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## ON THE SOCIAL STRUCTURE OF MARKETS

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### **Abstract**

Economic theorists have seldom discussed the social structures behind markets, even though market trading relies heavily on seller/buyer roles and personal relations among traders. This paper considers the structural basis of markets and proposes a layered approach which accommodates a wide range of competitive and relational trade within a definition of markets that distinguishes them from non-market exchange. Giving due regard to social structures lays bare the institutional character of markets and provides a rationale for case studies of how particular markets function.

**Keywords:** markets, social structure, agency, competition, rivalry

**JEL classification:** B4, D4, L1

## **1. Introduction**

Markets have always been central to economics, yet they remain strangely ill-defined and amorphous. Economic theory often conflates them with other activities and says little about how they are constituted or whether they have an underlying social structure. People are assumed to act naturally as competitive sellers and buyers without pre-existing structures or institutions; a market then reflects spontaneous individual behaviour rather than structured social relationships.

A structure-free account of markets is unsurprising in neoclassical economics, whose allegiance to methodological individualism keeps the structural content of theory at a minimum. Markets are equated with any voluntary exchange that lets rational agents exploit gains from trade. Partial and general equilibrium arguments portray market-clearing equilibria as emerging from uncoordinated individual actions and having desirable efficiency properties. In this idealised world, structural relations among agents become imperfections blocking the path to allocative efficiency. Flexible markets are contrasted favourably with rigid planning and regulation. From a neoclassical angle, perfectly competitive markets require atomistic behaviour and the absence of social structures.

In heterodox economics, which has no allegiance to methodological individualism, one would expect a more structural, less individualistic approach. Broadly speaking, heterodox theory has avoided equating markets with exchange and realised that they do not arise spontaneously but must be organised: far from requiring the absence of social structures, markets are themselves built up of social structures and relationships. The case for a structural approach comes across clearly in heterodox discourse, but the exact sense in which markets are structured still remains vague. The reluctance to go further and theorise formally about markets may be due partly to their daunting complexity. Sellers are linked through competitive relations but may cooperate to arrange mutually beneficial outcomes; buyers too compete but stand to benefit from collusion; sellers and buyers interact to make a sale, with a clash of interests over price but again with possibilities for cooperation. Markets comprise numerous

relationships of different types and durations among a large and shifting population of agents. Trading should supposedly be impersonal, such that sellers and buyers compete anonymously and aim only to obtain the best available price, yet many traders know each other and forge personal relationships - total anonymity in market trade is quite rare. Since trading can be personal or impersonal, several potential market structures ensue. No simple model can cover all markets, and theory has to delineate structural alternatives.

The present paper suggests a layered view of markets incorporating both personal and impersonal levels of interaction among sellers and buyers. This shows the diversity of market trading and highlights its personal side but at the same time distinguishes markets from non-market exchange. The next three sections discuss the definition of markets and the structural relations within them; later sections consider seller-buyer asymmetries and whether markets are historically and culturally specific.

## **2. Defining markets**

Although markets have no agreed definition in economics, they are generally understood to concern monetary exchanges of goods and services. For markets to be feasible, an economy must have property rights that establish private property and allow ownership changes to be made smoothly and amicably. Exchange brings a transfer of property rights as well as goods and services, so that legal foundations are critical (Commons, 1968). Property and contract law are needed to monitor and enforce property ownership and discriminate between voluntary and involuntary transfers. A stable monetary system, which is not essential for exchange as such, is essential for exchange through markets. Buying and selling imply the legal acquisition and relinquishing of property rights upon monetary payment. In many market transactions these legal elements are barely perceived, but they come to the fore when disputes between traders have to be settled. Markets, an organised and institutionalised type of exchange, stand apart from less ordered types (Hodgson, 1988, Chapter 8; Sayer, 1995, Chapter 4). Much exchange

does not tally with our normal image of a market in so far that it excludes monetary payments, published prices or openness to new traders (Davis, 1992, Chapter 3). Whether or not markets are the prevalent type of exchange in advanced economies, they are only one type among others.

