Conclusion

Stan Metcalfe and Alan Warde

In conclusion we draw together and evaluate a number of the themes raised in this volume and begin to sketch an agenda for future research about markets and the competitive process. Happily, this book resides within a now-flourishing broader stream of ideas at the interface between economics and sociology. Some of this new work signals the resurrection of economic sociology, while other aspects of it emanate from within the literature on innovation processes and, more generally, from evolutionary economics.

There has been a very significant revival of interest in economic sociology in the last decade (for reviews see Lie, 1997; Krier, 1999; Heilbron, 2001). The most visible version, promoted particularly effectively by Swedberg (1987, 1990, 1998; and, with Smelser, 1994), and currently influential in the USA, is referred to as 'the new economic sociology'. One of its key characteristics has been its concern to retain a serious dialogue with neo-classical economists and to engage in critique on its own grounds. However, the notion and practice of economic sociology has been revitalised also in France where the Regulation School, conventions' theory, the Bourdieusian school and the anthropology of science (for example, Callon, 1998), often drawing on the Durkheimian tradition, have provided new theoretical approaches to understanding the economy. The revived economic sociology has begun to pay attention to topics like capital, money and markets in a way that was previously absent. Its contributions include emphasis on the role of social interaction and interpersonal relationships in economic life and especially the making of markets, its pursuit of alternatives to rational action and rational choice theory and its insistence upon the embeddedness of economic activity in social and societal context.

There has been a parallel revival of interest in evolutionary processes in economics, stimulated largely by Nelson and Winter (1982), but drawing on a much deeper tradition of economic thinking about dynamics associated with Schumpeter and to a lesser extent Marx and Veblen. Its roots lie in a concern with the dynamics of capitalism, since all evolutionary theories are at root theories of why a particular kind of world changes in the way it does. As with the new economic sociology, evolutionary economists are wedded to

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a more sophisticated notion of individual behaviour than that embedded in the idea of Olympian rationality. In this view, there is nothing wrong with the argument that individuals seek to do the best they can in the prevailing circumstances, but neither what is best, nor what are considered to be the prevailing circumstances, will be the same across individuals. The point therefore is not that individuals optimise, for that does not amount to very much, but rather that their optimisations are locally contingent and are certainly not independent of the network of social interactions and the institutional frames within which any individual is located. Evolutionary economics depends crucially on the idea of the mutual determining of actions through the functioning of market processes and thus the instituted aspects of these processes. As such, markets as instituted relations between producers and consumers become the context in which evolution is possible. There is a natural complementarity between a concern to understand processes of evolution in modern capitalism and the mutual penetration of economic and social processes, for neither markets nor competition are givens, as we explore below; as instituted relationships, they also evolve.

Several chapters in this collection pick up themes and theses from the regenerated economic sociology, but generally not in a systematic fashion and largely without an overt attempt to develop theoretical positions. Other chapters display firmer attachment to the perspectives of evolutionary economics. Yet others pursue insights about instituted economic processes deriving from the work of Polanyi. There remains, in our opinion, a need for dialogue and debate between the different approaches within economic sociology, and indeed between economic sociology and evolutionary economics. There should be more comparative testing of such theories in the future, promising more ambitious development of theory. Meanwhile, the most important lessons emerging from this collection can be organised under four headings, which we treat in turn: markets as social and socially constructed institutions; the role of information and knowledge in the dynamics of the market process; social consequences of market relations; and, finally, the relationship between markets and competition.

Markets as institutions

The idea of markets as institutions, as habits, rules of social behaviour, is of course not new. Yet, implications of this point await their full development in terms of distinguishing between the market framework in general and markets in particular, and in distinguishing between the rules of the game at a point in time and the generative processes through which those rules evolve. The chapters in this book contribute more to a sophisticated understanding of particular markets than they do to the theory of the general market system. By general market system we refer to the ensemble of interdependent particular markets which exist within a particular monetary system. The important economic feature of the market system is that its particular

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markets are ultimately interdependent, indirectly if not directly, and that the processes of co-ordination within and between them depend upon every exchange being an exchange against money. Insofar as co-ordination depends upon interaction and the exchange of information between buyers and sellers, it is impossible to separate market activity from its social context – either generally in terms of the rules and norms of economic behaviour, or specifically in terms of the conventions which define each specific transaction. It is for this reason that markets have an affinity with the idea of social networks more generally.

