JOURNAL OF ECONOMIC ISSUES
Vol. XLII No. 2 June 2008

"Silent Trade" and the Supposed Continuum between OIE and NIE

Wilfred Dolfsma and Antoon Spithoven

Abstract: *New Institutional Economics (NIE) claims that Silent Trade exists. Indeed, it would constitute the first step 'as trade moves beyond the border of the village' (North). In this brief article we show both that Silent Trade – trade between parties who have only the most minimal of a shared frame of reference, without direct contact – has not existed and that NIE cannot account for the representational re-description and change in governance structure that it would entail. At least on the issue of language and learning, NIE is categorically different from Original Institutional Economics (OIE).*

Keywords: Institutional economics, silent trade, language, gift exchange, economic methodology

JEL Classification Codes: B25, B41, D83, N00, F19

The Carthaginians say also this that there is a place in Libya, and People living in it, beyond the Pillars of Heracles. When they, the Carthaginians, come there and disembark their cargo, they range it along the seashore and go back again to their boats and light a smoke signal. The natives, as soon as they see the smoke, come down to the shore and then deposit gold to pay for the merchandise and retreat again, away from the goods. The Carthaginians disembark and look; if they think that the price deposited is fair for the merchandise, they take it up and go home again. If not, they go back to their boats and sit there. The natives approach and bring gold in addition to what they have put there already, until such time as the Carthaginians are persuaded to accept what is offered. They say that thus neither party is ill-used; for the Carthaginians do not take the gold until they have the worth of their merchandise, nor do the natives touch the merchandise until the Carthaginians have taken the gold.

Herodotus 440 BC, book IV, §196

Wilfred Dolfsma is Chair of Strategy and Innovation at the University of Groningen School of Economics and Business, w.a.dolfsma@rug.nl. Antoon Spithoven is an Assistant Professor at the Utrecht School of Economics, a.spithoven@econ.uu.nl. *This paper was presented at the AFEE meetings, January 3-6, in New Orleans, LA, USA. The authors would like to thank the participants in our session, particularly Geoff Hodgson and Ulrich Witt for comments. In addition, they want to thank the participants in an USE seminar (especially Annette van den Berg, Piet Keizer, and Jurjen Kamphorst) as well as Kaushik Basu, Eric Jones and John Davis for pleasant and useful discussions as well as for suggestions. Disclaimer.*

[In] the social No-Man's Land between societies, trade in [these] scarcities will often be embedded in ritual and familisticlike institutions.

Heider 1969, 469

Original Institutional Economics (OIE) and New Institutional Economics (NIE) have differing positions on a number of issues. There is an ongoing discussion about the question whether these positions are categorically different (Hodgson 1988), are part of the same continuum (Rutherford 1994; 1995), and may even be reconciled (Groenewegen, Kerstholt and Nagelkerke 1995; Schmid 2004).

These discussions tend to focus on methodological points of contention, and often draw heavily on the history of economic thought. In this paper we take a slightly different approach by analyzing the phenomenon of "Silent Trade" (ST). While our paper has theoretical and methodological implications, our basis primarily is economic history. We thus take issue primarily with economic historian North, and not so much with Williamson.

ST is an ephemeral phenomenon that is referred to intermittently in the economic history literature (see Basu, Jones and Schlicht 1987). Reference to Karl Polanyi's *Dahomey and the Slave Trade* (1966) is brought in as supportive evidence at times, but he too relies heavily on the Greek chronicler Herodotus. The theoretical possibility of silent trade and its supposed existence seem a central tenet for mainstream economics and NIE in particular, as Section 2 argues. Section 3 reviews the literature on ST and concludes that it has not existed in its pure form. Given that Searle (2005) has argued that language is the fundamental institution, our argument has implications for how economics explains how "trade expands beyond the village," as Section 3 argues, as well as for the way in which OIE and NIE relate to each other. Communication, thus, is not a fringe phenomenon, but rather a *sine qua non* for trade or exchange (Boulding 1981; McCloskey and Klamer 1995). Section 4 presents an empirically sound and theoretically more plausible account for how "trade [did] expand[s] beyond the village." This is the model of gift exchange, common in a family and village setting.