What, then, defines a market? Compared with other types of exchange, markets have distinctive properties (Rosenbaum, 2000). Theoretical accounts of an ideal market normally possess the following seven features. First, transactions take a monetary form based on a common, acceptable currency (unlike barter, where goods are exchanged without monetary payments). Second, exchanges are two-way transfers leaving no doubts about reciprocity or future payments (unlike one-way transfers such as gifts, which may or may not carry an implicit duty to reciprocate). Third, transactions are voluntary and traders can withdraw if they wish: there are no compulsory transactions, such as those sometimes found in planned economies. Fourth, transactions are repeatable and not single, unique acts of exchange. Fifth, homogeneous goods and published prices facilitate comparisons among alternative sellers and buyers; goods are never branded and traded at a separate price. Sixth, trade is open to new entrants and not restricted to a fixed group of traders. Finally, exchange is subject to competition among sellers and buyers who trade anonymously and transact only by price: nobody chooses a trading partner on personal grounds.

Actual exchange relations described as markets do not conform to all seven defining features. Often products are differentiated and separately priced, trading is closed to new entrants, and competition is limited. Some traders take part in relational exchange by having a known trading partner (Macaulay, 1963; Goldberg, 1976, 1980; Macneil, 1982). Strictly speaking, these personal and cooperative exchange relations would fail to meet the criteria above, but they would be labelled as markets in popular usage and it would be hard to find an alternative term. Markets for most goods and services in a developed economy breach some of the seven features while satisfying others. It seems sensible, therefore, to relax certain requirements and add a weaker market definition with milder conditions. Table 1 contrasts a strong definition resting on all seven features with a weak definition resting on the first four. The following discussion adopts the weak definition of a market, since the strong definition is too strong to be of practical value. A lot of trading activities possess the first four features but not the last three,

which should suffice to define them as a market. The weak definition recognises them as markets despite the fact that they differ from the normal theoretical ideal.

**Table 1.** *Strong and weak definitions of markets*

		Strong definition	Weak definition
Market characteristics	Monetary	Yes	Yes
	Two-way	Yes	Yes
	Voluntary	Yes	Yes
	Repeatable	Yes	Yes
	Standardised	Yes	Yes/No
	Open	Yes	Yes/No
	Competitive	Yes	Yes/No

Markets defined by the weak criteria of Table 1 do not uphold universal anonymity and vary in their extent of personal trading. Variation among markets is sometimes portrayed on a scale of 'marketness', with anonymous competition at one pole and fully personal exchange at the other (Block, 1991). To see the strong definition of a market as the top of a 'marketness' scale would be misleading, however, as it has little relevance to actual trading and should not be assigned privileged status. The concept of a pure competitive market, on the lines of the strong definition, has been a totem of economic liberalism and viewed as if it were an attainable policy goal. Such a purist approach condemns almost all observed trading to inferior non-market or

near-market categories. When classifying actual markets one should steer clear of rankings or hierarchies placing pure competition at the top.

In neoclassical theory, markets arise spontaneously from trading opportunities and the need for prior institutions or social structures receives no discussion. Early neoclassical economists like Alfred Marshall did allude to institutional and personal matters, but these were omitted from the basic market model (Marshall, 1890, Book V; 1919, Book II). For neoclassical theory the term 'market structure' denotes merely the number and relative sizes of agents participating in trade. Market structure is separated from trading behaviour (the structure-conduct-performance paradigm), and agents continue to behave as autonomous individuals (Auerbach, 1988, Chapter 2). Without social structures there can be neither structured interactions among agents nor structural influences on individual behaviour. Perfect competition stands as the universal benchmark and starting point for other, more realistic accounts of 'imperfect' trading behaviour. All the 'imperfect' cases remain subordinate to perfect competition, which provides the exemplar of how markets are supposed to function.

Heterodox economists have cast doubt on the existence of uniform 'market economies' (Lazonick, 1991; Lowry, 1994). Markets differ according to the goods and services being traded, the institutions administering trade, and the competitive or cooperative relations among traders (Boyer, 1997). A pure competitive economy would be impossible, for it would have to eliminate every loophole for personal and cooperative behaviour. By the impurity principle, economies must be diverse if they are to survive, evolve and prosper (Hodgson, 1999, Chapter 5). Markets must be combined with non-market procedures (planning, informal distribution, etc.) and must vary in their competitiveness and other features. The following discussion takes a pluralistic, heterodox stance wherein markets may include non-competitive elements such as differentiated products and personal relations among sellers and buyers. Instead of a single, idealised template, attention focuses on alternative cases.

