11 Markets as Social Structures

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The market represents one of the most important economic institutions in contemporary society. It has also become a key word in political discourse all over the world. Given this centrality, it is no wonder that there exists a huge literature on the concept of the market, the major works of which will be reviewed and commented on in this chapter. My main emphasis, however, will be to look at markets from a particular perspective, namely as a specific type of social structure. Social structure can be defined in a number of ways, but what is usually meant by this term is some kind of recurrent and patterned interactions between agents that are maintained through sanctions. In a discussion of markets as a specific kind of social structure, it is consequently not very helpful to define them simply as price-making mechanisms (as is often done in economic theory), since this tells us little about the basic interaction involved. A more useful approach in this context is to view markets in terms of exchange, especially if exchange is conceived of in a broad sense, as Ronald Coase does when he defines the market as a "social institution which facilitates exchange" (1988, p. 8).

Despite the tendency to speak of the market, as if one could easily locate some object with this name, markets have displayed a bewildering amount of variation throughout history. A survey of different kinds of markets over time can be found in the first section of the chapter, "The Complexity of the Market Phenomenon." The way that economists have tried to come to terms with this complexity will be discussed in the next section, "The Market in Economic Theory," which not only presents the history of market analysis in economic theory from Adam Smith to the present, but also highlights attempts to see the market not only as a price-making mechanism but as a social phenomenon in its own right. A review of how sociologists have viewed the market can be found in "The Market in Sociology." The last section, "On Integrating the Economic and Sociological Approaches to the Market," argues that in order to fully understand the complexity of the market phenomenon, one needs to draw both on economic and sociological theory. Two typologies of markets as social structures are presented and discussed. I also contend that most analysts of the market currently operate with an incomplete notion of the market. The outline of a full theory of the market as a social structure is suggested with the help of Max Weber's work.

The Complexity of the Market Phenomenon

That the word market describes many different phenomena can be illustrated by its semantic history. The term was introduced into the English language in the twelfth century or earlier (from the Latin mercatus, meaning "trade" or "place to trade"). Soon it acquired three distinct meanings: (1) a physical marketplace; (2) the gathering at such a place; and (3) the legal right to hold a meeting at a marketplace. In the sixteenth century market began to be used in the sense of "buying and selling in general," and soon it also meant "sale as controlled by demand and supply" (Oxford English Dictionary 1989, p. 385). By the seventeenth century the term began to broaden to include the geographical area within which there was a demand for a certain product. The stock exchange of the nineteenth century increasingly was seen as the prototype of the modern market. Economists subsequently have added a meaning of their own: the market as an abstract pricemaking mechanism that is central to the allocation of resources in an economy. The term market has also for a long time had an ideological charge, something that was reflected in the political slogan "the Magic of the Market."

Is it possible to find a theory that can make sense of all the different phenomena covered by the term market? One of the few historians who has tackled this question is Fernand Braudel, and his answer can be found in Civilizations and Cap-
italism, 15th-18th Century. The ideal field of observation [for an enterprise of this sort]," states Braudel ([1979] 1985, 2:26), "would cover all the markets in the world, from the very beginnings to our own time." In one chapter Braudel ([1979] 1985, 2:25-137) takes on this task, presenting the reader with a magnificent panorama of markets from around the world. Braudel, however, is ultimately skeptical of the idea that it is possible to develop a theory to capture the essence of all markets:

How can one [like, e.g., Polanyi] include in the same explanation the pseudo-markets of ancient Babylon, the primitive exchange habits of the Trobriand Islanders in our own time, and the markets of medieval and pre-industrial Europe? I am not convinced that such a thing is possible. (Braudel [1979] 1985, 2:26)

Whether it is possible to create a theory of markets will be discussed later in this chapter. In this section I shall instead present some historical material that illustrates the great complexity of the market phenomenon in general. Little is known about the earliest markets in history, although it is often argued that they emerged through trade between different tribes. Apart from war, trade represented one of the few forms of interaction between the first human communities. Markets seem to have been regarded as neutral territory and were typically situated at the boundaries of two communities. While sharp bargaining was allowed with foreigners, it usually was not allowed inside the community, where exchange was of a different nature.

When markets first appeared is also uncertain. A variety of archaeological findings indicate that external trade existed by at least 5000 B.C. Seashells and objects of obsidian from this period have, for example, been found hundreds of miles from their origins. Trade is likely to have taken place at ecological boundaries, such as the edge of a desert, where sedentary and nomadic tribes met. Other objects—such as fish, salt, and iron—are also unevenly distributed and have long been sought after in trade. At a relatively early stage certain individuals and even whole tribes seem to have devoted themselves mainly to trade. Evidence exists from as early as 3500 B.C. of merchants from one community who lived in another community for purposes of trade. Networks of foreign traders soon also connected whole parts of the world, such as the Middle East and the Mediterranean.

During antiquity the old tribal marketplaces in Greece and Rome were replaced by new kinds of urban markets that were geared mainly toward the everyday needs of the citizens. External trade was protected by the Roman navy and grew considerably more sophisticated through the use of new institutions for maritime trade such as the commenda, or sea loan. The impact of this type of trade on society was nevertheless negligible since it was mainly oriented toward the small market of the elite. Something similar was true for much of the long-distance trade during the early Middle Ages. A few centuries later, however, the urban market was to go through a considerable change. Much stronger efforts to control prices and quality were typically made during the latter part of the Middle Ages, in combination with attempts to force people to trade only inside the city walls. Wholesale trade as well as high-powered money deals mainly took place in the so-called fairs that began to appear all over Europe. A special peace was required at these fairs, guaranteed by the local prince.

At some point in Western economic history markets became directly associated with dynamic economic growth rather than being mere places for exchange. To what extent this transition from marketplaces to market economy (Rothenberg 1992) was due to the removal of outmoded market regulation or to, say, advances in technology associated with the Industrial Revolution is a much debated question. In terms of social structure, an enormous change nonetheless took place in the various markets during the seventeenth and eighteenth centuries. National markets, for example, were created first through the political revolutions of these centuries in England, France, and the United States. At about this time several new kinds of specialized markets also came into being. The medieval fairs, for example, were replaced by trade centers and more advanced forms of financial institutions, such as the bourse. Wholesale trade changed in many aspects, due to innovations in transportation technology as well as storage facilities. Retail trade went through a revolution of its own in the seventeenth century through the proliferation of shops. Though there had existed a small market in labor already in the Middle Ages, this type of market changed dramatically as people began to work in factories and moved into cities. Soon the four major types of markets that characterize modern capitalist society had made their appearance: the financial market, the mass consumer market, the labor market, and the industrial market. This development first
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The Market in Economic Theory

The key question of this section is the following: How well has economic theory been able to handle the complexity of the market phenomenon? To address this question, I shall review how the market has been analyzed throughout the history of economic thought from Adam Smith to the present. In doing so, I shall mainly trace the effort to analyze the market as a p Kemmecmechanism, but shall also highlight attempts to view the market as an institution in its own right. As to the former task—tracing the idea of the market through the history of economic thought—astonishingly little work has been done. Economic historian Douglass North (1977, p. 710) has, for example, noted that “it is a peculiar fact that the literature on economics . . . contains so little discussion of the central institution that underlies neo-classical economics—the market.” And sociologist Bernard Barber (1977, p. 19) has similarly pointed out that “a surprisingly small amount of attention is given to the idea of the market [in the economics literature].” Barber explains the situation:

I should like to stress that (when I did research on the market) I had expected to find the history of economic thought full of discussions of the idea of the market. As I went through some of the literature I was so surprised to find practically no discussion at all that I began to test my finding with knowledgeable colleagues. All of them said yes, they would have expected to find a lot, and, yes, they were surprised that I found so little. (Barber 1977, p. 30)

Barber’s conclusion was not that the concept of the market was missing, but that it was implied rather than explicitly discussed. Further examination of the literature in economics shows that Barber’s and North’s findings are essentially correct. Only one classical work in economics devotes a full chapter to the market in general, the well-known chapter “On Markets” in Alfred Marshall’s Principles of Economics from 1890 (cf. Marshall 1961, 1:323–30). Marshall, however, did not so much analyze the market as a special institution in its own right, but rather as part of his more general discussion of demand, supply, and value. To my knowledge, the only major economist who has written directly on the market in an exemplary broad manner is Joan Robinson ([1974] 1979). Her article did not appear in a professional journal, however, and was commissioned by an encyclopedia.