Silent Trade, NIE, and OIE

Douglass North has been persistent in neglecting the stages in economic development beyond that within a single village to a fully fledged economic system: "gradually, trade expands beyond the village: first to the region, perhaps as a bazaar-like economy; then to longer distances, through particular caravan or shipping routes; and eventually to much of the world . . . from local autarky to specialization and division of labor" (North 1991, 98-9; see also North 1955). While North denies that these steps are inevitable, or that growth is necessarily entailed, he does neglect the issue of how these steps are actually taken. One of the early steps in the sequence will in this view have been ST. The possibility and effectiveness of ST is assumed, not only for expositional convenience, but also as a matter of theoretical consistency (cf. Ankerloo

& Palermo 2004; Williamson, Hodgson and Gindis 2007). Basu, Jones and Schlicht (1987, 11), explicitly state that ST in its pure form exists, in line with good NIE practice claiming it is socially optimal (see also North 1977, 715).

Silent trade is trade between two parties "without the help of middleman but also without speaking to one another, or coming face to face or even within sight of each other" (De Moraes Farias 1974, 9). Only a bare minimum of what Denzau and North (1994) call "reasonably convergent (shared) mental models" between the trading partners from different societies exists. There is no prior intensive or mediated contact at hand.[1] The trade, as described most famously by Herodotus, takes place in the course of gradual adjustments of quantities arrived by at alternating moves by the trading parties. At every alternate move the goods have to be left unguarded in a place accessible to the other party. The exchange is performed without immediate interaction by means of language or gesticulation. There is only signaling of the offering of exchange goods. Herodotus writes about the use of smoke, and De Moraes Farias (1974, 11) and Bovill (1929, 29) about traders beating drums to inform locals that they have arrived to exchange goods.

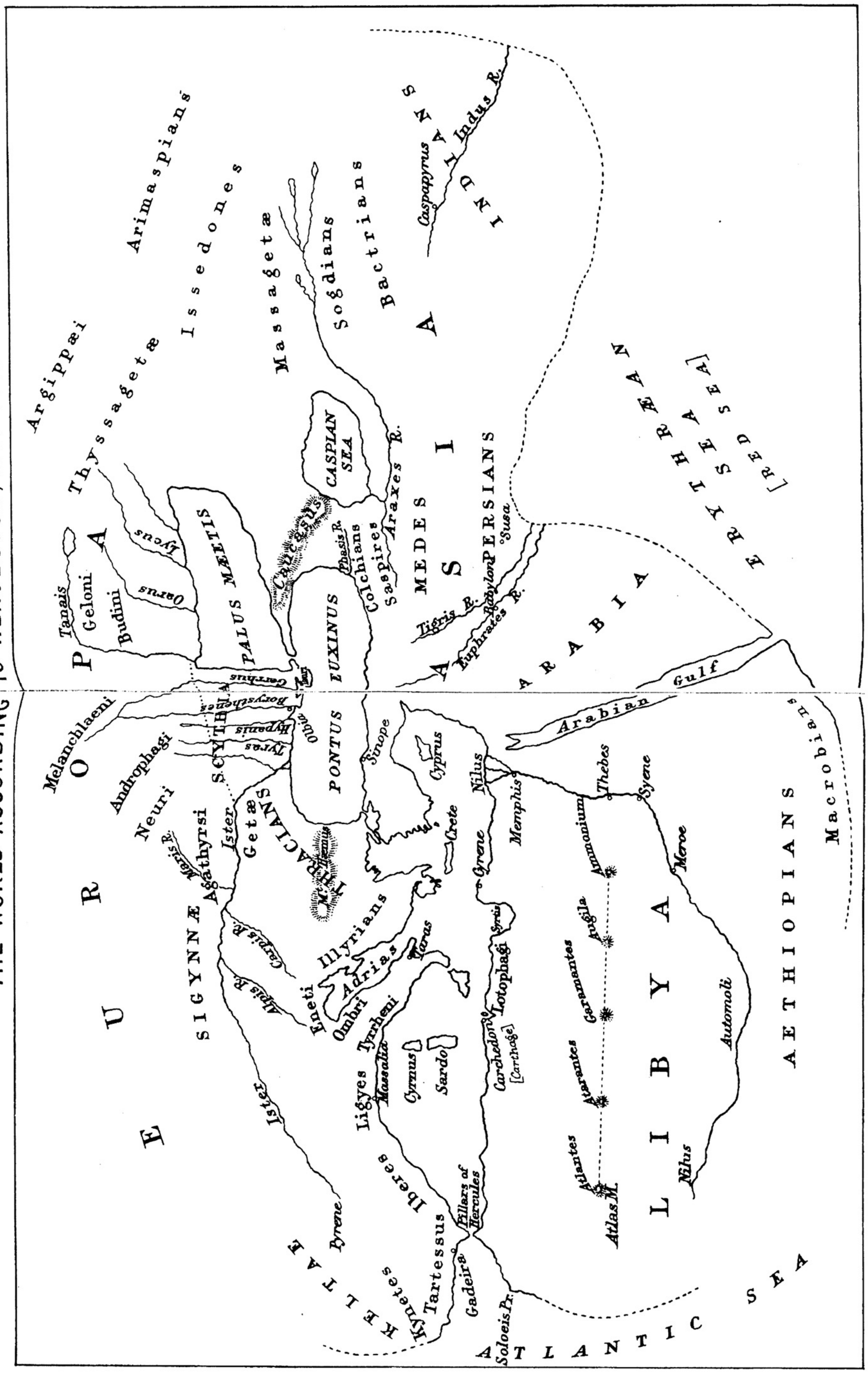
NIE holds, of course, that prices of goods and services are the result of impersonal forces of supply and demand, in a setting where agency does not play a role. In a competitive market structure prices are parameters. Competitive pressure will force individual players to hold similar beliefs and respond similarly to changing circumstances. Communication does not play any role: the responses are immediate (North 1996). Hence Williamson's dictum: "in the beginning there were markets" (Williamson 1975, 20; Williamson 1985, 87). The commodities exchanged in silent trade were search goods whose characteristics were readily visible, did not require an idiosyncratic investment by either party to use, and did not involve future markets. The homogeneous good should be traded anonymously under classical contract law (Williamson 1985). No barter or even communication is needed. NIE can thus presume that ST is, at least theoretically, possible, and even likely to exist pervasively, its origins "reach[ing] far back in history," as Karl Polanyi (1966) has it.