Every particular market has specific rules of operation, which may be codified, as in the Liverpool Rules governing trading in raw cotton, or which may be informally and tacitly prescribed, as with the moral economy of pre-industrial capitalism as described by E. P. Thompson (1971) or Polanyi (1944) in his discussion of the emergence of a market in waged labour. Moreover, operative rules in particular markets are themselves subject to a process of development. They can be expected to change as the volume of exchange increases and as a market develops from narrow niches to serve wider groups of consumers. They can be expected to change when innovations shift the balances of competitive advantage between different sources of supply, as may be happening with the development of Internet trading. Among the major sources of change are ethical concerns and disputes concerning the interactions between agents involved in the market and their distributional consequences. Rules will often be informal and under-specified, such that they may be constituted solely in purely reciprocal expectations of behaviour. In that regard the norms of market behaviour are not much different from those of everyday conduct in other, non-economic, fields, where compliance depends as much on convention and trust as on sanctions. A striking feature of the history of capitalist development is the gradual spread of trust in market exchange. Helped by stabilising political institutions, trust increases confidence in money as a medium of exchange and a store of value, and improves generalised guarantees against malfeasance and opportunistic behaviour. This is the longer term outcome of an iterative process of wider and innovative forms of engagement in social and market processes, necessitating modification of the rules that govern exchange. Consequently, the institutions enveloping market exchange alter to meet new problems and to facilitate extended exchange within that market. This, in turn, allows the market to develop, requiring yet more amendments to the institutional rules. The scope of the market and the rules by which it operates co-evolve. Through such an evolution, market processes have come to cover more realms of economic activity and the acceptance of markets has increased commensurately, if fitfully.

All markets are regulated in general and in particular. The state, at several spatial levels, provides preconditions or circumstances for market exchange and competition, and it intervenes to counteract some of the propensities of the market to produce untenable and intolerable inequalities, or environmental

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hazards, or trade in unethical products. The interesting question is how the incidence and form of regulation vary over time and across specific markets. There are some cases – for example, in the provision of public goods such as law and order and military services – where the market's logic is deemed not to apply and state provision and regulation of those activities is normal. In others, self-regulation of the market process is combined with heavy external regulation, as in the case of food and drink provision, privatised utilities and drugs. In yet others, the regulatory hand of the state is lightly applied as in the case of markets for financial, legal and medical services, which are subject to strong professional regulation. Of course, in each of these cases the boundary between internal self-regulation and external regulation by the state is contested and, as Nelson points out, varies over time.

A strong position on embeddedness would maintain that there are different types of market transaction, but no autonomous market logic independent of a specific social integument. All markets depend on institutional framing which is historically constituted. Specific markets are not natural: they are not given and they have no automatic outcomes. All markets have a history, and the rules that might govern those particular markets are built up over time through adaptive practices of production, consumption and exchange.

Economic theory has made considerable advances by reducing market relations to the mutual interaction of demand and supply correspondences to represent the two sides of any transaction; but what lies behind demand and supply, as theoretical constructs, cannot be reduced to questions of the independent behaviour of autonomous individuals. Yet almost all approaches to economic behaviour presuppose the existence and primacy of independent individual agents (mostly persons and firms) who engage in purposive action in the light of their resources, knowledge and interests. Those are, as it were, self-contained and self-possessed agents whose economic behaviour is subject to control by themselves and themselves alone. The ontological reality is at least as much one of interdependence within and beyond the economic field. The social behaviours of each agent condition, to differing degrees, the social and economic behaviour of all others. Yet, the majority of economists, and a substantial proportion of scholars in most of the other social sciences, use an isolated independent rational individual as the rudimentary building-block of explanations of the most complex net of interdependences known in human history. One of the key features of an approach centred on social embeddedness is that it grasps rather better than most this texture of both economic and social interdependence. It insists on the interconnectedness of social and economic institutions and the inseparability of economic and social behaviours.

The implication of a 'strong' account of embeddedness is that there are no universal features of 'the market'. However, this seems to us a step too far. Swedberg (1998) observes a danger with accounts of embeddedness and social construction, namely that the specificity and logic of economic action get obscured. The emergence of 'the economy', recognised as a separate

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sphere of existence, a separate field in Bourdieu's terms, is itself a historical process. We understand economic phenomena as having specific characteristics precisely because there was some autonomisation of economic behaviour. This became obvious when market exchange came to predominate over gift relations, household production and simple barter. The efficiency norm, an emergent feature that developed in parallel with the spread of markets, without which it could scarcely have been recognised or implemented, is probably the defining feature of the modern capitalist economy, and few economic organisations or actors are impervious to its imperatives. Markets discipline behaviour not just because of the effects of our vocabularies and discourses of economic activity. Indeed a central consequence of market activity is the evaluation of competing ways of using resources in terms of costs, revenues and profits, and in so doing to provide tests of viability and the basis for differential growth of the rival courses of action. For that reason the rules by which activities are eliminated through the concept of insolvency are key aspects of the idea of a general market framework.

