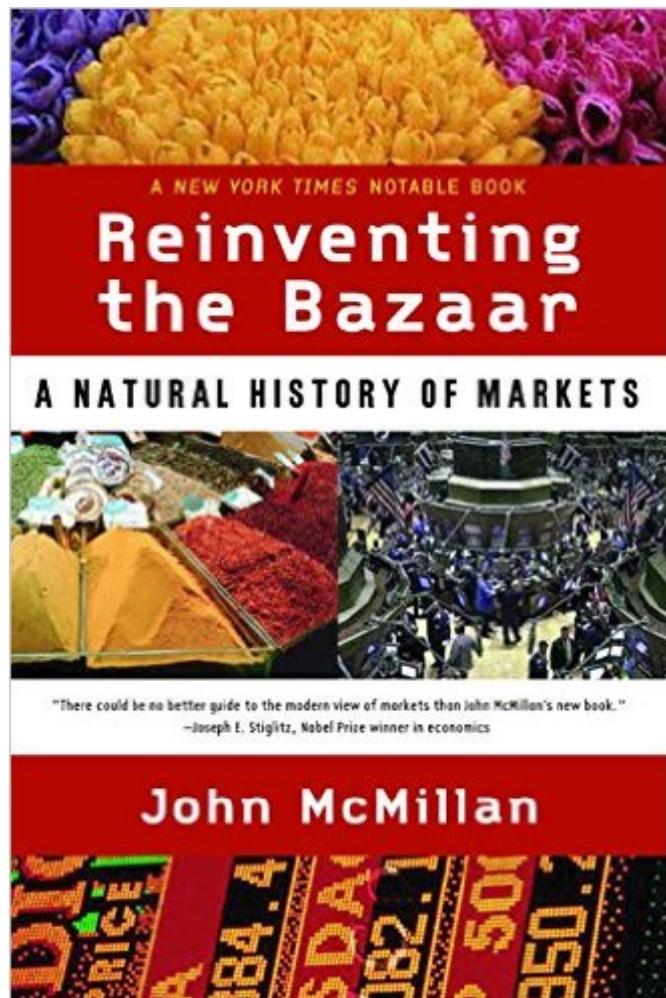


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Reinventing The Bazaar: A Natural History Of Markets



Synopsis

Clear, insightful, and nondogmatic, this book gives us a new appreciation for one of our most ubiquitous institutions. From the wild swings of the stock market to the online auctions of eBay to the unexpected twists of the world's post-Communist economies, markets have suddenly become quite visible. We now have occasion to ask, "What makes these institutions work? How important are they? How can we improve them?" Taking us on a lively tour of a world we once took for granted, John McMillan offers examples ranging from a camel trading fair in India to the \$20 million per day Aalsmeer flower market in the Netherlands to the global trade in AIDS drugs. Eschewing ideology, he shows us that markets are neither magical nor immoral. Rather, they are powerful if imperfect tools, the best we've found for improving our living standards. A *New York Times* Notable Book.

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Customer Reviews

Reinventing the Bazaar was written by the late John McMillan, a professor of economics at Stanford and an expert on government procurement. This is a book about the economics of markets (with a focus on market design), not an economic history, as I believed when I purchased the book. Prof. McMillan devotes the first half of the book to what he identifies as the five basic components of market design: information flow, enforcement of promises, competition, property rights, and externalities. He devotes the second half of the book to implementation of those five basic components. Overall, Prof. McMillan does a good job explaining economic concepts in plain English. Reinventing the Bazaar gets into a lot of the "guts" of markets that are typically not covered in basic

economics classes. In particular, Prof. McMillan recognizes the importance of law and legal institutions to markets, something economists sometimes gloss over. Unfortunately, Prof. McMillan has a tendency to make some rather questionable statements. For example, there is a rather blatant error (or omission) in his discussion of the preference of book agents' for sealed-bid auctions over open auctions (which net their clients higher advances). Prof. McMillan identifies the agents' position as "mistaken." But this preference is not due to mistake, it is due to agency costs. The agents are acting in their own self-interest in a scenario in which their interests conflict with those of their clients. Agents reap only a fraction of the benefit of the final bid, but perform the bulk of the extra legwork necessary to run a successful open auction (which also takes longer). This creates the divergence in interests. Other statements look more like sloppiness than error.

This timely book describes the market systems of today's world. He is an advocate of what he calls the "market design approach" of economic systems. He has five things that a market needs to be effective: social trust, property rights protections, negative externality prevention, free flow of information, and competition. He makes a strong case for a 'middle way' in economic development when it comes to government involvement. He argues that the controlled and command economies of the far left, and the laissez-faire libertarian approach of the far right are both equally garbage. He tells some interesting stories of the worldwide pharmaceutical industry and critiques its free market effects on society and world health. His discussion of information and technology are somewhat simplistic in my opinion, and his conclusions that for economic development these two forces need to be free to innovate and profit seemed the same pedantic old story that is peddled by Gates and co. He makes a strong case for honesty in business and describes some very interesting approaches for regulating and policing business behavior. His discussion of patents and intellectual property rights seemed balanced in its look at how they can help and hinder business and society. He also describes (convincingly in my opinion) how individual and company behavior creates all kinds of negative externalities that cannot be left to the market to take care of. The last couple of chapters described the very different methods of economic transitions used by New Zealand, Russia, and China, and he has some interesting conclusions to offer.

Wherever buyers and sellers get together, there is a market. In the absence of currency, trades have been consummated by assigning relative value to items (e.g. livestock, weapons, clothing) or services (e.g. plowing, medical care, harvesting). Throughout human history, there have been markets in one form or another at which people exchanged or purchased goods of various kinds,

usually in a centrally located area such as a crossroads, harborside, village center, or town square. Buyers and sellers (or traders) gravitated to markets where and when there would be the most people. At least to some extent, all that remains true today even with the emergence of cybermarkets. Effective marketing in the 21st century creates or increases demand first by attracting interest. Hence the importance of visibility. It must also provide a convincing argument as to why a given product or service is preferable to other options, including not purchasing anything. Supply and demand often come into play. Pricing is frequently a decisive issue. For centuries, be it in an ancient bazaar or modern market, buying/selling/trading is among the most dynamic of human activities. In this lively as well as informative book, McMillan offers "a natural history of markets" which helps us to gain a better understanding of how markets work as well as of what they can and can't do. "Markets do what they are supposed to do, however, only if they are well structured. Any successful economy has an array of devices and procedures to enable markets to work smoothly. A workable platform has five elements: information flows smoothly; property rights are protected; people can be trusted to live up to their promises; side effects are curtailed; and competition is fostered.

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