Introduction

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There has been increasing interest and debate in recent years on the instituted nature of economic processes in general and the related ideas of the market and the competitive process in particular. This debate lies at the interface between two largely independent disciplines, economics and sociology, and reflects an attempt to bring the two fields of discourse more closely together. In many ways this is to return to a previous age when the study of institutional arrangements was at the centre of the study of capitalism. The contributions to this volume explore this interface in a number of ways. The purpose of this Introduction is to place these contributions in the wider context and briefly to outline the content of the various chapters.

We consider the best place to start to be with the analysis of the nature of markets by drawing a distinction between the general market system and particular markets. This inevitably leads us to a discussion of the relation between markets and competition. The central presence of markets in the operation of capitalism should require no comment, although the 'end of history debate' has focused our attention on the multiple meanings and ways in which the market system can be organised. While the market may be pervasive it is not monolithic, and while it may be spreading as the dominant mode of organisation in modern society, it remains the case that substantial areas of activity lie beyond the market. The boundary between the market and the non-market cannot be taken for granted. It is to a degree fluid and reflects the circumstances of time and place. Thus, for example, there is a whole range of economic activity that lies outside the market, as in household production, and there is also serious debate about extending market principles to other spheres including trade in genetic material.

The approach we take reflects our view that markets are indissolubly and simultaneously economic and social. As frameworks of norms that provide regularity to behaviour but permit changes in behaviour, they operate at multiple levels thereby constraining the conduct of individuals, groups and organisations. As frameworks, they are continually evolving. They emerge, grow, stabilise and decline, and it is the dynamics of these processes that are central to our conception of the operation of modern capitalism. Consider the market arrangements for the food industry in the UK. In the last half century they have been transformed irrevocably as the supermarket form has displaced almost entirely a system based on centralised wholesale markets and small retail stores (Harvey *et al.*, 2001). In the process the social, temporal and spatial nature of the activity of procuring food has also been transformed with major implications for the conduct of urban life and the social and economic behaviour of households. Similarly, in regard to mass entertainment the development of radio and television has led to the emergence of a market-based system for the provision of mass entertainment services that co-exists in many countries with a state-funded service. This reflects not only developments in technology but an extension of the space where the market operates, a development that is very obvious in relation to the broadcasting of sporting activities. In the process the very notions of the market for sports' entertainment, its social and cultural meanings, the mode in which it is consumed, the way it is financed, and the distribution of its returns to the players and organisers have changed fundamentally.

In this Introduction we raise a number of issues relevant to the appraisal of 'the market'. Markets, of course, are not natural phenomena; they are created institutions, frameworks assembled and adhered to by the market's participants. Their number varies over time as innovations of technique and organisation open up new ways of using economic resources. At one level therefore the market system is the framework for creating specific new markets and destroying existing ones, and is a basis of the dynamism of the system. Thus it is important to distinguish the *modus operandi* of the market system in general from the very specific instituted conditions that define any particular market.

The traditional economic perspective on the market has been to judge it in terms of the efficiency with which resources are allocated across rival activities and over time. Here the discussion of the market becomes indistinguishable from a discussion of the degree of competition that prevails in any particular market. This emphasis upon the efficiency properties of the market–competition complex is of course important, but it is by no means the whole story or the story that most adequately captures the operation of capitalism. Markets are devices for adapting to new possibilities and creating new resources; markets, that is, facilitate and stimulate economic and social change as well as allocating given resources. It is this creative aspect of the market system which is lost in the concern to rationalise static concepts of efficiency in the allocation of given resources to given ends using given means. What is unique about capitalism is its combination of market exchange and competitive rivalry in the promotion of internally generated change. Not only is capitalism distinguished from socialism, but different forms of capitalism are also distinguished by that fact.

Open markets facilitate and create incentives to innovation and simultaneously transform their own internal structure. However, not every innovation possible is permissible within prevailing ethical codes, social mores and political regulation, for 'markets' constrain as well as enable. The social and political dimensions of market processes – inequality, fairness, power, uncertainty, status – all influence the range and nature of what takes place in the market context. More deeply still, the acceptance of market processes and the rhetoric with which they are described and assessed tell us a great deal about different kinds of market society.