Talking of particular markets implies that they have common features, which permit their identification as instances. We would argue, after Sayer (Chapter 2; see also Ray and Sayer, 1999), that there are some distinctive and prevalent characteristics of economic action in modern economies which are precisely responses to the fact that transactions are exchanges against money in a competitive space. This involves observing that both the tenets of a code of strategic calculation in relation to the rivalry of sellers and the accords between sellers and buyers are essential to the operation and survival of individuals and the system. The capitalist economy is a field wherein instrumental, optimising, competitive, self-regarding action is not only legitimate but is positively encouraged and reinforced. Though modulated in different types of market, these features of conduct and procedure set limits to effective economic action, and they are sufficiently binding to allow us to talk of the imperatives, or the logic, of market behaviour. These codes have ramifications extending beyond the economic sphere as they diffuse and become incorporated into other spheres of life.

The economic logic of the market is based essentially around two propositions. The first is that markets are means of co-ordinating production and consumption, via the transmission of information and the exchange of goods and services against money. How that is accomplished for particular products will vary across space and time. The analysis of markets thus depends more on identifying their many types, specifying configurations of buyers, sellers and forms of bargaining, specifying forms of intermediation and charting their variations in time and space, than upon isolating the defining essential features of 'the market'. The second we might call the principle of competition, that markets are open to the rival behaviours of producers and consumers so that the outcome might be claimed to be that consumer needs are met in the most effective way possible. The logic of both is contingent upon the instituted context in which co-ordination and competition can take

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place. The means by which competition can be said to benefit consumers more effectively are many and varied. They may depend upon the introduction of new and improved kinds of products, on new methods of production which permit prices to be lower than they would otherwise be, or on the introduction of new externally imposed regulations.

As Sayer argues, an appreciation of the social aspects of markets and competition must not lure us into a belief that they are cosy affairs. Restless capitalism is often uncomfortable capitalism, and the consequence of competition is frequently deep uncertainty about the future of economic and social arrangements and any individual's position therein. Nevertheless, as the bulk of the contributions to this book suggest, further exploration of the socially embedded, or instituted, nature of markets and competition is the most promising avenue for future study. Despite Swedberg's warning (1998, p. 165) that 'embeddedness' is mostly used vaguely, the idea that economic behaviour occurs within institutional contexts and networks of interpersonal relations seems essential to understanding how markets emerge and operate. In undertaking such exploration it will be essential to develop a satisfactory taxonomy of markets and the processes of exchange which they define. Consider for example the following:

- Strongly *integrated markets* for *homogeneous commodities and assets*. In these markets, specialised intermediaries, market makers, set prices and hold speculative stocks to stabilise prices. These markets correspond to Marshall's organised markets in which there is a wide diffusion of information in relation to current and expected conditions of demand and supply. The preconditions for this kind of market include established metrics to determine quality, large numbers of buyers and sellers, over and above the market makers, and substantial fluctuations in the conditions of production or demand to make it worthwhile for professional dealers to hold stocks and attempt to stabilise the market. The markets for wheat or cotton, for foreign currencies or equities, are classic cases of what economists call 'flex-price' markets. The technical sophistication of the trading arrangements in these markets can be considerable and can cover trades in relation to future as well as current transactions; indeed, recent years have witnessed a considerable degree of innovation in relation to the kinds of instruments traded on, in particular, financial markets.
- Consider next markets for *highly variegated products*, in which firms set prices and producers and consumers bear the consequences of discrepancies in supply or demand by varying the stocks of money or goods that they hold. These cases correspond to many industrial markets. They can be distinguished according to whether production is to order or whether production is 'speculative'. In these cases independent market makers are absent and it is the supplier who typically bears the cost of forming the market relationship. Ships and aircraft are built to order, as are many arts' products (paintings, musical recordings and commercial photography, for

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example). In mass markets, the speculative risk facing the producer is lower because many different categories of demand are consolidated and the risk of variation in demand is thereby reduced.
- Finally, consider the case of *retail markets* where manufacturers of differentiated goods and services quote the prices at which they agree to sell directly or indirectly through accredited agencies. These are markets where specialised intermediaries play an important role, not so much in setting prices but in providing and consolidating knowledge of the range and needs of customers and in holding stocks of manufactures.

These examples are sufficient to make the point that a detailed taxonomy of market forms is an important element in the research agenda of an economic sociology programme. They also hint that one differentiating dimension of such a taxonomy will be in relation to the way that market arrangements gather, collate and disseminate information on what is to be exchanged and on what terms and conditions.

