

MARKET

Markets are the outcome of producers and consumers competing for revenue and **status**. Markets are considered essentially economic phenomena, but are common in other spheres, including the spheres of politics, **science, religion, art, education, law,** and **organizations**, as well as **labour** and **professions**. Markets emerge as soon as signals are reproduced and interpreted with respect to qualities and volumes of products or services, **actions** or events supplied and demanded.

Markets are second-order phenomena. They emerge as **structures** relating **roles** and rules, games and **institutions**. This is one reason why Max **Weber** ([1918] 1978) understood the market as a rational means of **socialization**. Markets make producers compete with each other for chances of **exchange** while dealing with a third party, the purchaser, and without necessarily involving personal links of any kind. The second reason is that most markets use **money** or some other form of currency as a medium of exchange that refers to potential action by indeterminate others. Georg **Simmel** ([1908] 1950), in his **conflict** theory of competition, emphasized the same structure of relations between two parties who observe each other while taking a third instance into account. Options and chances are calculated with respect to both **risks** and better chances. Markets transform comparison and comparability into basic features of the search for opportunities of action and their reproduction.

Classical social theory was well aware of the importance of markets. Talcott **Parsons** and Neil J. **Smelser** (1956) describe the structure of markets in terms of the institutionalization of contractual relationships, i.e. of relationships that are deliberate, involve bargaining over the settlement of terms, and are subject to rules of sanctioning (see **contract**). Markets combine competition and **regulation** so that symmetry of types of **interest** is possible.

Yet it has proved difficult to theorize about markets. How are decoupling and self-regulation to be combined with overall social structure? How exactly are **trust** and **power** institutionalized in this potentially dubious theatre of interaction? What are these markets that in economic theory must somehow act as substitutes for individual rationality?

Social theory has only recently begun to deal with these and other questions. Markets arise from self-reproducing social structures based on producers' roles that consist in observing others' behaviour (White 1981). They consist of feedback structures based on self-selections of producers who read and interpret the signals of prices and infer volume signals sent by other producers. Any one volume shipped for a price means that there is a market that can be explored and exploited by means of different qualities shipped for different prices leading to a different volume. Finding one's own role as a producer *vis-à-vis* the roles of other producers is what constitutes the market and what defines the possibility of competition. White proposes a $W(\gamma)$ model, deducing the worth W of a shipment of a volume γ , to describe the mechanism of markets.

Other theories have followed suit, most of them accepting the metaphor presented by White of the market as a 'mirror'. Producers observe each other when searching for signals that tell them what actions the market sustains. They do not try to observe the other side of the market; for instance, by searching for the 'needs' of consumers.

being tested for, deviant action; that is to say, entrepreneurial action.

Architectures of markets can be modelled that describe incentives versus risks and expectations versus **information** as a topology of market orientations which both decouple and embed possible action within and beyond the frames of the market (Baecker 1988). Accounting for possible moral hazard and adverse selection defines how opportunities and needs are pursued. Elaborations are proposed that describe how **status** based on the quality of both the product and the producer helps to signal the quality, to reduce transactions costs and finance costs of finance, and to discourage comparisons with qualities of lesser status (Podolny 1993). Competition in markets looks for non-redundant contacts that may provide opportunity (Burt 1992). Markets are understood as 'fields' that combine stability and complexity, and fluidity and efficiency on the basis of social roles. These define how the dynamism of technology and competition is received, encouraged, and enacted by firms and households (Fligstein 2001).

White (2002) argues that older exchange

by searching for the 'needs' of consumers.

Niklas **Luhmann** (1988) extends this model to describe both sides of the market, both of them looking at a mirror, the producer observing producers, the purchaser observing purchasers. This approach defines markets as the boundaries of the economic system. They are not social systems in their own right but interfaces of the economic system, turning the indeterminate **complexity** outside the economic system into determinate complexity inside it. Firms and households are necessary to test, and to maintain, these markets. Overflowing and **framing**, as Callon (1998) argues, are not exclusive but inclusive of each other: producers overflow, and purchasers overshoot, in order to settle for the frames that prove sustainable. Yet these framings are not institutional givens but **networks** which are always in the process of testing for, and

White (2002) argues that older exchange markets are replaced by production markets that work by pumping product flows downstream. These newer production markets replace the **institutionalized** frame of more or less chance meetings between buyers and sellers. **Production** markets account for the fact that most of business is done with other business, not with consumers. Social theory in this context must take account of networks which focus on simultaneous (i.e., oscillating) decoupling and **embedding** by presenting actors' opportunities to deal with their commitments and fears. Producers and purchasers can only adapt if they know where to look and how to explore variance. Markets offer a choice between looking upstream or looking downstream. One direction is accepted as it is; the other direction becomes the target for deal testing. The *W(y)* model is fleshed out in White (2002)

in great detail, defining a market profile mechanism, which consists of a rule for producers to maximize the worth of a shipment minus its costs while looking for a position in a pecking order of qualities that allows purchasers to compare qualities with respect to substitutability. Markets emerge when firms succeed in nesting their cost schedules in the same order used by purchasers to nest their satisfaction schedules. This means that markets may unravel when firms 'freeload' their volumes with too low a quality to sustain a footing.

Markets become embedded within business cultures and allow for framing and networking, for entrepreneurship and strategies contingent on **discourses**, including discourses of religious **legitimacy**, which describe and picture what can be done and what can be talked about (cf. Swedberg 1998). A social theory of markets begins where firms and markets are seen to interact in networks that define how identities shape, and are shaped by, control. Markets show how operation and context, commitment and indeterminacy, are equally present in the domain of social action (see also **embedding and disembedding**).

References and further reading

- Baecker, D. (1988) *Information und Risiko in der Marktwirtschaft*. Frankfurt am Main: Suhrkamp.
- Burt, R. S. (1992) *Structural Holes: The Social Structure of Competition*. Cambridge, MA: Harvard University Press.
- Callon, M. (ed.) (1998) *The Laws of the Markets*. Oxford: Blackwell.
- Fligstein, N. (2001) *The Architecture of Markets*. Princeton, NJ: Princeton University Press.
- Luhmann, N. (1988) *Die Wirtschaft der Gesellschaft*. Frankfurt am Main: Suhrkamp.
- Parsons, T. and Smelser, N. J. (1956) *Economy and Society*. London: Routledge & Kegan Paul.
- Podolny, J. (1993) 'A Status-Based Model of Market Competition', *American Journal of Sociology*, 98: 829–72.
- Simmel, G. ([1908] 1950) *The Sociology of Georg Simmel*. Glencoe, IL: Free Press.

- Swedberg, R. (1998) *Max Weber and the Idea of Economic Sociology*. Princeton, NJ: Princeton University Press.
- Weber, M. ([1918] 1978) *Economy and Society*. Berkeley, CA: University of California Press.
- White, H. C. (1981) 'Where Do Markets Come From?', *American Journal of Sociology*, 87: 517–47.
- White, H. C. (2002) *Markets from Networks*. Princeton, NJ: Princeton University Press.

DIRK BAECKER