The rhetoric, discourses and doctrine of the market

In the middle of the twentieth century, a substantial proportion of the population of the globe considered market principles unjust and the operation of markets a major basis of inefficiency. The slump, the poverty and the inequality of the 1930s, the lessons of co-operation in wartime, and optimism about the prospects of democratic socialism and welfare states, contributed to an atmosphere critical of markets, not only across Europe but also in the USA. The extent to which the market was re-evaluated positively in the late twentieth century is thus remarkable. The background to the rehabilitation of market principles reflects many factors. Among these we would draw attention to the long period of post-war economic growth across the globe, the effective response to the oil crisis of the 1970s, the emergence of new right politics in most Western states, the decline of communism in Europe, the critique of the bureaucratic power of states, and the seductiveness of the notion of consumer choice.

Callon (1998) and Miller (2002) are among commentators who suggest that powerful theories, especially from economics, have a tendency to create the world which they purport to describe, reality coming to mirror theory through the policy and practice of the powerful. We would not go so far as to say that the discourse of the virtuous market has created the institutional forms that it (mis)describes. Nevertheless, there are many potential ways in which the attribution of positive functions to market relations would affect understandings of reality and thus economic, political and social action.

What we find most striking is the extent to which the market is considered to be without stain in the current period. Unparalleled, if not entirely unprecedented, confidence is being expressed about markets. What happened at the end of the twentieth century was that the market mechanism was pressed into service into new areas, as a matter of policy. In the de-regulation of what were publicly owned agencies, in the extension of quasi-market principles within public administration, for example in health services, and in the extended commercialisation of broadcasting, we find clear examples of the spread of the market. Markets were overtly promoted, and this process required strong legitimisation from a discourse of 'market virtue'.

The notion of the virtuous market is based on a number of propositions that go weakly contested. Among the most important of these are the following:

- The market enshrines the principle of consumer sovereignty.
- The market permits, sustains and delivers individual freedom of choice and action across the economic and social spheres.
- The market is an ideal mechanism for exchange because its incentive structures are consistent with basic features of human nature.
- The market is applicable to a great many, if not all, forms of human activity, its principal mode of rational calculation being suitable to all spheres of life.
- The market is the epitome of efficiency in the allocation of resources and is unfailingly superior to any other system of economic governance.
- The market is the best guarantor of reliable quality in products and services.
- The market guarantees sustained growth in standards of living in all countries, whatever their level of development.

The power of the discourse operates in several modes: as political rhetoric, in business practice and through the ghostly role of markets in economic analysis. Despite the central role of competition and markets in capitalism, in economic analysis these concepts are subsidiary to the notions of the firm, the consumer and the transaction. The even more primitive concepts are resources, technologies and preferences. Markets have no substantive status, other than as abstract demand and supply correspondences whose origin is treated unproblematically. This is not a helpful way to understand how market economies operate and develop.

Markets in capitalism

Markets are not unique to capitalism but capitalist systems are always market systems. In answer to the question 'What do markets do?', the overwhelmingly unanimous reply from economics is that they produce an equilibrium in the allocation of resources. The traditional view is that markets are institutions to facilitate exchange. Originally, 'markets' referred to the 'places' where exchanges occurred. But what is meant by the notion of the market system is that the plans of dispersed individuals to buy and sell are rendered mutually consistent within and across all the markets in an economy – markets for labour, for free capital disposal, for commodities and services more generally. Co-ordination is fundamental to the appraisal of market processes, but equilibrium is not, for equilibrium requires a state of rest from which there is no internally generated reason to change behaviour. In equilibrium, choices are not made. Market processes always generate reasons to change behaviour, to transform the prevailing way of conducting affairs, for they are contexts within which new knowledge is always being accumulated and new knowledge always opens up new opportunities. The market system is an open system: every established economic position is open to challenge from a new commodity, a new method of production or new model of business. Because economic change is open-ended it is never uniform in its effects, and although one might make a claim for economic progress, on average it remains the case that the distribution of gains and losses, of winners and losers, remains very uneven.

It is important to distinguish the instituted framework of the market system in general from the arrangements in particular markets. While the norms of the market system change only gradually, the number of distinct markets is subject to much more rapid change. Technological and organisational innovations are a powerful source of such lower level market transformations. Markets for personal computers, mobile phones or satellite television services were unknown even twenty years ago yet each is now a major market in its own right in advanced economies. Similarly, the introduction of major innovations such as derivatives and other complicated swaps contracts has transformed the way financial markets operate and has created serious doubts about the ability of the authorities to regulate financial transactions. Equally, in regard to labour markets, innovations in contractual form have had widely different effects on conditions of employment in different countries. These different types of market appear to operate in different ways, with different instituted rules of the game. In each case the relationships among buyers, among sellers and between buyers and sellers vary considerably. This raises a number of questions including that of whether there is there a general model of the market.

