

[eBaynomics](#) [1]

Written by [Anton Howes](#) [2] | Tuesday 15 March 2011



We're all now familiar with the way the online exchange market eBay works. However, it should also be seen as an example of how unregulated free markets can work. In 2010, 90 million people from across the world, often unable to speak the same language, and totally unknown to each other due to adopted pseudonyms traded \$2000-worth of goods every single second.

Without any government input when it came to advertising standards or fair trading, or any of the usual regulations we see with conventional off-line markets, a whopping 98% of trades managed to get a positive rating. This shows that trust can be built between and amongst people who will never meet, and may even conceal their identities.

You may argue that this is simply because of the rating system, something put in place by the eBay designers, and that this provides a justification for a similar government scheme. But then eBay, like all other markets is entirely voluntary - we buy at our own risk but try to reduce it. Even if eBay had not built in its own ratings system and provided free Buyer Protection, the huge demand for these services would have prompted someone to design them in any case.

Whilst government may wish to get involved, the chances are it would be a waste of taxpayer money, and would displace both consumer wariness and voluntary approaches more open to innovation. Furthermore, regulations always respond to the last disaster. But consumer ratings are likely to be more immediate and effective, whilst also changing seller behaviour without the need for intrusive or expensive top-down rules governing everyone else too.

We're all personally interested in reducing risk, and more conventional markets see a much greater effect: companies obsess about brands so that we can trust them over others. Traditional media and now even a quick Google search all play a role in making or breaking these reputations. For example, the reporting of failing brakes in some Toyota models last year was the off-line equivalent of getting millions of bad ratings on eBay! Its sales, prices and value all dropped, and its practices changed. If online markets can be both accepted and trusted to self-regulate despite anonymity, why can't their older, more established and identifiable off-line counterparts?

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