### **3. Alternative market structures**

Market trade turns on interactions among sellers and buyers. If a market is to have extensive price competition, then both groups should be fulfilling impersonal roles: sellers should be seeking the highest price from buyers but undercutting other sellers when necessary to secure a sale; buyers should be seeking the lowest price from sellers but outbidding other buyers when necessary to secure a purchase. The roles underpin competitive behaviour, and the identities of agents and any personal relations among them should be irrelevant (Weber, 1978, Part II, Chapter 7; Simmel, 1990, Chapter 4). To generate price competition, sellers and buyers must trade at the best price without letting personal factors intrude. Their roles as competitive sellers and buyers yield a social structure in the sense that the roles are interdependent and distinct from the role occupants. Selling and buying roles are institutionally defined and occupied temporarily by anyone wishing to trade.

The roles need not encompass all selling or buying behaviour and should not be seen as wholly determining agency. They gain significance only when performed, becoming a point of contact between structure and agency, and provide structural niches that agents must fill if markets are to be reproduced and people are to trade. Social structure meshes with individual agency through positioned-practices, that is, positions held by agents and practices undertaken through occupancy of these positions (Bhaskar, 1979, Chapter 2; 1986, Chapter 2). The roles or positioned-practices form a genuine social structure as they are internally related, each role depending on other roles for its existence. Market roles always have a structural character, given that a seller cannot exist without a buyer.

Trading behaviour diverges from anonymous role playing whenever sellers and buyers are loyal to each other and swayed by things other than price. To acknowledge losses of anonymity, theory must allow for personal market trading, along with the impersonal roles of competitive seller and buyer. A layered framework embracing personal relations as well as impersonal ones would be better equipped to capture the complex, many-faceted character of markets. Recent social theory has been alert to personal relations and queried the role-based approach,



exemplified by Parsonian structural-functionalism, which breeds a dualism between roles (structure) and people occupying roles (agency). Social theorists have sought to draw structure and agency closer together while maintaining the conceptual distinction between them (for general discussion, see Layder, 1994; Mouzelis, 1995; Lopez and Scott, 2000). Structure and agency can appear to be in conflict, and an emphasis on structure may sanction a neglect of agency - people may be portrayed as passively conforming to predetermined roles, a criticism frequently made of structural-functionalism. One way to avoid this would be to have personal versions of social structure in addition to role-based versions.

A personal social structure can be defined as an enduring relationship between people who know each other. It is personal because it consists in personal relations and has no prior existence in the form of anonymous roles; it is structural because it depends on the agents involved and would cease to exist if either agent withdrew. As a softer version of social structure than the usual one, it combines the relational quality of social structures with the personal quality of individual agency (Jackson, 2003). Personal social structures have assumed various guises in social theory. The idea of figurations or figurational structures, for example, appeals to personal relations that extend across society and differ in their closeness and durability (Elias, 1978; Layder, 1994, Chapter 7). A figuration mirrors what has here been termed a personal social structure, although in figurational sociology it replaces impersonal structures rather than coexists with them. Another example is the idea of the interaction order based on personal relations, contrasted with the institutional order based on impersonal roles (Goffman, 1983). The two orders coexist, even if interactional methods often discuss the interaction order at the expense of institutions. For a stratified, non-reductionist approach, one has to let personal social structures (figurations, figurational structures, the interaction order) stand beside impersonal social structures (institutions, institutional structures, the institutional order) (Mouzelis, 1995). Individual agents should also be recognised and distinguished from social structures. Agency and structure are conceptually distinct but interdependent, as roles or personal relations enable agents to carry out their social activities and reproduce social structures.