Markets and information

Market activity implies that buyers and sellers are 'brought together' across time and space and that transactions are consummated and recorded. In this regard, one way to look at markets is through their role as providers and disseminators of information. Thus, what is available in the market, on what terms, in relation to price, delivery, post-purchase support and rights of redress are the principal items of information that market processes make available. What, then, are the instituted arrangements that underpin this flow of information? Broadly speaking the answer is that this flow of information is provided by market intermediaries who, as it were, form a bridge between the 'questions' and the 'answers' of buyers and sellers. Traditionally, intermediation has been provided by 'market traders', specialists in the provision of particular classes of good and service. That is still the case in many markets today, especially where the specification of the relevant goods or services is complicated. Traders accumulate the requisite knowledge and reap the economies of scale and scope that follow from turning that knowledge into flows of information valuable to consumers and producers. However, the relevant information involves more than the details of what is available and on what terms. As Casson (1982) usefully identifies, the intermediation function often extends to establishing the broader terms of contractual arrangements, the resolution of disputes, and the transport and storage of goods to meet the requirements of exchange. In other cases, the role of intermediation is played by the suppliers of the goods who provide the details of what it is they are selling and the terms on which they will do business. This form of market arrangement is typically found where the buyer has particular contractual needs that draw upon the skills of the seller. The form of intermediation is the answer to a particular economic problem, namely how the

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information and related market-making services can be most effectively provided. The provision of these services requires that real resources are committed by one or either side of the market and these costs have to be covered by the agreed terms of trade. The creation and circulation of knowledge and information are crucial to an understanding of the process of competition within markets. Moreover, the manner in which information flows will depend upon the specific institutional form of the market. Although much economic literature assumes that price is the pre-eminent type of information conveyed by markets, the reality is that price is only one element in the complex package of information which is necessary before exchanges can take place. Except for in a very narrow range of cases, it is not the market intermediaries who set prices; rather this function is typically established by the manufacturers or proprietors of the goods and services in question. Markets usually only condition the freedom that suppliers have so to do. Every firm has to answer the question 'Who are our potential customers?', and that information cannot be assumed to be readily available. To acquire it may involve considerable outlay, so that the market will only be made if there is sufficient scale and stability in the customer base to generate a required return on that investment. As the market grows, the costs of market making can be spread over a larger volume of transactions, and the opportunity will arise for the emergence of the specialised intermediaries, the suppliers of marketing, transport, storage, advertising and publicity services and trade publications. Thus the way in which the intermediation function is performed varies with the costs and returns associated with each different product and service. Markets do not come for free because neither knowledge nor information is free, and so the larger the scale of the market the more refined can be its operation. As markets grow, their mode of organisation is expected to change (Stigler, 1951).

We have suggested that patterns of interaction between individuals on either side of the market reflect the distribution of knowledge and purpose between the participants and that this interaction has to be organised. To the extent that social interaction is a mechanism for the transfer of information about market opportunities, the functioning of markets is socially contingent. Market activities are information generating and communication based. They are therefore kinds of networks that are regenerated through the process of exchange. Market activities codify and make publicly available the relevant information to facilitate transactions, but much information remains uncodified and is transmitted outside of formal market arrangements. Tacit understanding of the attributes of different products or services, for example, is often transmitted through processes of individual communication in social networks. How markets work then depends on the associated social structure.

Burt's 1992 contribution was to explore the role of information networks as factors shaping the outcome of the (market) competitive process. He argued that access to superior information depends on an agent having a large

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number of non-redundant contacts each of whom provides different kinds of information. Dense networks are not efficient because it is assumed that all of their members possess the same information and are in that respect substitutable for each other. His central hypothesis is that profitability increases with a firm's access to non-redundant network nodes, what he rather idiosyncratically calls 'structural holes'. Agents who bridge these holes, interpreted as gaps in linkages within the social network of market relations, have strategic capacity and significance in the transfer of information. Burt does not deal with the dynamic question of how such networks are to be created and sustained in the face of competitive actions of rivals. However, from our perspective, the process through which market arrangements are formed should be at the centre of a dynamic account of the embeddedness of economic relations. An immediate implication of this argument is, for example, the idea that firms compete by building non-redundant networks of customers and suppliers – their own particular networks of market relations. Here we find a close connection with Marshall's (1919) emphasis on the external organisation of the firm and with the idea of the social capital of the firm.