There exists even less material on the market as a social phenomenon than as a price-making mechanism. George Stigler (1967, p. 291), for example, has noted that “economic theory is concerned with markets [and] it is, therefore, a source of embarrassment that so little attention has been paid to the theory of markets.” Ronald Coase has made the same point and has sketched a program for a broad theory of markets. “Although economists claim to study the market,” Coase (1988, p. 7) stresses, “in modern economic theory the market itself has an even more shadowy role than the firm.” Contemporary economists, he continues, are interested only in “the determination of market prices” (Coase 1988, p. 7), which he says has led to a situation in which “discussion of the market place itself has entirely disappeared.”

The Market in Classical Political Economy (from Adam Smith to Marx)

There exist many interesting differences between the concept of the market in classical political economy and the one that was to become popular around the turn of the century through the marginalist revolution. First, classical economists saw the market as synonymous with either a marketplace or a geographical area. In their eyes the market was something concrete as opposed to the abstract market of latter-day economists. Second, the main emphasis in classical political economy had been on production rather than on exchange. What decided price was in principle the amount of labor that it took to produce a commodity—not the forces of demand and supply, as today’s theorists would say. And third, what inspired in the market could mislead the analyst, it was argued, especially when it came to price, because incidental factors would typically result in a market price that was different from the natural price. It is true that the classical economists saw the mar-
ket as an important institution within capitalism. They, however, assigned no analytical priority to the market, and in their view production was far more important than exchange when it came to analyzing and understanding economic life.

Of the more than thirty chapters in *The Wealth of Nations* by Adam Smith, only two deal explicitly with the market: “The Division of Labor is Limited by the Market” (1776, book 1, chap. 3) and “Of the Natural and Market Price of Commodities” (book 1, chap. 7). These two chapters discuss what Adam Smith saw as central to any analysis of the market: the relationship between the market and the division of labor, and how the market influences price. In Adam Smith’s view, the wealth of a community was the result of labor, and the productivity of labor was in turn determined by how advanced the division of labor was. An ordinary market town, he noted, could only afford a rudimentary division of labor while a larger town, especially if it was situated on a river or on the border of the sea, tended to have a more developed division of labor. Businessmen also usually tried to “widen the market,” as he noted, thereby increasing the division of labor ([1776] 1976, p. 267). Because of this fact, markets in agricultural products often progressed to markets in manufactured goods, and then to markets abroad. Smith was convinced that larger markets meant more wealth; this was one of the reasons why he so strongly condemned mercantilism.

Adam Smith was very interested in how prices are formed. “The actual price of which any commodity is commonly sold is called its market price. It may either be above, below, or exactly the same with its natural price” (Smith [1776] 1976, p. 73). Market prices were in principle gravitating toward their natural price level, according to Smith. For a long time, however, they could be far above the natural price. The reasons for this vary—there could be natural causes such as a drought that drives up the price of bread or perhaps a businessman is hiding a vital piece of information from his competitors. Smith generally is credited with possessing a realistic view of competition; his description in *The Wealth of Nations* of “the higgling and bargaining” in the market bears this out (Smith [1776] 1976, pp. 48ff.). Adam Smith also believed that “an invisible hand” guided society and would ultimately reconcile the pursuit of private interests through market exchange with the general interest of society as a whole (Smith [1776] 1976, p. 456; cf. Davis 1990).

Through the works of David Ricardo and John Stuart Mill, political economics became more abstract, losing much of its interest in concrete economic institutions, including markets. The general thrust of their analyses was still that production decided the correct or the natural price while the market price tended to be the result of accidental influences. Ricardo’s *Principles of Political Economy and Taxation* (1817) contains, for example, a chapter to this effect entitled “On Natural and Market Price”; and in *Principles of Political Economy* (1848) Mill assigns scientific priority to “the laws of Production.” Both Ricardo and Mill, however, also created a certain room in their analyses for a demand and supply analysis. This is especially true of Mill, who according to some commentators may have sensed the changes in economic theory that were ahead.

Like other classical political economists, Karl Marx was of the opinion that production was more important than the market when it came to deciding the price of a commodity. Nonetheless, throughout Marx’s work one can also find a number of interesting observations on the market or “the sphere of circulation,” as he preferred to call it. First, Marx emphasized that the market consists of social relationships. “It is plain,” he noted sarcastically in *Capital*, “that commodities cannot go to the market and make exchanges on their own account” (Marx [1867] 1906, p. 96). “Value” was not inherent in a commodity, but was rather “a relation between persons expressed as a relation between things” (Marx [1867] 1966, p. 85). The way that economists spoke about prices, however, fed the illusion that values were not created by people but somehow constituted qualities of the objects themselves. A peculiar “merchandise fetishism” resulted, Marx said, in which people projected life unto objects because they did not understand that they themselves had created these values through their own work (e.g., Cohen 1978, pp. 115–33).

Marx also emphasized that all markets have a distinct history. Many European and colonial markets had, for example, been created through violence or threat of violence. There was also an important legal and ideological dimension to the market, Marx argued. According to capitalist law, all market participants are in principle equal and free. This, however, was little but an illusion; the market was no “Eden of the innate rights of man,” Marx argued, but rather a place where workers were forced to sell their labor power for a pittance to the capitalist. The secret key to the
workings of the capitalist economy was found in
"the hidden abode of production" and not in the
market—"this noisy sphere where everything
takes place on the surface" (Marx [1867] 1907,

The Marginalist Revolution and the Creation
of the Modern Concept of the Market

Toward the end of the nineteenth century the
concept of the market in economic theory under-
went a dramatic change through the works of
Walras, Jevons, Menger, and others. The difference
between the new concept of the market and
that of the classical political economists was large.
For economists like Adam Smith, the market had
been something concrete but of limited analytical
interest, since the market price was often influ-
enced by accidental events. Now, however, the
thinking became almost reversed: the market be-
came an abstract concept that acquired tremen-
dous analytical interest as a price-making and
resource-allocating mechanism. Historical and
social approaches were firmly rejected during this
period through the Methodenstreit or the Battle of
Methods, which originated in Germany-Austria
and soon spread to England and the United
States. The concept of the market was thinned to
such a degree that John Neville Keynes Sr. spoke
of "the hypothetical market" and W. Stanley
Jevons simply equated the analysis of the market
with a "theory of exchange" (Keynes Sr. [1891]
1955, pp. 247–49; Jevons 1911, pp. 74ff.). This,
however, was a price worth paying, according to
the marginalist thinkers, since many difficult the-
etical problems that had haunted the early econom-
ists could be solved using the new analy-
sis. In particular, it became possible to conceptu-
alyze and model the whole economy as a system of
markets.

In order to present the newly emerged concept
of the market, it is convenient to start with two
defining statements that were often cited around
the turn of the century and that are still referred
to in the economic literature.

Economists understand by the term Market, not any
particular market place in which things are bought
and sold, but the whole region in which buyers and
sellers are in such free intercourse with one another
that the prices of the same goods tend to equality
easily and quickly. (Cournot [1838] 1927)

The more nearly perfect a market is, the stronger is
the tendency for the same price to be paid for the
same thing at the same time in all the parts of the
market. (Marshall 1890)

These two statements show, first of all, that econ-
omists by the mid to late nineteenth century
thought that the term market should be extended
from simply meaning marketplace to also mean
any area where buyers and sellers of a particular
commodity could be located. As we know from
the history of the term market, as summarized in
the first section, this suggestion merely mirrored
the everyday use of this word (e.g., Oxford En-
glish Dictionary 1989). What represented a nov-
elty, however, was the fact that economists now
added a meaning to the word market. This new
meaning is not entirely made clear in the Cournot
and Marshall quotes, but is hinted at by the
latter's use of the word perfect. In all brevity, a
"perfect market" was a very abstract market, char-
acterized by perfect competition and perfect in-
formation. Harold Demsetz (1982, p. 6) has
described the change that took place in econ-
omic theory: "Markets [now] became empiri-
cally empty conceptualizations of the forums in
which exchange costlessly took place. The legal
system and the government were [for example]
relegated to the distant background."