Competitive seller and buyer roles are adhered to only partially, leaving gaps to be filled by ad hoc, personal arrangements; a comprehensive account of markets should register this by

considering personalised behaviour. Markets entail three kinds of interaction, among sellers (Seller-Seller or S-S interactions), among buyers (Buyer-Buyer or B-B interactions) and between sellers and buyers (Seller-Buyer or S-B interactions). Institutional and sociological accounts of markets have usually viewed sellers and buyers as acting out impersonal market roles (Fourie, 1991; Swedberg, 1998, Chapter 2; 2003, Chapter 5). The present analysis broadens this view by allowing S-S, B-B and S-B interactions to take personal or impersonal forms.

**Figure 1.** *The social structure of markets*

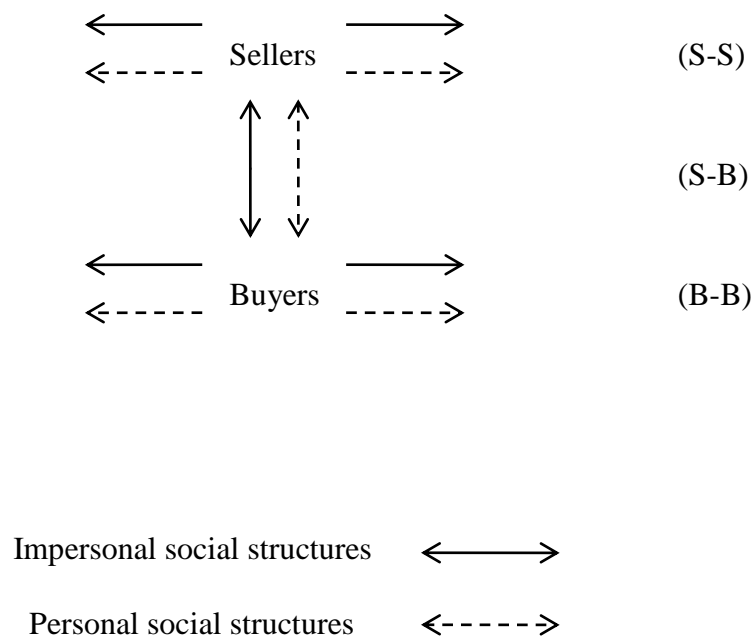


Figure 1 shows the layered structure of a market in which seller and buyer roles do not cover the gamut of behaviour: sellers and buyers can develop personal relations going beyond their impersonal roles. The outcome is complex, implying that markets fit no single mould and vary

with the relative importance of personal and impersonal relations. Anonymous trading may be found occasionally, but for most markets personal relations bear upon trading behaviour. Figure 1 permits a wide range of alternative cases distinguished by the pervasiveness of personal contact.

A layered approach admits that personal relations are a staple ingredient of market trade. One cannot easily remove the personal aspect of markets, and this undermines the belief that they are disembedded from their social setting (Polanyi, 1944, 1957). Trade has never become wholly impersonal and separate from the personal relations in other economic and non-economic activities. To refer to disembedded markets sets up a spurious dichotomy between impersonal markets and personal non-market relations. Economic sociologists and heterodox economists have argued that markets must be embedded within a broader system of personal relations, institutions and social structures (Granovetter, 1985; Hollingsworth and Boyer, 1997). This gives markets a personal dimension and chimes with the market structures of Figure 1.

The three kinds of interaction in a market (S-S, B-B and S-B) can exist in either personal or impersonal forms. Since S-S, B-B and S-B relations vary independently, personal interactions on one side of the market may combine with impersonal interactions on the other. Market structures differ in the incidence of relational trade, which occurs as relational selling (for S-S relations), relational buying (for B-B relations) and relational exchange (for S-B relations). Alternative combinations of these relations yield eight cases, as Table 2 illustrates. Simple, standardised goods and services give rise to cases (a)-(d), in which traders may have little need for personal relations. Complex, specialised goods and services give rise to cases (e)-(h), in which traders may wish to know more about their trading partners and build a personal relationship. All eight cases satisfy the weak market definition of Table 1 because transactions are monetary, two-way, voluntary and repeatable, but only case (a) comes anywhere near the strong market definition. In everyday language, all the cases would be described as markets.