The social institutedness of the market system

Besides the specifically economic instituted arrangements for the conduct of market exchange there are, it is well known, also sets of necessary social conditions for the existence of markets. The very emergence of 'the economy' as an entity recognised as a separate sphere of existence, a separate 'field' in Bourdieu's terms, is itself a historical process. Exchange is only one way of facilitating economic interaction: as Polanyi (1957) pointed out, the gift economy and the redistributive economy are alternative socially mediated systems for interlinking production and consumption. The idea that the market was its own pure and necessary logic diverts attention from the social conditions in which particular markets and the market system itself exist. Non-economic conventions of social interaction which are consistent with the operation of markets in economic life include phenomena like social capital, trust and moral codes of conduct. There are also, as Max Weber pointed out, formal institutional conditions for the operation of rational capitalist economic activity. He emphasised the importance of rational calculation as a defining characteristic of capitalism and made clear that rational capital accounting required free markets for labour and commodities, as well as private property and a stable legal and administrative framework, including the rule of law, private property rights and enforcement of contracts (commercial law). The market also presupposes sets of politically generated regulations governing market exchange, which vary from time to time and from country to country. Interventions, conditioned by ethical considerations, may limit what might be offered for sale – for example limitations on the sale of alcohol, or the sale of human tissue material – and alter the distributive effects of particular markets through taxation, controls on consumption, and so forth. Finally, the extant unequal distribution of resources is also a social precondition of the operation of any actual market or market system. Different original distributions always affect the operations and outcomes of market competition. That is to say, power influences the making of markets, with some agents having more 'influence' than others in setting the rules.

The general point is that markets are constructed and operated within wider institutional frameworks. They are instituted, first, by the prevailing norms in relation to property rights, contracts and the conduct of competition. They are instituted also by the broad social acceptability of particular activities reflecting ethical stances of time and place. Finally, they are instituted in relation to the specifics of particular goods and services: the limitation on who may trade, the definition of quality, the standards of measurement, the uses to which a product is put, are examples of the specific rules of the game in particular markets. These instituted frames are not given but evolve with the development of the production and consumption activities in question. If, following Hayek, it is suggested that the market process is one of discovery, then what is being discovered is also the way to arrange and regulate market activity.

The contributions

Chapters 1–3 treat the instituted relation between economy and market from a number of complementary perspectives. Richard Nelson approaches the issues through an assessment of the complexity and varied nature of market arrangements and an appraisal of the limits to markets. Although the current consensus is in favour of markets, that has not always been so and Nelson traces the swings of the pendulum from Adam Smith to the debate on 'the end to history'. The core of his argument is that it is misguided simply to presume that markets are the best solution to the problem of production and distribution. The case needs to be argued – and to be sensitive to the fine details of different market contexts. In many cases the pro-market argument is clear. Equally there are other cases where the pro-market argument fails. However, it is the middle ground which matters, because the middle ground reflects the shifting balance of the mix between market and non-market forms of economic governance. Even in the situations where the market case prevails, for example air transport and pharmaceuticals, public regulation is an important feature of the market's operation. Thus contests over boundaries help us understand the complexities of the market system and the ways in which it can be governed more effectively. Here Nelson identifies three broad classes of argument to facilitate a judgement of the proper scope of markets. The first is the familiar economists' class of market failure suitably bolstered to reflect the fact that the strength of markets is not typically to be found in their efficiency at allocating given resources but rather in their adaptivity to unforeseen change and in their openness to innovative activity. The second concerns the role of the state in taking responsibility for the rules of the market game and in providing, through the political process, the means to challenge and vary the rules in particular cases. The third reflects distributional issues in a broad sense, the possibility of a mismatch between market outcomes and social perceptions of what those outcomes should be – what Nelson calls the problem of social cohesion and human rights. Nelson concludes with an interesting taxonomy of the factors that contribute to the appraisal of the applicability of the market to specific cases. That this list is as much concerned with social as with economic matters highlights their mutually instituted nature in market capitalism.

The second chapter, by Andrew Sayer, provides a critical evaluation of the idea of the market as the definitive form of co-ordination and of the socially embedded nature of market processes. Sayer draws attention, first, to the multiple uses of the word ‘market’ and to the difference between the market in general and markets in particular. The inclusiveness of the market definition determines the scope of what is to be explained and how. As an exemplar, Sayer addresses the problematic question of the boundary between market and production. He points out that firms do not do what markets do and conversely, so that the Coasian idea that firms fill the residuum left when markets have reached their limit is a distorting mirror. While recognising the importance of networks and trust, Sayer develops a critique of ‘embeddedness’ in terms of its overly benign view of economic relations. For the disruptive and retrogressive aspects of market processes are as much embedded as are their constructive and progressive tendencies. Sayer traces this mistaken view to a belief in the superiority of co-ordination through networks and to the neglect of power relations. Similarly, he argues, there is an excessively positive assessment of the role and the origins of trust in the working of market relations. Thus he observes that contractual relations can be exploited opportunistically, that trust is malleable and contingent, and that networks allow for exit.