Even though criticism can be directed at the
marginalist revolution, it must be acknowledged
that one of its great accomplishments was to con-
ceive of the market as the central mechanism of
allocation in the economy. This idea no doubt re-
lected the change that had gradually come about
in the West: the economy was increasingly cen-
tered around markets. It also implied that all mar-
kets in an economy were interconnected and that
a change in any one of them would lead to
changes in another. Léon Walras, in particular, is
credited with having pioneered general equilib-
rium analysis. According to Walras ([1926] 1954,
p. 84), "the whole world may be looked upon as
a vast general market made up of diverse special
markets where social wealth is bought and sold."
Production, it may be noted, played little role
in Walras's vision, which was also exceedingly
abstract.

Of the major economists from this period
Marshall was the only one who paid attention to
the market as an empirical phenomenon in its
own right. The key idea in his definition of the
market, to repeat, was that wherever local prices
for the same product were converging, the prod-
ucts became part of the same market. In his chap-
ter on the market in Principles of Economics
Marshall also drew up a very ambitious program for how to study "the organization of markets" ([1920] 1961, 1:324). According to this program, when analyzing special markets, one would have to take money, credit, and foreign trade into account as well as trade unions, employers' organizations, and the movements of the business cycle. Some of these matters eventually were discussed in *Industry and Trade* (1919) and in *Money, Credit & Commerce* (1923), but Marshall never really tackled the market according to his original plan. Pulling together Marshall's thoughts from his various works, it is clear that Marshall's thinking about markets changed over the years. While in *Principles of Economics* markets were predominantly seen in terms of demand and supply, some thirty years later he emphasized the dimension of social organization. In *Industry and Trade* Marshall defined the market in the following manner: "In all its various significations, a 'market' refers to a group or groups of people, some of whom desire to obtain certain things, and some of whom are in a position to supply what the others want" (Marshall 1919, p. 182).

From Marshall's works, it is clear that he believed the following five factors were important in the understanding of markets: space, time, formal regulation, informal regulation, and familiarity between buyer and seller. The analysis of markets in *Principles of Economics* focuses on the first two of these five factors, while the latter three are discussed more fully in *Industry and Trade*. In relation to space, a market could be either "wide" or "narrow" (Marshall [1920] 1961, 1:325-26). The market area could also grow or shrink, depending on the circumstances. The extent to which time was taken into account would also affect the market—whether the period in question was "short" (meaning that supply was limited to what was at hand in the market), "longer" (meaning that supply was influenced by the cost of producing the commodity), or "very long" (meaning that the supply was influenced by the price of labor and other material needed to produce the item in question; see Marshall [1920] 1961, 1:350). A market could be "organized" or not; by this Marshall (1919, pp. 256-57) meant that its proceedings were either formally regulated or not. The stock market was an example of an organized market (Marshall 1923, pp. 88ff.). In fact Marshall—like many other economists from this period—saw the stock market as the most highly developed form of the market. Markets could further be either "general" or "particular" (Marshall 1919, p. 182). By a particular market Marshall meant a market in which there existed some social bond between the buyer and the seller that made the transaction easier while a general market was in principle anonymous. Depending on the degree of informal regulation, a market was finally either "open" or "monopolistic" (Marshall 1919, pp. 395ff.). In Marshall's opinion, competition usually differed depending on the type of market that was involved. The "harshest and cruellest" form of competition was, for example, to be found in markets that were about to become monopolistic (Marshall 1919, pp. 395-96).

*The Austrian School: The Market as a Process*

Neo-Austrian economics has its roots in the work of Carl Menger, who viewed the market as the spontaneous and unintended result of historical development (Menger [1883] 1985, pp. 139-59). The two main figures in the neo-Austrian school are Ludwig von Mises and his student Friedrich von Hayek; many of their key ideas were developed during or just after World War I. The intellectual interests of both Mises and Hayek were uncommonly broad and included social theory as well as economics. Mises, for example, was a good friend of Max Weber. He was a member of the German Sociological Association and he made frequent references to sociological works in his famous seminar in the 1920s in Vienna. Both Hayek and Mises also made significant contributions to the debate about the economic nature of socialism, mainly by arguing that it was impossible to have a rational economy without price-making markets (see the articles by Mises and Hayek in Hayek 1933; for a history of the debate, see Udeh 1981; Brus and Laski 1989).

The centerpiece of neo-Austrian economics is undoubtedly its theory of the market as a process (e.g., Mises 1961, [1966] 1990; Hayek 1979; Shand 1984). "The market is not a place, a thing or a collective entity," as Mises (1949, p. 258) put it, "[i]t is a process, acted by the interplay of the actions of the various individuals cooperating under the division of labor." According to the neo-Austrians, the market emerges spontaneously; it is the result of "human action" as opposed to "human design." A market is to its nature decentralized and primarily constituted through local knowledge about how much something costs and where opportunities are to be found (see esp. Hayek 1945, [1946] 1948). As opposed to what economists call an economy, the
market has no center but rather consists of "a network of many interlaced economies" (Hayek 1976, p. 108). This vision of the market is radically different from the neoclassical one, of which Mises and Hayek were critical. As they saw it, all of economics should be centered around the concept of the market; they suggested that the term economies be replaced by catallactics.11

**Keynes's Critique of the Law of Markets**

While the neo-Austrian theory of the market was to have little immediate impact, John Maynard Keynes's ideas had an instant effect. Keynes's point of departure in *General Theory* (1936) was his observation that earlier economic theory had made an error in taking Say's Law of Markets for granted, namely that supply creates its own demand or that "the economic system is always working at full capacity" (Keynes [1943] 1954, p. 69).12 If one looks at the way things work in reality, Keynes argued, disturbing gaps and imbalances exist between markets as well as between demand and supply inside individual markets. The result of these gaps and imbalances was that unemployment tended to be constant in modern society and the economy sluggish in general. Keynes's solution for matching demand and supply and thereby ensuring that the market worked properly was through the intervention of the state. The state should, in particular, be responsible for adjusting consumption and investment.

Keynes's lack of faith in the idea that markets through their own working can ensure a high level of productivity and general well-being in society is evident in his analyses of the two markets he was most interested in: the labor market and the stock market. Keynes noted that according to classical and neoclassical economics, all markets would eventually clear and that consequently unemployment cannot occur (Keynes 1936, p. 16). Since unemployment does exist, however, this analysis was obviously wrong and a new theoretical approach to labor markets was needed. In his analysis of the stock market, Keynes also claimed that what was happening in reality was quite different from what should have been happening according to economic theory. On the modern stock market, Keynes said, most efforts were directed at "anticipating what average opinion expects average opinion to be" (Keynes 1936, p. 156). This effort to guess what the price of a share would be like in the near future—rather than to calculate the future yield of an investment—led to a number of problems, in Keynes's mind. Again, the solution he advocated was for the state to intervene and regulate the market.

**Industrial Organization and the Concept of Market Structure**

The theories of industrial organization were to introduce a novel concept of the market—the market defined as an industry—as well as a far more empirical attitude to the study of markets in general. Like Keynes's ideas, the field of industrial organization emerged during the troubled interwar period. And also like Keynes, the theoreticians of industrial organization wanted both to rebel against the neoclassical tradition and to remain within it. The new approach had its roots in Marshall's *Industry and Trade*, but the catalyzing event for the emergence of the field of industrial organization was the publication in 1933 of Edward Chamberlin's *Theory of Monopolistic Competition*. Chamberlin's point of departure was in a critique of the theory of perfect competition, which he felt suffered from a number of weaknesses. In particular, the theory of perfect competition considered only one of the two key elements in competition, namely the number of market actors. The differentiation of products, on the other hand, was ignored. Product differentiation, Chamberlin argued, could emerge in a number of ways, such as patents, trademarks, and advertisement. Purely social factors could also make products differ from one another, such as "the reputation" of the seller, "personal links" between buyers and sellers, and "the general tone or character of his establishment" (Chamberlin 1933, pp. 56, 63). Chamberlin's view of differentiated products naturally implied a new perspective on markets, as the following statement makes clear: "Under pure competition, the market of each seller is perfectly merged with those of his rivals; now it is to be recognized that each is in some measure isolated, so that the whole is not a single market of many sellers, but a network of related markets, one for each seller" (Chamberlin 1933, p. 69). The boundaries between markets now became even more difficult to determine.13

The next step in the evolution of the field of industrial organization came a few years later through an important article by Chamberlin's Harvard colleague, Edward Mason (1939). According to Mason, it was imperative to study the price policies of corporations and to introduce more
empirical content into neoclassical price theory. Mason suggested that this could be done through a classification of empirical material in terms of "market structures." Mason was somewhat unclear in his terminology, but in principle he claimed that "the market, and market structure, must be defined with reference to the position of a single seller or buyer; [and that] the structure of a seller’s market . . . includes all those considerations which he takes into account in determining his business policies and practices" (Mason 1939, p. 69). Once the market structure was known, Mason continued, it would be possible to determine the price response and, from there, the effect on the economy and on society as a whole.