We hinted above that the traditional appraisal of markets is normally carried out in terms of the efficiency of the exchange process that they support. The maximisation of the efficiency of the use of given resources to meet given needs is the usual benchmark. This is too limited a perspective, for two reasons. First, it loses sight of the sources of increased efficiency in innovative behaviour and the role of markets in promoting and adapting to innovation. In a market economy, every economic position is, in principle, open to challenge by rival business conjectures, and that implies continued structural change in economy and society. Indeed that is the creative destruction aspect of capitalism. Second, it fails to account for the economising nature of market institutions themselves and for the fact that these instituted frames are not given but are created as part of the market process. These twin aspects of a dynamic perspective capture the central feature of modern capitalism, namely its capacity for internally generated transformation.

Social consequences of market relations

During the 1990s, sociological investigation of markets has tended to abandon earlier concerns with the social effects of the operation of markets and to concentrate instead on the social processes by which markets are made. In the resuscitation of interest in the work of Karl Polanyi, for example, it is the emphasis on the social embeddedness of markets and the social conditions of existence of market societies, rather than his critique of the malign effects of markets, that is pre-eminent. Not that the first is unsatisfactory – far from it. The demonstration that markets are dependent on frameworks of law and co-operation among agents in market relationships, and that they are subject to communal and collectively recognised norms and values, is enormously important both in understanding economic transactions and in challenging

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the empirical applicability of the axioms of economic theory. But it is noticeable, nevertheless, that much less attention is paid to the outcomes of market arrangements now than in the 1980s, when there were intense political debates about the effects of markets, as indeed there were to an even greater extent at the outset of the Keynesian era.

Possibly there is now some consensus that previous accounts of the effects of markets were over-generalised, unproven and empirically under-researched, such that the less beneficial aspects of market mechanisms were exaggerated. Indeed, for sociologists at least, the tendency was probably to consider markets in the more general context of a critique of capitalism which conflated markets with the system of private property ownership, thereby attributing effects to markets which were not necessarily generic (Zelizer, 1988). A more nuanced understanding might entail that there are no general outcomes characteristic of all markets, only *tendencies* for certain effects which might also vary between different types of market. Nevertheless there is a need to restate, in order to review, key claims about the social consequences of market relations.

First, market exchange alters the tenor of social relationships by fostering impersonal, neutral and impermanent interaction between agents. Even though many particular markets are home to networks of sustained interpersonal interaction, tendentially market relations increasingly weaken social ties within the economic realm.

Second, the proliferation of products and the manner of their promotion alter what people want, affecting their endogenous preferences (Knight, 1934; Bowles, 1998). One does not have to postulate that consumers are dupes to acknowledge that market strategies may be effective in stimulating desires for gratifications unattainable through the purchase of commodities. That overall realignments of wants contribute to greater general happiness or satisfaction is not a foregone conclusion.

Third, many would argue that intensification of market experience erodes civic association and faith in the effectiveness of democratic politics (for example, O'Neill, 1998; Kuttner, 1999). To the extent that one can buy what was previously co-produced voluntarily with other members of a community – for example, voluntary associations for recreation or mobilisations for improved social provision – then purposive communal ties within the public sphere are reduced. To the extent that the market is pronounced as superior to collective provision, then democratic determinations and collective solutions are disparaged. Also, the melding of notions of 'citizenship' with the status of 'a consumer', which Burgess (2001) shows is increasingly a feature within the European Union, individuates people, inviting them to weigh their personal interests rather than those of any collectivity.

Fourth, and associated, the free running of competitive markets tends to create inequalities which undermine principles of equality, particularly social equality which Marshall (1950) saw as the foundation of citizenship in the twentieth century. That political dominance by parties, ideologies and policies

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of New Right provenance coincided with increasing inequalities in income within the nation states of the Western world, strikingly so in the USA and Britain, should come as no surprise. Indeed, for Marshall (1950), it was precisely the tendencies of markets to generate material inequalities that called forth welfare provision which might give each citizen sufficient resources to participate fully in social life. Parallel inequalities conceived on a global scale compound the indictment.

Fifth, the dominance of markets appears to imply that employment is the only useful and valuable form of work that requires compensation and that only that which can be sold is worthy of being produced. National accounting systems consider only that work and that wealth which circulates in the formal economy. Economic services which are exchanged within families or communities and work undertaken in the home are not counted. The effect is a peculiar devaluation of domestic and communal activity which systematically materially disadvantages one half of the population, women, and devalues caring in relation to earning.

Sixth, justifications for outcomes as consequences of market logic generally allow economic decisions to be taken without reference to moral, political and social considerations. The efficiency norm, central to processes of rationalisation in modern economies, spills over into realms of human life where it is inappropriate or destructive. The application of rational action schemas to arenas other than the economic, as for instance in applications of the 'household economics approach' associated with Becker (1975), suggest that codes of conduct increasingly mimic economic motivations in fields like marriage, parenting, education and the like.