Yet, the strangers involved in ST have no prior knowledge of each other. As "the threat of violence is a continuous force" in the "absence of a state that enforces contracts" (North 1991, 99), so that "safety of life and limb as well as property" (Polanyi 1966) cannot be assumed: how can they trade? The game is not obviously repeated and reputation effects are absent. Indeed, the parties involved are unknown to each other in a pure case of ST. Kin or armed forces for contract negotiation and enforcement, or for the development of standards (contra North 1991) do not enter the picture.

Searching for Silent Trade

The first account of the practice known as silent trade or silent barter comes from the works of Herodotus, who mentioned the trade between the Carthaginians and peoples of the west coast of Africa [Libya], "beyond the Pillars of Heracles" (Herodotus 440 BC: IV, §196).

Figure 1. The World According to Herodotus



Source: Herodotus (pp.294-5).

Since Herodotus, quite a few accounts of silent trade are published. Hamilton-Grierson (1904) collected reports of silent trade mentioned by ancient and modern writers in order to explain its existence (Hamilton-Grierson 1904). He draws on second- and third-hand reports of incidences of silent trade, but did not systematically analyze how accurate these reports are. This is what would be required, however (cf. Herskovits 1940, 162).

Cosmas Indicopleustes (ca 550 AD [1897], 52-54), the first merchant-writer (Laiou 2002, 694), gives the sole Byzantine account of ST based on his own observations in combination with hear-say by other traders. Cosmas' (52-53) account deviates from Herodotus' in that sense that he reports a form of face to face contact: the traders

> make a halt at a certain spot and form an encampment, which they fence round with a great hedge of thorns. Within this they live, and having slaughtered the oxen, cut them in pieces, and lay the pieces on the top of the thorns, along with the lumps of salt and the iron. Then come the natives bringing gold in nuggets like peas [. . .] and lay one or two or more of these upon what pleases them — the pieces of flesh or the salt or the iron, and then they retire to some distance off. Then the owner of the meat approaches, and if he is satisfied he takes the gold away, and upon seeing this, its owner comes and takes the flesh or the salt or the iron.