**Table 2.** *Alternative market structures*

		Seller-Seller and Buyer-Buyer Interaction			
		S-S (I) B-B (I)	S-S (P) B-B (I)	S-S (I) B-B (P)	S-S (P) B-B (P)
Seller- Buyer Interaction	S-B (I)	Case (a)	Case (b)	Case (c)	Case (d)
	S-B (P)	Case (e)	Case (f)	Case (g)	Case (h)

(I denotes impersonal interaction; P denotes personal interaction)

Case (a): Fully impersonal market; no interactions relational  
e.g. competitive markets for simple, standardised goods

Case (b): Relational selling  
e.g. oligopolies selling simple, standardised goods

Case (c): Relational buying  
e.g. oligopsonies buying simple, standardised goods

Case (d): Relational selling and buying  
e.g. bilateral oligopolies for simple, standardised goods

Case (e): Relational exchange  
e.g. competitive markets for complex, specialised goods and services

Case (f): Relational selling and exchange  
e.g. oligopolies selling complex, specialised goods and services

Case (g): Relational buying and exchange  
e.g. oligopsonies buying complex, specialised goods and services

Case (h): Fully relational market; no interactions impersonal  
e.g. bilateral oligopolies for complex, specialised goods and services

Some cases in Table 2 are commoner than others but all are feasible and none is an empty set. Case (a) should be distinguished from perfect competition, which at first glance it may seem to resemble. Unlike the atomistic domain of perfect competition, case (a) relies on strong institutions to create the conditions for anonymous trading. Such institutions are rare: possible examples would be highly organised financial and commodity markets where the item being traded is uniform and mechanisms are in place for the setting and announcement of prices. Even these markets may not be wholly impersonal, and regular traders may develop personal relationships for the sharing of information and other purposes (Baker, 1984). Case (b) corresponds to markets for mass-produced consumer goods in which buyers are unorganised and unknown to each other but sellers are fewer and forge relationships and agreements among themselves. Case (c) is the reverse of (b), sellers being small and disparate but buyers larger and better organised: examples would be big retailers or manufacturers purchasing goods or components from small, competing suppliers. Case (d) arises if sellers and buyers are both well organised but have little personal interaction, as when one large corporation buys standardised inputs from another. Cases (b) to (d) are commonplace in modern developed economies and more prominent than case (a).

In the other four market structures - cases (e) to (h) - the good or service being traded is complex and, to cope with this, traders undertake relational exchange. Case (e) is observed when services are bought and sold competitively but buyers form a personal relationship with a trusted provider (as in household repairs and decorating, car servicing, cleaning, hairdressing, etc.). Competitive labour markets also fall within case (e), for employment contracts are incomplete and employers must negotiate personally with their employees. Case (f) emerges when, say, a large firm with oligopolistic or other trading relations sells complex goods or services to small, disparate buyers: examples would be banking, insurance and other financial services or consumer durables requiring after-sales service and an ongoing seller-buyer relationship. Case (g) is the reverse of (f), where large firms buy complex goods and services from disparate providers, as in an oligopsonistic market for skilled labour or a market for specialised machinery produced by small-scale, competitive suppliers. In case (h) all trading relations are personal, so that buyers and sellers know each other well: examples are bilateral

monopolies or oligopolies, such as those in defence industries or health care. Cases (e) to (h) are far removed from the impersonal trade of case (a), but they are widespread in modern developed economies and likely to increase in relative importance as service industries expand and manufactured goods become more complex.

Relational trade confounds traditional notions of supply, demand, and market-clearing equilibrium. Traders no longer respond to price alone, and there are no supply and demand functions in the idiom of neoclassical theory. Trading is personal, dependent on agreements among sellers and buyers. Only case (a), which requires an elaborate institutional setting, bears an affinity to supply-and-demand analysis; the other cases differ significantly from the market diagrams in microeconomic textbooks. This serves as a warning not to identify markets too closely with the textbook model. Most trade takes place without symmetrical supply and demand curves, yet it would still normally be termed a market.