Indeed, and seventh, one effect of the prevalence of markets and their discourse is a tendency to legitimise and propagate the influence of economics as a mode of knowledge. Recently some scholars have come to argue that economics, in its neo-classical dominant form, is coming to act less as an explanation of economic activity and more as a prescriptive theory for the design of social institutions (Callon, 1998; Slater and Tonkiss, 2001; Miller, 2002; Slater, this volume, chapter 5). Through the offices of the World Trade Organisation and the like, institutional arrangements are forced upon supplicant states which are nothing other than the imposition of the doctrine of the free market as conceived by the academic discipline of economics. The best defence of the assumptions of neo-classical microeconomics, and of rational choice theory more generally, is that they are heuristic abstractions. They do not describe the world, but provide ideal–typical or schematic reductions, radically simplifying reality for purposes of measurement, modelling and prediction. To move from that to prescription of economic arrangements which institute the axioms of a highly simplified model – in the form of advocacy of 'free' markets, 'perfect' competition, etc. – is palpably misguided. Since the empirical study of markets indicates that the existence of a range of social and regulatory processes has hitherto been essential to the effective operation of actual markets, there is much scope for perverse policy recommendations.

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Finally, appeal to the inexorable logic of the market provides a means of legitimisation for the rich and powerful by denying human responsibility for the distribution of valued resources. The winners in the competitions involved in markets typically legitimise their good fortune by re-expressing it as the natural and inevitable result of the operation of the market. This naturalises the distribution of resources in society and, by justifying success, allows the successful to attribute the blame for failure to those who fail.

Whatever the ultimate merits of these arguments, they provide compelling reasons to reflect on the social consequences of the spread of markets in the process of economic integration. A pertinent and concise summary of the negative social effects of the operation of intense competition through the market is offered by Lane (1991, p. 13) who describes the consequences of the efficiency norm thus:

> When the efficiency norm overrides other considerations in a consumer-driven economy, it sacrifices designing work to meet the needs and desires of workers; it lends credibility to government reluctance to redistribute income; it limits the force of ethical considerations; it uproots community life; it undermines ecological reparations.

The extent to which any of the effects listed is *singularly* the effect of the market is arguable. However, it is noticeable just how comparatively rarely these considerations are currently aired and debated. Some immediate reasons for this might include the prevalence of identity politics, a decline of scholarly interest in power and the powerful, and continued widespread acceptance of economic growth as the primary goal of political management. It is also partly an effect of the hegemony of the doctrine of consumer sovereignty and the discourse of the market: it is difficult to mount an overt intellectual challenge to the necessity and irreversibility of the continuing spread of market mechanisms. Old socialist objections are viewed as anachronistic, associated with nationalised enterprises and ineffective management within the public sector. More generally, the power of states has been subject to liberal critiques which equate markets with freedom and states with authoritarian control. Nevertheless, there exists substantial, *de facto*, practical and popular mistrust of markets among the population at large. Organisations for parents opposed to consumerism, public opinion polls indicating the extent of support for state welfare provision as in defence of the British NHS, the general hostility towards high salaries and salary increases for directors of private corporations, the constant demand for monitoring and regulation of private organisations from consumers' groups and associations, not to mention the resurgence of global anti-capitalist protest, suggest that not everyone has faith in the market system. However, these suspicions lack a coherent intellectual expression, not to mention a viable political vehicle, for their implementation.

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Markets and competition

Markets are necessarily, but not solely, and to quite different degrees, competitive. In the absence of thorough reflection it is easy to overlook the collaborative aspects of market behaviour. The Latin root of the term competition is *competere*, to strive together. The nature of that striving together deserves more attention. Not only are markets orderly and organised, characteristics in the absence of which they can scarcely be said to be in existence, but it is also the case that something more than simply competing in accordance with the rules of a particular game is required.

Kuttner (1999) makes the ironic comment that in the USA, whenever there is any sign of the economy or any of its component organisations faltering, policy makers prescribe more competition. But competition is not necessarily good, or at least it is only so for economists. Lane (1991) comments that while economists think along a continuum from competition to monopoly, psychologists use one of competition and co-operation – the value judgements of the two disciplines are diametrically opposed. As the reflections of Harvey (chapter 4) suggest, co-operation and competition are neither wholly good nor wholly bad.

It can be argued that economic competition is generally beneficial when it has the following effects:

- if it is an impulse to creativity and innovation in products and the organisation of production and market arrangements;
- if it increases allocative efficiency;
- if it sustains an efficiency norm powerful enough to generate sustained economic development;
- if it increases the circulation of accurate information about products and practices, and enhances stimulation and cognitive engagement;
- if it gives consumers 'choice' by allowing them to exercise discretion about what to select;
- if it delivers diversity of products of differing quality and price to match the preferences of the consuming population; and
- when it protects the public good.