Cosmas and Herodotus are both indescript about exact place, time and process of bargaining.

Sundström (1965) analyzed a number of mainly European accounts of trade without immediate intercourse. He finds that the romantic appeal in Herodotus' account has contributed to the perpetuation of the story. All accounts on silent trade analyzed by Sundström are largely based on hearsay and are not ST in a genuine sense.

De Moraes Farias (1974) examined the phenomenon of silent trade too, closely studying available material, much of which was of Arab origin. His critique of those who believe that the phenomenon has indeed existed is sharp: "accounts of silent trade in west Africa are a misleading combination of a mythical stereotype with concrete evidence about the traditional African trade-through-broker pattern of exchange" (De Moraes Farias 1974, 10; see also Harper 2004, 57). Many incidences of trade are described wrongly as silent trade. For example, the thirteenth century account of Yāqūt, often portrayed as silent trade, is analyzed in depth by De Moraes Farias. In actual fact, the trade is not silent, but third party mediation is involved. The quality of the merchandise is determined by outsiders to the trade. Yāqūt does not fit the definition of ST: rather a broker-system is superimposed on its reality.[2] Even the closely analyzed and rather detailed narrative of the expeditions of Alvise Cadamosto in 1455-1456, supposedly engaging in ST, remains vague in references to geographical locations and time of presumed ST (De Moraes Farias 1974, 13). De Moraes Farias suggests that the evidence for the existence of silent trade is even weaker than Sundström had realized. Indeed, Garrard (1982) is adamant, after carefully weighing the evidence and giving Herodotus every possible opportunity for his story to be true, in his conclusion: the Carthaginians did not trade gold with peoples on Africa's west coast and there was no trans-Saharan gold trade (Swanson 1975).

There is no proof for the existence of silent trade. Herodotus' account is unconfirmed and highly implausible. No first-hand report of *trade* between two parties that do not know each other, do not communicate meaningfully, and have only the barest of shared institutions and only use a minimum of signals to attract each others' attention – pure ST – is ever published. ST may be dismissed as a phenomenon that has actually existed.[3] To dismiss it theoretically too, an additional argument is needed, one that would allow an explanation of what happens "as trade expands beyond a single village."

Trade, Language and Learning

Can there conceivably be trade without communication in a broad sense of the term? A very minimum of communicative common ground need not stand in the way of fruitful communication, of course (cf. Jordan and Fuller 1975). Yet, in the case of ST, people's perspectives differ fundamentally from each other, and no common "third language of which neither is a fluent speaker" (Jordan and Fuller 1975, 110) is availabale. Yet, it would seem that "as trade expands beyond a single village" people with fundamentally differing frames of reference will have to relate to each other in such as way as to successfully interact. Not surprisingly, Harper (2004, 9) documents a number of attempts at ST that were unsuccessful. As language is the constitutional institution for all other institutions, including economic ones (Searle 2005, 12), interaction must draw on common understandings that can also change because of and through the use of language.

What does NIE argue about language and learning? Denzau and North (1994) have taken up the issue of language and its implication in learning and institutional change. Their account is oddly split between sticking to the notions of equilibrium, and information and learning of the Bayesian kind on the one hand, and on the other hand an acknowledgement that people will need to interpret their environments and that such interpretation can but need not be shared. Ideologies do diverge, as "information feedback from [individuals'] choices is not sufficient to lead to convergence of competing interpretations of reality" (Denzau and North 1994, 4). Multiple equilibria are likely to result. Individuals' interpretation of their environment reflects their learning (3) as well as the feedback they receive "from the physical environment and those from the socio-linguistic environment" (13), as each acquired a mental model over time (11), equilibria, or "reasonably convergent mental models," thus emerge. Language is seen as the means by which individuals achieve this convergence (20), although the process by which this happens is left unspecified. Learning is inductive (11), is perceived as irreversible (8), but "sudden shifts in viewpoint" (14) are possible. Their departure from a more common Bayesian idea of learning and information common in economics (cf. Dolfsma 2008) is difficult to ascertain.[4] Language, encoding and decoding, thus occurs in a social setting that both individuals need to understand and successfully relate with others about, and "may be noisy and imperfect" (Denzau and North 1994, 19). These authors, however, do not pursue this issue but rather qualify it as a "purely technical problem," suggesting that it relates to the "patterns of activation in neural cells" (19). Thus, while the possibility of "representational redescription" (23) are acknowledged to possibly emerge "endogenously" due to a "lack of logical consistency" or a "discovery of a new set of implications" (23, 25), Denzau and North do not see fit to investigate this further.