The cases in Table 2 vary mainly over relational trade and the limits to competition which, while important, are not so crucial as to jeopardise the existence of a market. Less competitive cases (towards the south-east of Table 2) are a type of market and any other label would be inappropriate. To insist on case (a) as the only real market would condemn all other cases to non-market status and set a false benchmark. Likewise, any other borderline in Table 2 between market and non-market cases would be arbitrary and confusing. A pluralistic stance would use a single framework on the principles of Table 2 or something similar, and then consider structural diversity within the framework.

Figure 1 and Table 2 portray the core relationships of a market but exclude the wider social structures surrounding it. Most sellers and buyers have other relationships that assist and support their participation in markets. Selling is often done by the marketing staff of large firms with their own internal structures among departments, managers, employees and so forth. Internal relations within a firm generally have a hierarchical, non-market cast, yet they contribute to the firm's participation in markets. The average buyer is engaged in various social relationships within the family or workplace that stand outside the core market relations but may facilitate or impede trading. Market structures are embedded within further social structures which, though not market structures themselves, can lubricate or hinder the

functioning of markets. The boundary between market and non-market relations may be variable or blurred, as when commodification spreads markets into new areas of activity or when market-like arrangements (quasi-markets) are introduced into public services such as health care or education. It would be wrong to assume that the relations in Figure 1 and Table 2 exhaust the social structures of a capitalist economy; on the contrary, they represent just the basic structural relationships among sellers and buyers. They are necessary for trade but insufficient for the reproduction of the economy as a whole.

#### **4. Structure and agency in markets**

Discussion has so far dwelt on market structures, as against the agents who perform market roles. Agents could identify with selling and buying roles or feel restricted by them. A person who sells or buys may not be a seller or buyer in the classic mould and may branch out from standard competitive behaviour. Impersonal social structures can be fulfilled willingly by people happy with their roles or reluctantly by people feeling awkward and uncomfortable. Much the same goes for personal social structures: while some agents may be immersed in them, others may be excluded and alienated. The agency-structure relation can take different forms, and an account of market behaviour should be awake to this.

Agents participating in markets are often firms or other organisations, which are legal entities with their own declared objectives - they act in their own name rather than that of the owners, managers or employees. Personal relations among members of a selling or buying organisation have implications for its activities and may not be entirely harmonious: conflicts may arise about both ends and means. Whether firms can reasonably be viewed as agents with well-defined goals remains a complicated and difficult issue (Simon, 1991; Khalil, 1997). A firm selling or buying goods does, nevertheless, have legal status as a trader and behaves as if it were an individual agent regardless of its decision-making procedures. Since its status is an institution defined through the legal system, treating the firm as an agent is compatible with a

heterodox and institutionalist outlook. In the following discussion the participants in markets - persons, firms or other organisations - are described simply as traders and interpreted as agents deciding their own actions and having their own place within market structures.

When discussing agency-structure relations it is helpful to borrow the ideas of dualism and duality from recent social theory. Dualism refers to the separation of agency and structure, such that they have little interplay and may collide if social structures block human action. A dualistic approach brings out the distinct influences of agency and structure but may underestimate their interdependence and exaggerate their conflicts. As a remedy, one can appeal to duality instead of dualism (Bhaskar, 1979; Giddens, 1984). Duality retains the conceptual division between agency and structure but sees them as entwined and inseparable: social structures enable individual agents to act, and human agency reproduces social structures. A duality-based theory portrays the subtler connections between agency and structure and avoids individualistic or structural reductionism (Jackson, 1999). Some agents could feel constrained and frustrated by social structures, whereas others could feel supported and empowered. This pertains within markets as elsewhere, and the present analysis envisages a variety of agency-structure relations.

Agency-structure duality in economics has been advocated by critical realist writers (Lawson, 1997, Chapter 12; 2003, Chapter 2; Fleetwood, 1999, 2001; Lewis, 2004). From their perspective, critical realist theorising is conceivable only within a social ontology which is explicitly realist and non-reductionist. A critical realist oriented economics must deny individualistic or structural reductionism and accept that, while agency and structure are irreducible to each other, they are interdependent. Critical realists have mainly adopted the transformational model of social activity with its relational view of social structure and its stress on agency-structure duality (Bhaskar, 1979, Chapter 2). In Bhaskar's model, rules and positions yield generalised procedures of action; they often guide behaviour smoothly and serenely but are susceptible to being contested and challenged. Critical realism is consistent with Figure 1 and Table 2, which let agents stand in various relations to market structures. Participation in a market should not be construed as a pure expression of role playing or individual agency: agents occupy market roles but have the capacity to stand aloof.



