (Andō 1958; Hayashi 1969). These new “country” merchants constituted the entrepreneurial mode in Japan. Rather than alloying themselves with other farmers, this upper stratum of farmers joined with local elites to construct an interregional trade circuit independent of tonya merchants.

As in England, repeated struggles ensued between the farmers and castle-town merchants of the entrepreneurial mode and the tonya merchants of the mercantile mode for domination of interregional trade. Conflict between the two interregional modes intensified at the beginning of the nineteenth century. For example, in 1821, 1,007 villages in the Kinai region banded together to call for the end to the tonya monopoly in the cloth trade (Tsuda 1977, chaps. 2, 6). “The development of rural commerce was affecting the trade of established merchants in the cities and towns, who frequently appealed to the authorities to protect them by forbidding village trade” (Crawcour 1989, p. 589). Nonetheless, the growing rural network led to stagnation of the Osaka-based mercantile mode — shipments to Osaka fell by 30 percent between the 1820s and 1840 (Crawcour 1989, p. 588). Price differentials between Osaka and Edo also widened, indicating the rise of alternative trading networks (Shinbo and Saitō 1989, pp. 46–47).

Two interrelated events ensured the demise of the Tokugawa mercantile mode. First, state support began to crumble: The state’s anti-inflationary policy and a rural clamor led to the Tempō Reform of 1841 to 1842, which rescinded the monopolistic privileges granted to tonya merchants and kabu nakama organizations (Crawcour 1989, pp. 587–600). Second, the opening of Japan in 1853, which led to new foreign trade, focused on Yokohama, a city dominated by rural merchants of the entrepreneurial mode. A belated effort by the Tokugawa state to reconstitute the kabu nakama failed, as did its effort to rechannel foreign trade to tonya merchants (Kagawa 1985).

The collapse of the Tokugawa state in 1867 sealed the fate of the mercantile mode, but the entrepreneurial mode, which owed little to the state, was unaffected. Soon after its installation in 1868, however, the new Meiji state embarked on an effort to industrialize and militarize Japan (Umemura and Yamamoto 1989). The new state established its own factories, but soon granted monopolistic privileges and financial support to private merchants, some of them vestiges of the tonya merchants of the mercantile mode (Smith 1955). Thus, another state-supported mercantile mode arose. For example, Mitsui was granted coal mines, and even though it initially was unable to penetrate domestic trade, it expanded along with Japanese imperialism into Korea and Taiwan. Mitsubishi was granted a monopoly over the shipping industry and pioneered a national circuit of coastal shipping that bypassed regional shipowners. The state was especially important in developing the infrastructure: Railways, shipping, posts, and electric power were created under government aegis to become zaibatsu, or large capital (Crawcour 1988, pp. 393–401). Once again, social relations and political power combined in the formation of the “market.”

During the period of industrialization, the entrepreneurial mode flourished. For instance, silk-
reeling and cotton textiles, although partially controlled by large capital, were dominated by rural-based merchants well into the twentieth century (Ishii 1972; Takamura 1971). Consumer goods, like matches, toys, and metalware distributed under the entrepreneurial mode, also accounted for a large part of employment and export until the 1920s (Nakamura 1985, chap. 5).

From the 1880s to World War I, the growth of the traditional sector was a vital part of the whole economy's development. Not only was it responsible for the bulk of output growth, but it also nurtured the infant modern sector by providing and maintaining labor, contributing capital, and earning foreign exchange. (Crawcour 1988, p. 420; see also Saitō and Tanimoto 1989)

Thus, there was significant continuity between the late Tokugawa period and early Meiji period. "The construction of new industries during the Meiji period rested on the legacy of the nineteenth century Tokugawa economic development" (Amano and Abe 1989, p. 335; see also Crawcour 1988, pp. 417–18). The industrial revolution in Japan was aided by the operation of the entrepreneurial mode, as well as the state-supported mercantile mode.

In contrast to the conventional view of Japanese commercial development, which argues for the early construction of the national market, I argue for a discontinuity. There were two qualitatively distinct mercantile modes, both tied to the state through patronage and protection, in addition to the entrepreneurial mode of rural merchants and farmers-turned-merchants. Macrostructural changes and power struggles shaped the commercial development of Japan.

CONCLUSION

I have outlined the concept of mode of exchange and applied it to the commercial development of England and Japan. The neoclassical concept of the market is ill-equipped to distinguish the changing structures and social relations of exchange. For instance, in a conventional market framework, the rural marketplace of Tudor England is fundamentally the same institution as the wholesale operation of the London-based middlemen merchants — such a classification misses the point of social scientific analysis. Moreover, the mode of exchange approach illuminates social and political factors in the transformation of exchange organizations. The market framework begins with an assumption about individual motivation and postulates that the market will expand unless obstructed by the visible hand of the state. In contrast, the mode of exchange approach highlights macrostructural changes and the impact of power struggles between groups, indeed "class" struggle, in the making of mode of exchange or commercial development.

The underlying agenda argues for the fundamentally constructed character of economic categories and their embeddedness in the fabric of social life — the disembedded concepts of neoclassical economics must be replaced by embedded sociological concepts. The microsocial relations constituting economic activities and institutions must be analyzed as well as their embedding in the macrosocial structure. The task is to relate these two levels of analysis in concrete social and historical settings.

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