By contrast it can be argued that the negative effects of economic competition are found when:

- it exacerbates negative externalities of markets;
- it is indifferent to conditions of labour;
- it incites fraud and opportunism;
- consumers are forced constantly to take seriously the imperative of *caveat emptor*;
- it creates social failure in the absence of adequate means to handle fairly and constructively, or to offer adequate compensation to, those who fail in the competitive process;

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- the efficiency norm generates hyper-competition leading to poor quality and defective products, ineffective guarantees for consumers, perversely short-term calculation, high levels of bankruptcy and bad debt, insufficient funds for future investment and inadequate training of workforces.

Such considerations clearly question the universality of the mantra that competition is always beneficial within particular markets and that unrestrained competition is good for the market system as a whole. It thus behoves us to explore more critically, and in greater detail, the different modes, modalities, levels, constraints and bounds to competitiveness in different types of market. This might be done partly by examining the role of competition in the emergence, stabilisation and disintegration of particular markets. But as consumer associations, more frequently in the past than the present, sometimes recognise, the consumer is also the worker and the citizen in other contexts. The costs of the efficiency norm and of negative externalities are exploited intensive labour and degradation of public provision.

The potentiality of competition says nothing about actual levels of competition; as Weber observed, even when there is only one incumbent the fact of it being a market means that some other firm, some challenger, may enter freely to offer similar, substitute or different quality items. Nor is the way in which competition is instituted preordained. For example, the product markets that Harrison White examined exhibit a very limited and peculiar sort of competition. If the principal mechanism for determining which products to sell and at what prices is constant surveillance of competitor firms in order to achieve parity in provision, then the idea that an orientation to efficiency generates 'competitive' pricing seems to be thoroughly mistaken. Other studies indicate that the motor of competitive rivalry is often comparatively subdued in comparison with other forces operating within particular markets. Baker *et al.* (1998), building upon the argument of Fligstein (1996) that markets can be analysed as a political process, provide a suggestive approach to evaluating the role of competition in the making and reproduction of particular markets. They examined the survival rates of relationships between advertising agencies and their clients in the USA. They distinguished between three sets of processes – competition, power and institutional forces – for each of which a number of empirical indicators could be furnished, in order to assess their relative importance in explaining the trajectory of the market for advertising services. They indicated that the rules which were adumbrated in the period during which advertising services were initially established – rules which included remuneration as a rate of commission at 15 per cent of the cost of a campaign, the exclusivity of the relationship between agency and client, and an associated presumption of long-term loyalty – continued to hold sway at the end of the twentieth century. These were precisely institutional conventions which stabilised markets and reduced direct competition between agencies as suppliers. Thus rates at which contracts between agencies and clients were dissolved, when new

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business might be put to open tender or when clients sought new or multiple suppliers of services, were comparatively few. The destabilising effects of competition were thus weak, mitigated both by institutional rules and by the operation of particular structures of power. For instance, organisational size, financial status and centrality within markets influenced rates of dissolution of contracts.

This schema seems fruitful in that it allows us to distinguish degrees of competitiveness and to chart their consequences. In this regard it is important to appreciate that it is not simply the rules governing directly competitive behaviour which constitute institutional forces. A full list would have to include legal regulations, informal rules or norms, tacit agreements among organisations about procedures and mutually acceptable forms of competition, inter-organisational collaborations and alliances, as well as interpersonal ties between employees of different firms. Moreover, this is not just a matter of interpersonal acquaintanceship and mutual accommodation among incumbents of positions in adjacent firms. Workers have identities, or there are claims and obligations upon them, other than as incumbents of a position in an organisation. Claims upon them also arise from their occupational and professional affiliations. The occupational associations of practitioners exert an influence over appropriate levels of competition, partly through policing of professional standards applied to particular operations. The extent of competition permitted and existing between medical practices is restricted in a way fundamentally different from that which obtains between small retailers. It is also the case that where the circulation of information is an essential element of a production process, levels of collaboration are required, such that over-competitive or over-zealous appropriation or exploitation of the knowledge shared among members of a 'college' may be punished by subsequent exclusion from the network of information exchange. As Lane (1991) reports, studies show that excessive competitiveness on the part of individuals frequently hampers their progress and success. The relatively high levels of collaboration among cultural producers in the east end of London, examined by Tonkiss (chapter 6) illustrate some of these points, and this contrasts strongly with the case of the software industry reported by Athreye (chapter 8).

