

INTRODUCTION: A FARMER'S MARKET

The Dane County Farmers' Market meets on Saturday mornings at Capitol Square in Madison, Wisconsin. Like many such markets, it is a place where small farmers can sell fresh produce to local customers. Local residents and visitors wander among clean, well-ordered stalls with displays of high-quality local produce and clearly marked prices. Farmers compete on the basis of price and readily observable quality. Exchanges are friendly, and most customers leave satisfied. The setting appears to fit an economist's conception of the benefits of unregulated free-market competition among many buyers and sellers (Basu 2000, 193–96).

Looking somewhat deeper, however, economist Kaushik Basu discovered a rule book. This book details how participating farmer-vendors must behave and stipulates the penalties for specific violations. In addition to rules that regulate fairly obvious concerns, such as how to set up and clean stalls, vendors must file an "Application For Permission to Sell." Basu (2000, 194) quotes from the rule book as follows:

Raw fruits and vegetables must be grown from cuttings grown by the vendor or from seeds and transplants. . . . Purchased plant materials must be grown on the vendor's premises for at least 60 days before they can be offered for sale at the market. . . . Eggs must be produced by hens which have been raised by the vendor for 75 percent of their production weight. . . . Sellers must not bring pets into the Market for health and safety reasons. The sale or giving away of animals on the Capitol grounds is prohibited. . . . Vendors must discourage sales to people in vehicles or lengthy double parking by customers. . . . Vendors selling wild-gathered items must have an application to sell filed with the market prior to arrival at the market and either have proof of land ownership or show written permission from the landowner to gather the product. . . . Vendors must have photocopies of all necessary licenses.

The rule book has 18 pages. Why are there so many detailed regulations for what appears to be a free market? What would happen if vendors failed to discourage double-parking or sold animals? What if vendors sold eggs from chickens they had not raised for 75% of production weight, or sold produce they had not grown on their premises for at least 60 days? What if they resold produce purchased from a supermarket or warehouse at a markup?

What if they failed to clean their stalls? Indeed, what would happen if there were no process for applying for permits to sell, no rules indicating who qualifies, or no way to enforce the rules? What if anyone could sell anything they wanted? How would stalls be allocated? Would disputes arise? Would consumers want to go to the market? Would producers of quality locally grown produce want to sell there?

This example of market governance illustrates why economics is really political economy. It raises the question as to whether there really is such a thing as a free market. It also raises the question of whether rules like these are coercive or voluntary. These rules are coercive in the sense that individuals who might profit by violating them (for instance, by reselling produce purchased at a warehouse) can be punished. Yet they also reflect largely voluntary efforts by vendors at self-organization: the vendors themselves made the rules and set up an enforcement mechanism. The boundary between voluntary action and coercion appears imprecise. The rule book, then, indicates that such governance is part of the political economy of the Dane County Farmers' Market.¹ More generally, governance and markets are not separable.

This interaction between rules and trade illustrates the thesis of this book: successful market exchange, and, more fundamentally, successful economic development, both require some resolution of underlying *collective-action problems*—that is, problems that arise when the individual pursuit of self-interest generates socially undesirable outcomes. It is easy to imagine that a vendor might profit from purchasing produce at a warehouse or supermarket and then reselling it at the Dane County Market at a markup. After all, such purchase and resale could be easier and cheaper than growing and marketing one's own produce. Indeed, violation of any of these rules—selling animals, chatting with double-parkers—could be in somebody's self-interest. Although it is not obvious that each rule is necessary or even well formulated (some may be silly, and some may reflect the interests of the committee that drafted them), absent some set of mutually understood and accepted rules for determining who is allowed to sell what kind of produce, the market would probably not function at all.

The farmers' elaborate set of trading rules thus exemplifies an apparently successful effort by a community to resolve a set of collective-action problems that would arise if potential market participants were to behave in any fashion that suited their individual interests—such as reselling produce from grocery stores. These rules also illustrate an exercise of self-governance that operates within a larger institutional context—the city of Madison, the state of Wisconsin, and so forth. According to the classical philosopher David Hume, some form of government emerges when some group would suffer in its absence (1739/1978, Bk. III, Sec. VII). Exchange, collective action, and governance are thus intricately linked. This book explores their connections.