Mason's ideas quickly generated a great amount of empirical research and were soon referred to as the Structure-Conduct-Performance paradigm. According to this approach, the market was seen as essentially identical to an industry. "Market structure" was usually understood to mean such things as barriers to entry and concentration of sellers; "market conduct" meant policies aimed at rivals and price setting policies; and "market performance" referred to more evaluative-political questions such as whether something was equitable or not (e.g., Caves 1964).

The most popular textbook in industrial organization still uses the Structure-Conduct-Performance paradigm, even if it was quickly understood that the causality involved was more complicated than Mason had originally believed (Scherer and Ross 1990; see fig. 1). The popularity of game theory in recent research on industrial
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organization has also tended to displace interest from Mason's paradigm (Schmalensee and Willig 1989; see also Porter 1991).

Postwar Developments in the Research on Markets

Since World War II major developments have taken place in economic theory that have added to the understanding of markets as price-making mechanisms. This is true both for research on markets in general, which is the topic of this chapter, and for research on special markets such as labor markets or financial markets (see Tilly and Tilly, chap. 12 and Mizruchi and Stearns, chap. 13 in this Handbook). General equilibrium theory has, for example, successfully tackled some difficult theoretical problems involved in analyzing interconnected markets (e.g., Arrow 1968). Game theory has pioneered the introduction of intersubjectivity into mainstream economics by proposing a type of analysis in which each actor takes the decisions of the other actors into account (e.g., Shubik 1982; Schelling 1984). The Chicago School has advocated a more central place for the market in economic theory as well as in policy questions. And finally there have been a number of interesting advances in the economics of information. The emphasis on the role of knowledge in the working of markets has led to studies on “market failures,” “market signalling,” and so on (e.g., Akerlof 1970; Spence 1974).

From the viewpoint of markets as social structures, however, some of this more recent research is less relevant. The abstract model of the market that can be found in general equilibrium theory is, for example, unable to handle unemployment, historical time, or significant economies of scale (e.g., Davidson 1981; Hahn 1981). Most studies in game theory are likewise abstract and often fail to make a connection to the social world (e.g., Rationality & Society 1992). The Chicago economists have, on the other hand, made a number of significant advances by studying such topics as “implicit markets” (Becker), how the legal system can make the market work better (Posner), what inspires the public regulation of the market (Stigler), and how freedom and the market are interrelated (Friedman). On the other hand, the Chicago School tends to assume that the market represents something good a priori and to equate economic life in general with the market.

Nonetheless, quite a bit of current research in economic theory is of great interest to a theory of markets as social structures. One example is Alan Blinder's research on what type of existing price theory best answers to the way that prices are actually set. A preliminary report shows that some of the current theories can be eliminated while others need to be more carefully studied since they roughly answer to the way that prices are indeed set (Blinder 1991). A number of works look at the role that standards of fairness play in the market (e.g., Solow 1990). The most important insight of these studies is that people's sense of what is fair affects the workings of the market. Evidence indicates, for example, that it is not considered fair to exploit shifts in demand for lowering wages or for increasing prices, while it is permitted in situations when profits are threatened (Kahneman, Knetsch, and Thaler 1986).

Dennis Carlton's work on market-clearing mechanisms represents another example of research on markets that is of much interest to the view of markets as social structures (Carlton 1989). He argued—somewhat like in experimental market economics—that a variety of different mechanisms exists through which markets can clear. Some markets clear through price, but these “auction markets” are expensive to create and they often fail (see table 1). Many markets, Carlton argues, clear only through price in combination with some other mechanism. This latter mechanism can be social in nature, such as the length of a buyer-seller relationship or the seller’s knowledge of a buyer’s need. In some cases, Carlton also says, no organized markets are possible at all; one has instead to rely on other solutions, such as salespeople. Depending on the business cycle, markets may also clear at different prices.

<table>
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<tr>
<th>Age (years)</th>
<th>Probability of Dying at the Given Age or Less</th>
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<td>1</td>
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The most powerful contribution in recent economic thought to a social theory of the market can be found in the body of work known as New Institutional Economics. This approach has attracted scholars from several adjacent fields, espe-
cially law and economic history. The three leading scholars in this field currently are Ronald Coase, Oliver Williamson and Douglass North; and the key concepts include “transaction costs,” “property rights,” “search costs,” “enforcement costs,” and “measurement costs.” These concepts have been developed either with the market exclusively in mind (such as enforcement costs, search costs, and measurement costs) or are applicable to the market as well as to other economic institutions (such as transaction costs and property rights). New Institutional Economics has also attempted to direct attention to the market as a social institution in its own right.

The idea of transaction costs is that exchange is not costless and that it can at times pay to use the market, while at other times it is less expensive to use a firm. Although Coase (1937) was the first to formulate this idea, Oliver Williamson made it better known through *Markets and Hierarchies* (1975). The idea of property rights is that economic institutions may be conceptualized not only in standard economic terms but also in terms of legal rights. In a market exchange, for example, the buyer does not so much acquire an object for a specific price, according to this perspective, as a set of rights to the object in question (e.g., Furubotn and Pejovic 1972; Furubotn and Richter 1991). Search costs are incurred in the locating of potential buyers and sellers, while enforcement costs result from the fact that exchange entails costs for maintaining law and order in and around the market. Measurement costs, finally, are costs arising from a buyer’s research into whether a certain good that he or she wants to acquire has the desired qualities (Barzel 1982).

Armed with this set of concepts it becomes considerably easier to analyze the workings of the market. New Institutional Economics has also directed some attention specifically at the market as a distinct social institution. This is especially the case with North and Coase. In a recent work called *Institutions, Institutional Change and Economic Performance* (1990) North sketches the main steps in the development of the market, using the tools of New Institutional Economics. He also breaks with the common tendency to equate the market with efficiency and points out that some economic institutions—including the market—may actually increase transaction costs rather than lower them. North (1990, p. 69) concludes, that the market “is a mixed bag of institutions; some increase efficiency and some decrease efficiency.” The thrust of Coase’s work is similar, but displays some crucial differences. In an article from the late 1980s Coase produced a text that is more or less a programmatic statement for a theory of the market as an institution (Coase 1988). According to this article, economists have too often equated the market with the determination of market prices, something that has led to a situation in which “the discussion of the market itself has entirely disappeared” (Coase 1988, p. 7). He also attacks the notion of market structure, arguing that much research on market structures looks at such factors as the number of firms and product differentiation, but fails to notice the market in its own right. As a way to remedy this neglect, Coase (1988, p. 8) suggests that research should be directed at the market as a “social institution which facilitates exchange.” The physical structure of a market as well as its rules and regulations exist primarily to reduce the costs of exchange, according to Coase. When a market is highly organized, such as the stock market, enforcement of the rules can typically be left to its members. When on the other hand a market is scattered over a wide area, Coase suggests, the state may have to intervene and regulate buying and selling if there is to be a market at all.

**THE MARKET IN SOCIOLOGICAL THEORY**

I shall now examine the way sociologists have analyzed the market and in particular how they have tried to deal with the complexity of the market phenomenon. It should first be noted that sociologists have paid less attention to the market than economists. It should also be emphasized that sociological theory and economic theory have more or less developed independently of one another. One unfortunate consequence of this has been that few of the insights generated in one discipline have been communicated to the other. Schumpeter (1954, p. 21) once joked about this, saying that economists, as a result, had ended up creating their own “primitive sociology” and sociologists their own “primitive economics.” There is some truth to this, but as I shall try to show in this section, sociologists have also made some solid contributions to the understanding of markets.