The third chapter, by Brian Loasby, is an exposition of the connections between market arrangements and what might be called the ‘problem of knowledge’. Loasby begins by observing that the standard and pervasive use in economics of the notion of equilibrium precludes choice and decision; for in equilibrium clock time passes, yet nothing happens, so nothing new needs to be assessed. Out of equilibrium, decision is essential, and for decision to be possible sense must be made of the world. Sense depends, in turn, on the possibility of pattern formation, and Loasby links capacities for pattern formation to the structure of the sensory and mental apparatus, to the limitations that this creates on the range of patterns that an individual can hold, and thus to the division of personal knowledge in society. In turn, the division of knowledge corresponds to a division of labour in relation to decision making and thus raises the fundamental economic problem – how are the multiple decisions of multiple agents to be rendered consistent? After all, the division of labour is a pattern beyond the comprehension of any single mind. Loasby finds the answer to the question of consistency in the institution of particular rules and conventions that facilitate market processes. It is the advantages offered by particular arrangements that justify the costs of instituting markets. The primary function of market conventions is to provide information that improves the knowledge, and thus the decision-making abilities, of consumers and producers. As Loasby points out, a neglected aspect of these conventions is their aesthetic appeal. Thus knowledge of market arrangements is an important feature of the knowledge possessed by consumers: in Marshallian fashion, markets are part of their external organisation.

The second group of essays, chapters 4–6, conveniently occupies the middle ground between the entirely conceptual material of the first and the empirical papers that form the final group of three in the volume. In chapter 4, Mark Harvey explores the idea of competition as an instituted economic process and poses the important question: 'Why does competition not destroy the competitive process?' He traces the interdependence of competition and markets through the writing of Weber and Polanyi and on to the modern sociology of embeddedness and networks. However, embeddedness is not fixed, nor is it absolute; economic relations can be just as equally disembedded and, as it were, the polarity reversed with the social framing the economic. Thus Harvey suggests, in Polanyian style, that three ideas capture the concept of institutedness. First, the relation between the social and the economic is variable and contingent, so creating the possibility of varieties of capitalist system. Second, the the economic and social are mutually conditioning. Third, the relations between competition and markets are constructed at widely diverse interdependent levels in economy and society. There follows a rich discussion of the units of competition and the scales on which competition takes place. Harvey also observes that competitive processes require accumulative processes and the differential growth in capacities and capabilities underpins the dynamic nature of competition. The chapter concludes by applying these ideas to the co-evolution of competition and market arrangements in the UK retail trade. Neither the market nor competition has remained constant in form: they have mutually shaped each other, as innovations have created new units of competition, and as new scales of market have emerged together with new rules of the competitive game.

Don Slater, in chapter 5, is also concerned with how markets come to be made, framed or 'stabilised'. Locating his reflections on the nature of markets in the context of arguments about the emergence of the 'new economy', he finds many of the central and accepted propositions about change mistaken. For Slater, what we witness today is much more rapid destabilisation of categories of goods. Since a market is defined in terms of substitutable items, he reasons that the delineation of the boundaries of any market depends on agreement as to the particular definition of the items being sold therein. This focuses attention on what he calls the 'the process of materialization'. Not a new process at all, this involves a recognition of the process whereby a particular item, including an event, comes to be recognised as one thing rather than another. It requires examination of 'the social processes by which things come to be treated as things in the social world' (p. 96). This normally requires recognition in terms of both functional and symbolic attributes, as he demonstrates with reference to the notion of a 'product concept', an integral element of the marketing armoury. The product concept contains a high potential for destabilization, as producers purposively manipulate both the physical content and design of the object, and its associated cultural meanings, into a new, or rather a recognisably distinct, type of product, fully cognisant that the process is one of 'conceptualising and choosing the different things a given product could be' (p. 107). This is a process which Slater sees as indicating corporate intervention becoming more reflexive, rationalised and institutionalised. So what is distinctive about the present is the level of commercially inspired contestation over the stabilisation and destabilisation of the fundamental categories of material culture which declare what things are. Moreover, it is not only producers who are aware of the malleability of the identification of goods, but the general public, the consumers, are becoming more adept at problematising the meaning of goods and, indeed, of improvising their use for their own purposes. This position, conducted in dialogue with Callon, permits Slater to issue an incisive challenge to several of the most widely employed distinctions in understanding contemporary economic life. He argues that conventional sharp distinctions between material and non-material goods, between the physical and symbolic aspects of commodities, between goods and services, and ultimately between the economic and the cultural, are fundamentally misleading.