Ultimately, then, we might argue that markets are institutions, with particular norms and rules, which are based not upon ruthless competition between autonomous and anonymous suppliers in pursuit of limited demand, but upon socially ordained and regulated processes. It is partly competitive, but importantly socially embedded, a product of co-operation, collaboration and collusion.

The agenda

Besides our general call for more open theoretical debate, the issues discussed above define an agenda for research in terms of the institutional foundations

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of a market system and an agenda for detailed research on the evolution of particular markets.

Concerning the first of these topics, we have suggested that the most important task is to understand the relationship between market systems and economic change. In this regard, it is impossible to separate the role of markets in generating new knowledge from the role of competition in translating new knowledge into economic change. The competitive process forms a bridge between the generation of new knowledge and its economic consequences. Thus it is not surprising that all serious scholars of capitalism have understood the central role that innovation plays in the long-term transformation of the system and have understood how the knowledge which underpins innovation arises from within the system. Hence, market institutions, in relation to other knowledge-creating institutions, have a fundamental role in facilitating different forms of response to innovation and in shaping the kinds of innovations which are generated and accepted.

A further dimension requires development. Not only has the analysis of innovation been dominated by an excessively technological perspective, but it has been driven almost exclusively by the idea that innovation relates exclusively to the problem of supply and production (Harvey *et al.*, 2001). Equally important is the role of consumer knowledge and the fact that innovation depends upon consumers changing their behaviour. There is very little concrete analysis of consumption in this domain and we need to understand more clearly the role of consumption in the emergence, growth, stabilisation and decline of particular markets. We know much more about strategies for targeting markets by suppliers than we do about the behaviour of customers. Certainly the latter do not compete like suppliers do, and the principles that might explain how different aggregates of individuals come to select the same products are highly contested and probably therefore poorly understood.

In relation to the second topic, there is a need for the detailed analysis of the full conditions for the emergence of particular markets and their subsequent development. The contributors to this volume have pointed to the enormous range of factors involved in the formation and operation of particular markets. The examples drawn from retailing (Harvey, chapter 4) and from the football-entertainment industry (Michie and Oughton, chapter 7) illustrate the specificity and variability of market arrangements. It is clear that the history of the development of these markets has been conditioned by very different kinds of influences, socially constructed in specific contexts of time and place. Theories of markets need to be sensitive to the full range of forms that particular markets can take and proper consideration of alternative taxonomies of market types should be an important part of future inquiry. We might, for instance, analyse the distinctive features of different types of market – product, labour, capital – and their interconnectedness with different types of intermediation and exchange process. This might usefully form a platform for the comparative empirical study of the variety of market types across different industrial sectors and nation states. One

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problem facing any taxonomy of markets will be the question of boundaries. Slater in chapter 5 uncovered some of the critical conditions under which a market can be constructed and deconstructed, drawing attention to the processes of social cognition and classification affecting the stability of markets. In addition, Best (chapter 9) identified the importance of spatial boundaries, implying a geographical dimension to the distributed innovation processes which characterise current arrangements.

A deeper issue in the working of market processes involves the social construction of economic categories which give shape to business practices and public understanding of economic activity. Here the role of formal economic thinking is of importance, but how that thinking is translated by individuals into knowledge and practice is not very clear. Therefore, it seems important to explore the understanding that economic agents have of their own practice. For instance, it would be interesting to explore the perceptions, understanding and practical operations of key and powerful actors in industry and government regarding the nature and limits of competitive processes in different national and sectoral contexts. In this regard, wider use of qualitative, even ethnographic, methods of investigation might elucidate a range of views prevailing at any one time and their change over time. We have already drawn attention to the relative neglect of the role of consumers in relation to innovation and the competitive process more generally. This is to emphasise the role of markets in generating and disseminating information which influences changes in consumption behaviour. For example, the complex of connections between the behaviours of firms and their customers, market research organisations and their clients, advertisers and their audiences provide a nexus through which economic knowledge impacts on everyday activities.

Finally, if defining characteristics of market systems are the rate and the manner in which they develop from within, then it follows that the incidence of the costs and benefits of change will be very unevenly distributed across the members of a particular society. At one level this requires a form of welfare analysis beyond the logic of Paretian economics. More fundamentally, however, it demands re-examination of the ethical dimensions of the social and political case for market systems. The normative presumption in favour of markets, noted by both Nelson and Sayer (chapters 1 and 2), should be challenged more widely and more frequently. We have suggested that this can be fruitfully explored in terms of the virtues of the market. Collective public concern about the general social consequences of competitive market relations should be re-established as a *raison d'être* for empirical studies of market behaviour.

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