Is the frame of a market the most likely frame that people who are involved in ST will adopt? Why should behavior observed be seen as haggling in a market? Markets as a decision frame will make people behave differently from how they would have had they framed the situation in another sense (Bowles 2007). Why would the "common features" in the "mental models" of "the speaker and a listener" (Denzau and North 1994, 20) be that of a market? Exchange can be perceived in other than market terms. When trade expands beyond the village and it is not perceived as market exchange from the start, at some point "representational redescription" occurs that will need to be explained in a way that gives an important role to language and learning at the level of social entities. NIE has not accomplished this.

Trading with Family

What institutions may be drawn on in cases where strangers meet to exchange goods, what "neutrality devices" may be found (Polanyi 1963)? As Alchian (1977, 133) argued, in the case of "ignorance of availability of goods and their terms of trade and attributes . . . several institutions have evolved to reduce costs of reducing that ignorance." Money is one such institution, specialist middlemen is another, so are unemployment and specialized marketplaces in Alchian's view. All these cannot be involved in what Polanyi (1966) calls "dumb trade" – indeed, in a way, money is a semantic system too, similar to speech and writing, as Polanyi argues, and requires a mutual recognition of a shared institutional furniture and it's use also requires trust. What if there is no social structure that the use of money can solidify (Polanyi 1963)? What if "reasonably convergent (shared) mental models" (Denzau and North 1994) have not emerged yet?

In such circumstances, "beyond and between social networks," as anthropologists and economic historians have suggested, the one institution "between societies" is that of the family (Heider 1969; Herskovits 1940). Exchange then is not constructed as a quid-pro-quo market exchange, but as a gift exchange (Hamilton-Grierson 1904; Heider 1969; Polanyi 1963; Boulding 1981).

> A primitive hunter evolves the idea that a man of another tribe has desirable things that may be more easily or simply obtained by peaceful than by violent methods; and as one good turn deserves another, the hunter places something tempting where the other man will find it, in

> the hope that it will be accepted *as a gift* and that the stranger will leave something of value in exchange. (Hamilton-Grierson 1904, 711, emphasis added).

As Mauss ([1954] 2000) dictates, one needs to give, receive and reciprocate if one is to be and remain a member of society or if one is to establish new relations. Motives for the exchange of gifts are primarily social, where altruism may play a role, but self interest, and a search for status and power are involved in gift exchange as well (Mauss 1954; Malinowski 1922). Gift exchange is ritualized such that the value of a gift is not articulated, but at the same time that the scales are not out of balance too much or for too long (Dolfsma, van der Eijk and Jolink 2005). Failure to reciprocate a gift will subdue a givee, in fact excommunicating him. There is thus an obligation to return a gift, but it is not formally enforceable: "Custom demands that the return gift both be preferably superior to the initial gift and commensurate with the social status of the giver" (Sunström 1965, 2). Initiating a relation requires that one starts a gift exchange sequence. Refusing a gift is seen as a hostile act, but one can avert being offered one.[5]

Gift exchange is not absent from modern economies (Boulding 1981; Dolfsma, van der Eijk and Jolink 2005): similar processes can be found from mature industries where commodities are traded (Darr 2003) to highly complex, risky and volatile surroundings (Ferrary 2003).