**The Market in Classical Sociological Theory**

Of the early sociologists Max Weber was the most interested in markets. He thought that economics (*Sozialökonomik*) should be a broad sci-
ence, including such topics as "sociology of the market"; he also tried to sketch this type of sociology (Weber [1922] 1978, p. 81). But other sociologists—especially Georg Simmel and Emile Durkheim—have touched on the market in their writings. Simmel was particularly fascinated by the role of money in modern society while Durkheim emphasized how normlessness (anomie) affected people's behavior in various areas, including the economy (see Simmel [1907] 1978, [1908] 1950; Durkheim [1893] 1994, [1950] 1983).

Weber took a lively interest in the market and throughout his career he analyzed it from a variety of viewpoints. As a young lawyer, for example, he participated in a public investigation of the stock exchange (see e.g., Kaser 1988, pp. 63–66). From the writings that resulted, it is clear that Weber was especially interested in the nature of speculation and how stock exchanges have been organized in different ways in different places—as exclusive gentlemen clubs in London and New York or more democratically in Paris, where one could see workers in their traditional blue shirts on the floor of the exchange. Weber was also fascinated by the political dimension of the stock market, which he saw as "a means of power in the economic struggle [between states]" (Weber [1894] 1988, p. 322).

This emphasis on struggle is also evident in Weber's lectures a few years later as a professor in economics. In the 1890s Weber lectured on economic theory in Freiburg and Heidelberg and followed primarily Menger when it came to the market. Weber, however, also added his own distinct touch to these lectures by arguing that "the price on the market is a result of economic struggle (price struggle)" (Weber [1898] 1990, p. 45). The struggle over prices, he explained, had two aspects that must be separated. On the one hand, there was an "interest struggle" in the market between the two parties who actually engaged in an exchange; and, on the other hand, there was a "struggle of competition" between all those who were potentially interested in an exchange at the beginning of the process.

When Weber started to define himself as a sociologist about a decade later, he reworked his analysis of the market from the viewpoint of methodological individualism and the actors' understanding (Verstehen). The result can be found in *Economy and Society*, where Weber defined the market this way:

> A market may be said to exist wherever there is competition, even if only unilateral, for opportunities of exchange among a plurality of potential parties. Their physical assemblage in one place, as in the local market square, the fair (the "long distance market"), or the exchange (the merchants' market), only constitutes the most consistent kind of market formation. It is, however, only this physical assemblage which allows the full emergence of the market's most distinctive feature, viz., dickering (Weber [1922] 1978, p. 635).

As he earlier had done in his lectures on economic theory, Weber now also made a conceptual distinction between exchange and competition. More precisely, social action in the market begins according to Weber as competition but ends up as exchange. In phase one, "the potential partners are guided in their offers by the potential action of an indeterminately large group of real or imaginary competitors rather than by their own actions alone" (Weber [1922] 1978, p. 636). Phase two or the final phase is, however, structured differently: "[T]he completed barter constitutes consociation only with the immediate partner" (Weber [1922] 1978, p. 635). As Weber saw it, exchange in the market was also exceptional in that it represented the most instrumental and calculating type of social action that was possible between two human beings. Exchange, he said, represents "the archetype of all rational social action" and constitutes, as such, "an abomination to every system of fraternal ethics" (Weber [1922] 1978, pp. 635, 637).

Weber also emphasized the element of struggle or conflict in the market. He used terms such as market struggle and he spoke of "the battle of man against man in the market" (Weber [1922] 1978, pp. 93, 108). Competition, for example, he defined as "a 'peaceful' conflict . . . insofar as it consists in a formally peaceful attempt to attain control over opportunities and advantages which are also desired by others." Exchange, on the other hand, he defined as "a compromise of interests on the part of the parties in the course of which goods or other advantages are passed as reciprocal compensation" (Weber [1922] 1978, pp. 38, 72). Weber also repeatedly stressed that monetary prices are always the result of a power struggle between the parties on the market.

Weber was ultimately interested in the interaction between the market and the rest of society. One angle through which Weber's analysis on this point can be approached is through his analysis of
the role that regulation plays in the market. A market, Weber explains in *Economy and Society*, can either be free or regulated (Weber [1922] 1978, pp. 82-85). In pre-capitalist societies there typically exists quite a bit of “traditional regulation” of the market. The more rational a market is, however, the less it is formally regulated, he notes. The highest degree of “market freedom” or “market rationality” is reached in capitalistic society, where most irrational elements have been eliminated. In order for the market to be this rational and predictable, however, several conditions have to be fulfilled, including the expropriation of the workers from the means of production (Weber [1922] 1978, p. 161). The capitalist market, in other words, was the result of a long historical process. How Weber envisioned the historical evolution of the market can be gleaned from *Economy and Society* as well as from *General Economic History*.

**The Attempt in the 1950s to Revive the Social Analysis of the Market**

Even though early sociologists had laid a solid foundation for a sociological approach to markets, the idea of a sociology of markets did not catch on. During the 1920s and 1930s almost no work was carried out along these lines. After World War II and in the 1950s, however, an attempt was made to revive the social analysis of the market. The persons responsible for this included Talcott Parsons, Neil Smelser, and Karl Polanyi. In *Economy and Society* (1956) Parsons and Smelser were primarily interested in showing that economic theory and social theory could be integrated in a fruitful manner, but they also suggested some “starting-points for a systematic development of a sociology of markets” (Parsons and Smelser 1956, p. 175). The authors hinted that one could conceptualize the market as a distinct social system in its own right, but most of their efforts were directed at another task, namely to show that markets differ not only in degree but also in “sociological type,” depending on their position in the social system as a whole (Parsons and Smelser 1956, pp. 3, 174). According to the AGIL scheme, they explained, the subsystem of the economy borders on the three other subsystems and, depending on what boundary is involved, the market will be structured in a different way (see Smelser and Swedberg, chap. 1 in this *Handbook*). Parsons and Smelser’s attempt to revive the sociology of markets in *Economy and Society* received little attention, however, compared to other parts of the book (Smelser 1992).

The analysis of the market that one finds in the work of Karl Polanyi is much less abstract than that of Parsons and Smelser, and it is also considerably more polemical. According to Polanyi ([1957] 1971, p. 270), it was absolutely imperative to develop a new approach to the market—indeed, this constituted “our main intellectual task today in the field of economic studies.” In particular, Polanyi objected to “the economic fallacy” of equating the whole of the economy with the market. By doing so, Polanyi charged, the true nature of the economy was distorted. Polanyi saw his own work as an attempt to develop a new type of economics in which the economy was firmly subordinated to society as a whole.

Polanyi’s first attempt to give body to his vision of a new kind of economics is found in *The Great Transformation* (1944). His aim in this work was to explain why markets have become so important in modern society, but to do so in a manner that differed from conventional economics. The economists, Polanyi argued, usually began by referring to man’s propensity to truck and barter and then sketching the natural progression from small historical markets to the giant modern markets. To Polanyi, however, this had little to do with the historical evolution of real markets. Drawing on works by Thurnwald, Pirenne, and Heckscher, he pointed out that from very early on only two types of fairly small-scale markets had existed: the local market and “the external market” (Polanyi’s term for long-distance markets; see Polanyi [1944] 1957, pp. 56ff.). Both of these types of markets had usually been regulated and neither had been dynamic enough to generate an economic breakthrough. It was instead two watershed events in European history, he claims, that were responsible for the emergence of the modern market economy: the creation by the mercantilist state of “internal markets” (national markets) and the radical elimination of all market regulation during the middle of the nineteenth century in England. In emphasizing the role of mercantilism in creating national markets Polanyi followed the lead of Schmoller (see e.g., Schmoller [1884] 1896). Polanyi’s interpretation of English history was, however, totally his own. During roughly 1830–1850, Polanyi argued, all regulations of the market had been removed in an ill-advised and highly utopian attempt to turn England into “One Big Market.” Land as well as labor were suddenly...
treated as if they were ordinary products to be bought and sold on the market ("the Commodity fiction"). The result was unspeakable misery for common people until countermoves were finally taken to protect society from "the self-regulating market." But these countermoves had their own contradictory dynamics; he traces many of the key events of the twentieth century—such as World War I and World War II—to the radical attempt in mid-nineteenth century England to transform all of society into one giant market.