Fran Tonkiss, reflecting in chapter 6 on an empirical study of cultural industries in East London, addresses a related and currently topical issue, that of the distinctiveness of the operations of 'cultural industries'. She addresses the debate about whether we currently can be said to have a 'cultural economy' with newer principles of operation than those of an older industrial economy. Finding it hard to understand the producers in terms of the products being sold, she argues that attention should be paid instead to the role of specialised knowledge involved in the framing of goods to be sold in cultural markets. Distinctive firms, labour contracts and mixed forms of governance imply a definition of the boundaries of sectors in terms of knowledge and skill rather than end products. The distinctiveness of the labour processes, which in practice correspond to particular types of labour contract, have the effect of 'hollowing-out' firms in these fields. This allows some insight into alternative modes of governance of economic activities – of the related roles of firms, markets and networks – in an expanding and highly volatile field. Among the features of those sectors of the economy are the importance of cultural knowledge in developing commercial strategies, but in a context where firms are small and unstable, where expert labour in particular is likely to be freelance and imbued with an ethos of 'creativity'. Such arrangements make it less easy for firms to act as collective repositories of knowledge and know-how, such key functions tending to be met by alternative arrangements of the network type. However, networks pose problems for economic governance of cultural production, which frequently requires the involvement of the state, reminding us of how the firm is just one among several instruments of economic co-ordination. In this regard she makes use of the insights of evolutionary economics (of Hodgson and Metcalfe).

The final group of three chapters is more empirically oriented. Chapter 7, by Jonathan Michie and Christine Oughton, explores the instituted arrangements constituting the 'peculiar economics' of professional sports. The particular features of the football market in the UK include strong fan loyalty to local clubs, the importance of broadcasting revenue to the finances of the game and the managed nature of league competition. These arrangements have changed considerably over time and opened up the possibility of vertical integration between broadcast companies and football clubs, to adversely affect the future organisation of the game. The chapter concludes by arguing that a dedicated regulatory process needs to be established to ensure that football is instituted in ways that ensure its long-run survival.

In chapter 8, Suma Athreye gives an analysis of the emergence of one particular market in the UK, that for computer software. She examines some of the conditions which resulted in the UK coming to specialise in services to client companies rather than the production of software packages for an arm's length market. The explanation she finds in the scale of demand for particular services and the effect its heterogeneity had upon competences – the skills and expertise available to British companies. So, at a critical point, when demand for computer packages took off, established competences were too limited to compete effectively with US companies, skills in general management, R&D and marketing especially being lacking. Thus, Athreye elaborates a model of cumulative causation to account for the continuing weak presence of the UK in the software product segments of the global market.

In the final chapter, Michael Best provides an account of regional economic adaptation to changed market circumstances. This is the story of the dynamics of capitalism focused on the resurgence of the Route 128 region around Boston following its decline in the mid-1980s in the face of competition from Silicon Valley. The chapter addresses the question of how this resurgence was achieved. The core of the explanation is that a new model of business had to be developed to integrate and manage more effectively the well-established technological assets of the region. The old 128 model is characterised in this account as vertically integrated and inflexible. The new model, by contrast, is described as vertically disintegrated but systems integrated – it is an open system constructed around flexible networks of firms, universities and research laboratories in the region. As an open system it has strong adaptive properties that arise from the combinatorial association of the many skills and kinds of knowledge in the region. It forms an experimental system that through its innovative and entrepreneurial attributes has regenerated the region. This fits well with the notion of a restless capitalism that is creative and adapts to changing market circumstances. It fits also with Marshall's emphasis on the external organisation of a firm in developing its competitive position. This is well described here as a collective entrepreneurial capability. On what is this capability founded? Best argues that three elements are crucial: the deep technical heritage in engineering, the modular design and systems integration skills available, and the skill formation system built around MIT. Each of these has long historical roots, and it is on these foundations that the region based its adaptive and innovative response to the challenge from the West Coast. Thus entrepreneurship was crucial to recovery but was premissed upon and instituted within the wider set of arrangements that had built and maintained the available base of knowledge and skills.

The Conclusion discusses the key theoretical and conceptual advances contained in the book and identifies outstanding issues for further investigation.

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