Conclusions

Information on "how gradually trade expands beyond the village" is scarce. New Institutional Economics assumes that an early step in the process is Silent Trade. Still, what information there is indicates that trade without communication whatsoever is impossible: ST has never existed. Theoretically, NIE has been unable, so far, to explain the kind of "representational redescription" that would then have to occur. Instead, NIE has plugged ST into its story. Relying on the notion of ST entails that NIE provides a static approach to the choice of contracts, incentives and governance structures, assuming pure theoretical market conditions. Language and learning are nevertheless largely exogenous to NIE. The possibility of ST and thus the place of language in economic theory thus constitutes a theoretical and methodological watershed between NIE and OIE. From an evolutionary perspective, rather, market exchange has developed from gift exchange. In the beginning here was gift exchanged under "familisticlike" conditions.

Notes

1. As a third example, in addition to references to Herodotus and Polanyi, Basu, Jones and Schlicht (1987) refer to medieval cities shutting themselves off from the surrounding countryside in order to keep the plague out. In private communication, Eric Jones indicates that in London the Winchester plague

plaque gives notice to the effect that when the city had closed its gates during the plague, coins in payment for food brought by country folk were placed in vinegar in a basin outside the Westgate. Although contact between those involved was prevented, this example of trading food with farmers is no instance of silent trade as extensive prior exchange had happened, creating converging mental models and settling prices.

2. Middlemen, brokering between parties, met with each party, although not necessarily at the same time.
3. Modern trade, for instance, of foreign exchange or of commodity futures, using computer screens and IT does not involve personal contact and operates across large geographical distances. As Knorr Cetina and Bruegger (2002) convincingly show, highly institutionalized kinds of communication are involved in this kind of trade. What is more, the relations between traders are more personal and more moral than one would be inclined to expect.
4. Consider, however, that Denzau and North (1994, 14, fn. 6) claim that "we are extremely unlikely to ever learn the true model": this is in stark contrast with Bayesian views of learning.
5. In a potlatch among America's West Coast Indians, a major concern was to prevent being given a gift one could never reciprocate so as to prevent being subdued forever, in effect being ex-communicated (Mauss [1954] 2000). Veblen (1899) would very much liken such behavior as conspicuous consumption. Indeed, potlatch has been banned for some time as a wasteful activity.

References

Alchian, Armen A. "Why Money?" *Journal of Money, Credit and Banking* 9, 1, Part 2 (1977): 133-140.

Ankerloo, Daniel and Guido Palermo. "Anti-Williamson." *Cambridge Journal of Economics* 28 (2004): 413-429.

Basu, Kaushik, Erik Jones and Ekkehart Schlicht. "The Growth and Decay of Custom." *Explorations in Economic History* 24 (1987): 1-21.

Boulding, Kenneth E. *A Preface to Grants Economy*. New York: Praeger Publishers, 1981.

Bovill, [Jim] E.W. (1929) "The Silent Trade of Wangara." *Journal of the Royal African Society* 29 (113): 27-38.

Bowles, Sam. "Social Preferences and Public Economics." Working Paper, No. 496 Gennaio: Università degli Studi di Siena; Dipartimento di Economica Politica, 2007.

Cosmas Indicopleustes. *Christian Topography*, first series no.98, The Hakluyt Society, online ed. [550 AD] 1897.

Darr, Assaf. "Gifting Practices and Inter-organizational Relations: Constructing Obligations Networks in the Electronics Sector." *Sociological Forum* 18,1 (2003): 31-51.

De Moraes Farias, Paulo F. "Silent Trade: Myth and Historical Evidence." *History in Africa: A Journal of Method* 1, 1 (1974): 9-24.

Denzau, Arthur T. and Douglas C. North. "Shared Mental Models: Ideology and Institutions." *Kyklos* 47, 1 (1994): 3-31.

Dolfsma, Wilfred. *Knowledge Economies*. London & New York: Routledge, 2008.

Dolfsma, Wilfred, Rene van der Eijk and Albert Jolink. "No Black Box *and* No Black Hole: from Social Capital to Gift Exchange." ERIM Report Series Ref.no. ERS-2005-040-ORG, 2005.