As part of the analysis in The Great Transformation Polanyi introduced a new terminology as well as a new theoretical perspective on markets. This was little noticed at the time, perhaps because of the dramatic story that the book told. In his work from the 1950s, however, Polanyi focused more directly on and developed the conceptual dimension of his analysis. He chose to present his new concepts in the now famous essay "The Economy as an Instituted Process" (Polanyi [1957] 1971). Polanyi began by arguing that there exist several different ways of organizing the economy: through "reciprocity," "redistribution," and "[market] exchange." Just as it would be a mistake to think that an economy can only be organized through market exchange, it would be an error to equate trade with markets, and money with exchange. Trade and money, as Polanyi showed, have existed in many different forms.

Markets, he also said, were not as most economists picture them. For a market to exist, you need first of all a "demand crowd," a "supply crowd" and something that can work as an "equivalency." To this should be added a number of functional elements, such as "physical site, goods present, custom, and law" (Polanyi [1957] 1971, p. 267). But not even this amounted to the standard market of economic theory, since prices could be either set or bargained ("set-price markets" versus "price-making markets"). Prices that fluctuate frequently due to competition, Polanyi said, represent a fairly late stage of development. Again, Polanyi's main point was to show that what economists saw as the typical market was just one of many possible forms of organized exchange.

The Rebirth of the Sociology of Markets

Polanyi's ideas about the market led to a long and bitter debate in anthropology; they have also been much debated by historians.\(^\text{20}\) They had little impact on sociology, however; during the period 1950–70 almost no sociological works on the market appeared. During the 1970s, however, sociologists started to become interested in studying markets again. Bernard Barber's essay on "the absolutization of the market" appeared in the mid-1970s, about the same time the German sociologist Klaus Heinemann (1976) suggested that "a sociology of markets" should be created. A few sociological studies that touched on various aspects of markets also appeared (e.g., Bonachich 1973; Granovetter 1974; Wallerstein 1974; DiMaggio 1977-78; Zelizer 1979). In one of these, Mark Granovetter pioneered a networks approach to markets by looking at the role that acquaintances and friends play in job searches. In another, Immanuel Wallerstein presented a theory of "the modern world-system" in which trade and international markets play a key role. Also in organization theory, researchers started to become interested in markets. This was particularly true for those doing work on resource dependency and population ecology (e.g., Pfeffer and Salancik 1978; Hannan and Freeman 1977).

Since the early 1980s sociologists' interest for markets has intensified and a host of works have appeared. To date, a number of theoretical approaches have been attempted with varying degrees of success: a social structural approach (e.g., White 1981a; Burt 1983; Baker 1984; Podolny 1993); a social constructionist approach (e.g., Garcia 1986; Smith 1990); a historical-comparative approach (e.g., Hamilton-Biggart 1988; Lie 1992); a social systems approach (e.g., Luhmann 1988); a social rules approach (e.g., Burns and Flaim 1987); a game theoretical approach (Opp 1987; Vanberg 1987); and a conflict approach (e.g., Collins 1990). Some sociological works have also been inspired by recent economic works on the market, especially Oliver Williamson's Markets and Hierarchies (e.g., Stinchcombe 1986; Powell 1990).

One sociological theory of markets in particular stands out—the so-called structural approach. This approach dominates the debate on markets for two reasons: it represents the most sustained effort to construct a sociological theory of markets and it has attracted a number of unusually competent researchers. Three persons have been primarily responsible for developing this type of analysis—Harrison White, Ronald Burt, and Wayne Baker. Yet the structural approach has its roots in a considerably larger group of sociologists and it has also been applied to topics other than markets (see e.g., Granovetter forthcoming).
And, if they calculate correctly, they locate a niche in the market for their product, which their customers acknowledge by buying the volume determined. The closest to a definition of a market that can be found in White’s work is the following: “Markets are tangible cliques of producers watching each other. Pressure from the buyer side creates a mirror in which producers see themselves not consumers” (White 1981b, p. 543).

Ronald Burt’s research on markets dates to the mid-1970s, specifically to his dissertation. In his first major studies of markets he used a special type of data, namely input-output tables on the U.S. manufacturing industry (e.g., Burt 1982, 1983; for a replication, see e.g., Ziegler 1982, Yasuda 1993). On the basis of this data Burt developed a novel concept to describe the structure of a market: “structural autonomy.” An actor, say a firm, is autonomous or not, Burt says, depending on the following three factors: (1) the relationship between the firm and its competitors; (2) the relationship between the firm’s suppliers; and (3) the relationship between the firm’s customers. Autonomy is at a maximum for the firm when it has (1) no or few competitors, (2) many small suppliers, and (3) many and small customers. Burt showed convincingly that the higher the degree of structural autonomy, the larger the profit. Firms having a high degree of market constraint would typically also try to coopt their competitors and increase their profit through various means, including interlocking directorates. The empirical support for this last point was, however, less strong.

Like Burt and White, Wayne Baker began to develop a structural approach to markets in the 1970s. In his doctoral dissertation, called Markets as Networks (1981), Baker presented both a general theoretical argument for a sociological theory of markets and a sharp, empirical analysis. Economists, as Baker saw it, had developed an implicit rather than an explicit analysis of the market: “Since ‘market’ is typically assumed—not studied—most economic analyses implicitly characterize ‘market’ as a ‘featureless plane’” (Baker 1981, p. 211). In reality, however, markets are not homogenous but socially structured in various ways. To analyze this structure constitutes the main task for “a middle-range theory of ‘markets-as-networks’” (Baker 1981, p. 183).

How this can be done with the help of networks analysis is clear from the empirical part of Baker’s thesis, which has also been published separately (Baker 1984; see also Baker and Iyer 1992).
for a mathematical rendition. Using empirical material gathered from a national securities market, Baker showed that at least two different types of market networks could be distinguished: a small, rather dense network (XYZ) and a larger, more differentiated and looser one (ABC; see fig. 2). On this ground Baker argued that he had shown that the standard economic view of the market as an undifferentiated entity was misleading. But Baker also wanted to show that the social
structure of a market has an impact on the way the market operates; to do this he looked at volatility in option prices. He found that the fragmented, larger type of network (ABC) caused much more volatility than the smaller, more intense network (XYZ). “Social structural patterns,” he concluded, “dramatically influenced the direction and the magnitude of price volatility” (Baker 1984, p. 803). It was also clear from Baker’s study the error of the old idea that a market is more perfect the more actors are involved.

The structural approach to markets represents a major advance in a number of ways. Nonetheless, other sociological approaches to markets exist; a few have directly challenged the structural approach. Some critics have, for example, pointed out that the structural approach lacks a cultural dimension (e.g., Zelizer 1988; Zukin and DiMaggio 1990). A more general critique argues that it is necessary to include the legal-political dimension of markets in the analysis as well:

The major downfall of the network approaches is that they are such sparse social structures that it is difficult to see how they can account for what we observe. Put another way, they contain no model of politics, no social preconditions for market exchanges (i.e., notions of property rights, governance structures, or rules of transactions) and no way to begin to conceptualize how actors construct their worlds. (Figstein and Maradita 1992, p. 20)

The first charge—that the structural approach ignores the cultural dimension of markets—was first raised by Viviana Zelizer in an important programmatic article in the late 1980s (Zelizer 1988). Zelizer makes clear that she is not interested in advocating a full cultural theory of markets, believing such a theory would not be very effective (see also Hamilton and Biggart 1988 for a similar argument). But she also emphasized that the social structural approach looks at culture with unwarranted suspicion, as if it were a kind of remnant from a dangerous Parsonian past. This type of attitude, however, tends to impoverish the sociological analysis of markets in several ways and can be characterized as a form of “social structural reductionism” (Zelizer 1988, p. 618). First, it threatens to sever the links between sociology and the exciting new literature in anthropology and social history on “market culture” (e.g., Taussig 1980; Reddy 1984; Agnew 1986). Second, it prevents sociologists from fully understanding the role that different types of values play in the market.

Zelizer’s own work illustrates the importance of considering many types of values for a sociology of markets. In her first major work, Morals and Markets (1979), she analyzed how difficult it had been to establish a market in life insurance policies in the United States because of popular resistance to putting a price on human life. In her second book, Pricing the Priceless Child: The Changing Social Value of Children (1985), Zelizer studied the same process in reverse: how children around the turn of the century were removed from the labor market and invested with a high emotional value as opposed to a monetary value. Even money, as Zelizer (1989) has shown in her most recent studies, does not always function as neutral “market money” but plays different roles—as “domestic money” or “charitable money,” for example—depending on how it is perceived.

The second major point on which the structural approach has been criticized, has to do with its failure to properly incorporate a legal-political dimension into the analysis (Figstein and Maradita 1992). Neil Figstein’s work on the American corporation, The Transformation of Corporate Control (1990), can serve as an illustration of how one can expand the structural analysis in this respect. According to Figstein, industrial markets are created through the interaction of corporations and do not come into being by themselves or through advances in technology. Alfred Chandler and Oliver Williamson consequently are wrong to suggest that the modern American corporation emerged as a more or less mechanical response to the emergence of national markets in the late nineteenth century. The final arbitrator of any market is, in addition, always the state; the state also plays a key role in validating the general perception that corporations hold of how to solve their competitive problems (“the concept of control” in Figstein’s terminology).

That the state plays a key role in structuring the market is also an important theme in many recent sociological studies of the market. It has, for example, been pointed out that certain actors try to use the state to improve their own position in the market and thereby bypass competition in the economic sphere (Etzioni 1988; for a similar argument by an economist, see Stigler 1981). Following Polanyi, it has also been argued that the state must somehow lower the level of “marketness” in the economy if the market is not to self-destruct (e.g., Block 1991). Campbell and Lindberg (1990) have noted that by manipulating
property rights the state can influence the way that a market works. Various state agencies, finally, regulate different markets and thereby maintain "the moral order" of a particular market and "trust" in the economic system as a whole (see e.g., Shapiro 1984, 1987; Burk 1988).

INTEGRATING THE ECONOMIC AND SOCIOLOGICAL APPROACHES TO THE MARKET

As I noted in the first section, real-world markets have exhibited a great deal of complexity and variety throughout history. Interesting efforts to analyze markets as social phenomena in their own right—and not only as price-making mechanisms—have been made in both economic theory and in sociology. In economics Marshall, for example, drew up an ambitious program for how to study "the organization of markets." Even though he failed to complete it, one can find suggestive attempts at various typologies of markets in his work. Markets, according to Marshall, may be analyzed according to such criteria as space, formal organization, informal regulation, and the presence or absence of social bonds between buyers and sellers. Chamberlin was equally as interested as Marshall in understanding how concrete markets operate; he in particular emphasized the differentiation of products (and hence markets) through patents, trademarks, reputation of the seller, and the like. Further steps toward a complex theory of markets can be found in the works of the neo-Austrians (the market as a decentralized process), Keynes (gaps between and within markets; the role of expectations), and in game theory (market actors take each other's actions into account). Many works in industrial economics have made important contributions in this context as well, such as Dennis Carlton's research on market-clearing mechanisms. It is also clear that the many studies on the role of information in the economy have contributed to a more complex picture. And, finally, New Institutional Economics has openly argued that the market may be understood as an institution in its own right and not just as a price-making mechanism. Coase et al. have drawn attention to the legal dimension of exchange and have introduced concepts that capture what transpires in the market, such as transaction costs, search costs, enforcement costs and measurement costs.

In sociology, efforts have been made to analyze markets as complex social phenomena in their own right. Weber, for example, emphasized the role that conflicts and social regulation play in structuring markets. More recent sociological attempts have seen as their primary task to show that markets do not simply consist of homogeneous spaces where buyers and sellers enter into exchange with one another, but that markets are distinct networks of interaction. Sociologists have also attempted to highlight the role that legal and political factors play in the functioning of markets. A debate has ensued between sociologists and New Institutional Economics about the extent to which efficiency can account for the structure of particular markets.