Ferrary, Michel. "The Gift Exchange in the Social Networks of Silicon Valley." *California Management Review* 45, 4 (2003): 120-138.
Garrard, Timothy F. "Myth and Metrology: The Early Trans-Saharan Gold Trade." *Journal of African History* 23, 4 (1982): 443-461.
Groenewegen, John G., Frans Kerstholt and Ad Nagelkerke "On Integrating New and Old Institutionalism: Douglass North Building Bridges." *Journal of Economic Issues* 29, 2 (1995): 467-475.
Hamilton-Grierson, [Philip] J. "Book Notices: The Silent Trade." *Bulletin of the American Geographical Society* 36, 11 (1904): 710-711.
Harper, David A. "Trade, Language and Communication." New York University (2004) http://www.econ.nyu.edu/dept/austrian/Trade&Comm.pdf [Accessed 27th July 2007].
Heider, Karl G. "Visiting Trade Institutions." *American Anthropologist* (new series) 71, 3 (1969): 462-471.
Herodotus. *The History*. [Translated into English by David Grene, 1988] Chicago: Univ. of Chicago Press (440 BC).
Herskovits, Melville J. *The Economic Life of Primitive Peoples*. New York, London: Alfred A Knopf, 1940.
Hodgson, Geoffrey M. *Economics and Institutions*. Cambridge: Polity Press, 1988.
Jordan, Brigitte and Nancy Fuller. "On the Non-Fatal Nature of Trouble: Sense-Making and Trouble-Making in lingua franca Talk." *Semiotica* 13 (1975): 11-31.
Knorr Cetina, Karin and Urs Bruegger. "Global Microstructures: The Virtual Societies of Financial Markets." *American Journal of Sociology* 107, 4 (2002): 905-950.
Laiou, Angeliki E. *The Economic History of Byzantium*. Vol.2, Washington D.C.: Dumbarton Oaks Research Library and Collection, 220 A.D.
Malinowski, Bronislaw. *Argonauts of the Western Pacific*. George Routledge & Sons, 1922.
Mauss, Marcel. *The Gift: Forms and Functions of Exchange in Archaic Societies.* New York: Norton, [1954] 2000.
McCloskey, Deirdre and Arjo Klamer. "One Quarter of GDP is Persuasion." *American Economic Review* 85, 2 (1995): 191-5.
North, Douglass C. "Location Theory and Regional Economic Growth." *Journal of Political Economy* 63, 3 (1955): 243-258.
---. "Markets and Other Allocation Systems in History: The Challenge of Karl Polanyi." *The Journal of European Economic History* 6 (1977): 703-716.
---. "Institutions." *Journal of Economic Perspectives* 5, 1 (1991): 97-112.
---. "*Economics and Cognitive Science*." 1996. http://129.3.20.41/eps/eh/papers/9612/9612002.pdf (Accessed September 5, 2007).
Polanyi, Karl. "Ports of Trade in Early Societies." *Journal of Economic History* 23,1 (1963): 30-45.
---. *Dahomey and the Slave Trade.* Seattle, WA: Univ. of Washington Press, 1966.
Rutherford, Malcolm H. *Institutions in Economics. The Old and the New Institutionalism*. Cambridge: Cambridge UP, 1994.
---. "The Old and the New Institutionalism: Can Bridges be Built?" *Journal of Economic Issues* 29, 2 (1995): 443-451.
Schmid, A.Allan. *Conflict and Cooperation. Institutional and Behavioral Economics*. Malden, MA, Oxford (UK), Victoria (Australia): Blackwell, 2004.
Searle, John A. "What is an Institution?" *Journal of Institutional Economics* 1, 1 (2005): 1-22.
Sundström, Lars. *The Trade of Guinea*. Lund: Håkan Ohlssons Boktryckeri, 1965.
Swanson, John T. "The Myth of Trans-Saharan Trade During the Roman Era." *International Journal of African Historical Studies* 8, 4 (1975): 582-600.
Veblen, Thorstein B. *The Theory of the Leisure Class*. New York: Macmillan, 1899.
Williamson, Oliver E. *Markets and Hierarchies*. New York: Free Press, 1975.
---. *The Economic Institutions of Capitalism.* New York: Free Press, 1985.
Williamson, Oliver E., Geoffrey M. Hodgson and David Gindis. "An Interview with Oliver Williamson." *Journal of Institutional Economics* 3, 3 (2007): 373-386