Even if considerable progress has been made in understanding the social structure of markets, there still exists a very strong tendency to analyze markets as if they were little but mechanisms for exchange. This is true for sociology as well as economics, and it has prevented a full theory of markets from emerging. Markets, however, consist of more than the act of exchange, which is true even if we include legal and political factors in the analysis. Following Max Weber, I suggest that the core of the market phenomenon does not consist of one element—exchange—but of two elements: exchange in combination with competition (see fig. 3). More precisely, the social structure of a

```
buyers    X...X...X...
exchange  |
sellers   X...X...X...
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FIGURE 3. The Social Structure of Markets, According to Max Weber. "A market may be said to exist wherever there is competition, even if only unilateral, for opportunities of exchange among a plurality of potential parties. Their physical assemblage in one place...only constitutes the most consistent kind of market formation."


market is characterized by a special type of interaction that begins as competition between a number of actors (buyers and/or sellers) and that ends up with an exchange for a few of the actors. Whatever else there is to a market is secondary to this primary interational structure:

A market may be said to exist wherever there is competition, even if only unilateral, for opportunities of exchange among a plurality of potential parties. Their physical assemblage in one place...only constitutes the most consistent kind of market formation. (Weber [1922] 1978, p. 635)
Even though Weber saw competition as integral to the structure of any market, he did not elaborate. Does competition for exchange, for example, extend beyond the market or is it limited to the marketplace? Whatever Weber's answer to this question may have been, it is clear that the concept of markets as competition for opportunities of exchange becomes more interesting if it also includes what goes on outside the marketplace—if it encompasses (to use Marshall's terminology) “competition in production” as well as “competition in exchange” (Marshall [1890] 1925). More precisely, it is when competition for opportunities of exchange starts to penetrate most of society outside the market that the market progresses from being a nondynamic force in society to becoming a dynamic one. That competition for opportunities of exchange is felt throughout society is exactly what characterizes modern capitalist society.

By connecting the element of competition to that of exchange, in the manner Weber suggests, a much fuller theory of markets than the current one emerges. The literature on competition can be directly integrated into the theory of the market. For space considerations, I can merely refer the reader to sources of interest and point out that the notion of perfect competition is of little use in this context, as opposed to the more realistic theories of competition that can also be found in economic thought. The much less voluminous sociological literature on competition can also be explored by the reader. To show how the theory of markets can be made more interesting by incorporating the element of competition in the manner that Weber suggests, I shall turn my attention to one particularly brilliant sociological interpretation of competition, that of Georg Simmel, especially in his *Soziologie* (Simmel [1908] 1964; see also Simmel 1903).

Competition, according to Simmel, can be characterized as a form of “indirect conflict” ([1908] 1964, p. 57). It differs from ordinary forms of conflict in that it is not directed at the opponent but rather consists of a “parallel effort.” Instead of trying to destroy an opponent, a competitor tries to surpass him or her. This means that extra energy is released and that society benefits from the result of all efforts rather than just the winning one. Since the winner of the competition is to be picked by a third party, each competitor typically tries to divine the wishes of this third party. In Simmel's nearly lyrical formulation:

\[
\text{Innumerable times [competition] achieves what usually only love can do: the divination of the innermost wishes of the other, even before he himself becomes aware of them. Antagonistic tension with his competitor sharpens the businessman's sensitivity to the tendencies of the public, even to the point of Clairvoyance. (Simmel [1908] 1964, p. 62)}
\]

Simmel also stresses that even though each competitor may be motivated by whatever he or she expects to receive in exchange, he or she will nonetheless have to produce what the exchange partner desires, if there is to be an exchange. Competition, in other words, “offers subjective motives as a means of producing objective social values” (Simmel [1908] 1964, p. 60). The competitive process, as Simmel ([1908] 1964, p. 60) depicts it, echoes Adam Smith's discussion of the invisible hand, in that what is “an ultimate aim for the individual” turns out to be “a means for the species [or] the group.”

Many of the contributions to the theory of markets that we have reviewed—such as the ideas of enforcement costs and measurement costs—can easily be fitted into Weber’s theory of the market as competition for exchange. And with the help of this latter theory it is also possible to develop various typologies of markets as social structures (see tables 2 and 3). Historical markets, for one thing, differ considerably from one another, depending on the degree to which competition reaches into society. In the Middle Ages, for example, the typical city market did not have much of an impact on the rest of society. In modern society, on the other hand, the major markets are all formally free and characterized by competition in the marketplace as well as by competition in production. Enforcement costs and measurement costs have varied throughout history but have tended to decline and even out with the emergence of the modern state and standardized weights and measures. Differences nonetheless exist between the various modern markets as to enforcement costs and measurement costs. There exists, for example, little effective policing of the international capital market; it is often difficult to decide exactly what has been exchanged for what in the labor market. Other elements have been introduced into the typologies of markets in tables 2 and 3 in order to give a full picture of their social structure, such as number of buyers and sellers, whether the actors are individuals or organizations or whether the actors are organized.
A number of creative efforts both in contemporary economics and sociology have sought to replace the traditional approach to the market as simply a mechanism of exchange with a view that sees the market as a complex social phenomenon in its own right. These efforts clearly are still in an early stage of development, even if considerable progress has been made during the last few decades. The ultimate task is to develop an analytically interesting model that can be used effectively in empirical research. Weber's suggestion that one can view the market as an interactional form of competition for exchange represents one way of accomplishing this. Still, the problem of understanding markets as distinct social structures is by no means solved and will no doubt continue to be one of the more urgent items on the agenda of both economic theory and economic sociology.

<table>
<thead>
<tr>
<th>Table 2. The Social Structure of Historical Markets (Ideal Types)</th>
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<tbody>
<tr>
<td><strong>Competition</strong></td>
</tr>
<tr>
<td>The prehistorical market (such as marketplaces at the boundaries of small communities)</td>
</tr>
<tr>
<td>The early market for long distance trade (such as the &quot;silk road&quot; around the time of Christ)</td>
</tr>
<tr>
<td>The market in the Middle Ages (such as city markets)</td>
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<td>The modern capitalist market (such as, e.g., capital markets)</td>
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<td></td>
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<tr>
<td>------------------------</td>
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<tr>
<td>The labor market</td>
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<td>The capital market</td>
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<td>The consumer market</td>
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<td>The industrial market</td>
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</table>

Note: All capitalist markets tend to be formally free and formally rational. Competition extends deeply into society (“competition in the market” as well as “competition in production”).

3. According to one of Ronald Reagan’s undersecretaries of state, it was Reagan himself who invented this slogan and inserted it in a speech delivered at the 1981 annual meeting of the International Monetary Fund and the World Bank Group. See Wallis (1984, p. 7) and Reagan ([1981] 1982, p. 855). The history of the market as an ideological phenomenon still remains to be written.

4. Especially the following material has been used for the first section of this chapter: Adelman and Morris (1978); Braudel (1977, 1979, 1985); Brunnell (1993); Curtin (1984); Gerschenkron (1977); Hirst (1979); Havel (1967); Love (1991); Maine (1891); Mokyr (1989); Pirenne (1896, 1936); Polanyi (1977); Rostow (1955); Rothenberg (1992); and Weber (1922, 1978, 1983). The reader may also wish to consult the following works: Agnew (1986); Anderson and Latham (1986); Bohannan and Dalton (1962); Brown (1947); Elton and Costelloe (1889); Everett (1967); Geertz (1979); Hicks (1969); Hirschman (1977, 1985); Hodges (1988); Lane (1991); Lopez (1971); Polanyi (1985); Stigler and Sherwin (1985); and Verlienden (1963).
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14. Mason wrote in 1957: “When the term ‘market’ is used a Marshallian industry is meant; that is, a census industry. . . . Unless we can use [this] conception of the market, and with it, properly rectified data, the field of Industrial Organization is a wilderness” (Mason 1957, p. 5).

15. For the contrast between explicit and implicit markets in Gary Becker’s work, see, e.g., Becker (1981, p. ix). Richard Posner discusses “the wealth maximization” theory of justice in, for example, the first part of Economics of Justice (1981). George Stigler (1971) opposes his own theory of regulation, according to which different groups vie for control over regulation, to the “protection of the public” theory of regulation. Somewhat like the Austrian economists, Milton Friedman opposes the market to socialism on the ground that political freedom is only possible when there is economic freedom (see, e.g., Friedman 1962; 1981 1987; 1982 1987; and Friedman and Friedman 1980). A common theme in the Chicago School is also that intellectuals tend to despise the market (see, e.g., Stigler 1963 1984).

16. Experimental economics traces its origins to an article by Edward Chamberlin from the late 1940s that describes a classroom exercise in which a market was simulated (Chamberlin 1948). For a brief introduction to the current state of experimental economics, see Smith and Williams (1992); for a general introduction to the field, see Davis and Holt (1993). According to Smith and Williams (1992, p. 73), “experimental market economists have found that the choice of institutions is often the essential factor in determining how a market works—whether trading proceeds smoothly and whether the market price does in fact converge to its theoretical level.” Interesting results have also been reached about the relationship between a market’s institutional structure and the occurrence of speculation.

17. For search costs, see, e.g., North and Thomas (1973, p. 135). The concept of enforcement costs has its roots in the work of Frederic Lane on protection costs and protection rents from the 1940s and onward. See Lane (1979).

18. According to Weber’s original plan for Economy and Society, the analysis of the market was to have played a much larger role than it ended up doing. This was mainly due to the fact that Weber died before he could finish his projected chapter on the market. What exists, is habitually referred to as “a fragment” (Weber 1922 1978, pp. 635–40; for the original plan, see ibid., pp. 154–60).

19. By consociation, Weber means a national and interest driven relationship (Weber 1922 1978, pp. 40–41). The reason for the use of the word harter in this quote (rather than exchange) is that Weber, at this stage of the discussion in Economy and Society, had not yet introduced money.

20. For a good selection of writings from the debate in anthropology, see LeClair and Schneider (1968); for a recent appraisal, see Orlove (1986). For the reception of Polanyi’s ideas among historians, see, e.g., North (1977); Silver (1983); and Curtin (1984), pp. 58, 67, 70.

21. Simultaneously as Baker and other U.S. sociologists were formulating theories of markets as networks, a few Swedish business school economists were doing the same. For a history of the Swedish effort (which has mainly focused on industrial markets), see Johansson and Mattson (1992); for a representative product, see Higg and Johansson (1982).
22. A similar fascination with “the social construction of value” can also be found in the works of Charles W. Smith (1981; 1990). Auctions, as Smith argues in his latest study, are not very good to use as a model for the perfect market (as economists tend to do), since they are in principle only used when there exists some difficulty in assigning a price in a standard way. Based on ethnographic research on a variety of markets, Smith (1990, p. 163) argues that “real auctions are . . . processes for managing the ambiguity and uncertainty of value by establishing social meanings and consensus.”

23. The reader may, however, note that many structural analyses of the economy do take the political-legal dimension into account (see, e.g., Mizuuchi 1992). Much of structural analysis is also inspired by a general political economy model (e.g., Schwartz and Mintz 1985; Mizuuchi and Schwartz 1987).

24. The realistic theories of competition have their roots in the work of Adam Smith and are characterized by the fact that the concept is seen as active and multidimensional. In perfect competition, on the other hand, only price is taken into account and the actor is passive since he or she cannot in any way influence the price. According to Stigler (1957, p. 5), it is Cournot who first formulated the concept of perfect competition by “defining competition as the situation in which p [or price] does not vary with q [or quantity]—i.e., the demand curve facing the firm is horizontal.” Schumpeter ([1942] 1962, p. 138) spoke of “the bloodless concept of perfect competition” and, according to Buchanan (1978, p. 364), Frank Knight liked to point out that “in perfect competition there is no competition.” For a suggestive analysis of competition as a “discovery procedure,” see Hayek ([1968] 1978); see also Hayek ([1946] 1948). For useful surveys of the history of competition in economic thought, see Stigler (1957), Dennis (1977), Demsetz (1982).

25. Sociologists historically have been more interested in competition as a general social phenomenon than in competition in the economy (see, e.g., Park and Burgess 1924; Mannheim [1929] 1932; von Wiese 1929). Some of this sociological literature is nonetheless suggestive for analysis of economic competition, such as Park and Burgess’s definition of competition as “interaction without social contact” (1924, p. 506). During the last few years two excellent general analyses of competition have appeared in economic sociology: Abolafia and Biggart (1991) and Burt (1992). See also the innovative manner in which competition is used in Elgin (1990) and Podolny (1993). For a useful distinction between competition and selection, see Weber ([1922] 1978, p. 38).

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