Market traders may identify with competitive seller/buyer roles and conform willingly to them or feel constrained by them and behave differently wherever possible. At the personal level, traders may be involved in personal relations with other traders or uninvolved and distanced from any relations that do exist. Agents differ in their engagement with seller/buyer roles and personal trade, opening up several alternative agency-structure relations. Table 3 depicts four basic styles of trading founded on high or low degrees of engagement with personal and impersonal social structures.

**Table 3.** *Agency-structure relations within markets*

		Agent's engagement with impersonal social structures	
		High	Low
Agent's engagement with personal social structures	High	Rivalrous trade	Collusive trade
	Low	Competitive trade	Casual trade

Traders in the top-left category of Table 3 identify with seller/buyer roles and seek the best prices but are willing to trade personally when this would be beneficial. Their behaviour can be

termed rivalrous trade, in the distinction sometimes made between rivalry and competition (Sawyer, 1989, Chapter 5). Although rivals are essentially at odds, they know each other and interact consciously. By observing and responding to a rival, they form personal relationships that evolve with experience without leading to overt collusion. The relations may be tacit and narrow but still exceed the standard seller/buyer roles.

Traders in the bottom-left category act anonymously, eschew personal trading and behave in accordance with seller/buyer roles. Their trade can be termed competitive as it comes closest to the competitive ideal of trading by price alone. A competitive trader does not interact consciously with other traders and has neither ongoing rivalries nor agreements to influence price and output.

Traders in the top-right category operate on a personal basis and have little or no commitment to seller/buyer roles. They trade collusively, since their personal interaction with other traders stifles competition and encourages cooperation in setting prices and output. Collusion could take a formal character, as with cartels or other trade agreements, but this is by no means inevitable and it may rest upon informal and tacit understandings.

Traders in the bottom-right category are distanced from both seller/buyer roles and personal relations with other traders. They have only a thin participation in markets, making little effort to trade at the best price, and can be described as casual traders. Such behaviour is rare for firms under competitive pressures, but it may occur with firms sheltered from competition or consumers unconcerned with price. An example would be the lazy shopper who buys at the first convenient outlet and does not attempt to find the lowest price available.

If Table 2 is compared with Table 3, certain market structures can be linked with certain trading behaviour. A fully impersonal market (case (a)) is linked with competitive trade and a fully relational market (case (h)) with collusive trade. The links are supple, though, and agents are free to have variable relations with social structures: behaviour cannot be read off from Table 2. To neglect agency-structure relations would spawn a structural reductionism in which market structures dictate trading behaviour and traders become mere automatons. This would be going too far in a structural direction: market structures should not overshadow agency and

strip agents of their ability to act otherwise. Table 4 shows the probable variations in trading behaviour across market structures.

**Table 4.** *The distribution of trading behaviour among market structures*

	Main modes of trading behaviour	
Market structure	Case (a)	S-S, B-B, S-B: Competitive or Casual
	Case (b)	B-B, S-B: Competitive or Casual S-S: Collusive or Rivalrous
	Case (c)	S-S, S-B: Competitive or Casual B-B: Collusive or Rivalrous
	Case (d)	S-B: Competitive or Casual S-S, B-B: Collusive or Rivalrous
	Case (e)	S-S, B-B: Competitive or Casual S-B: Collusive or Rivalrous
	Case (f)	B-B: Competitive or Casual S-S, S-B: Collusive or Rivalrous
	Case (g)	S-S: Competitive or Casual B-B, S-B: Collusive or Rivalrous
	Case (h)	S-S, B-B, S-B: Collusive or Rivalrous

The pattern of behaviour hinges on whether trading takes a personal or impersonal form. When trading is impersonal, competitive market roles prevail and traders either identify with them (competitive trade) or ignore them (casual trade). Impersonal trade in Table 2 engenders competitive or casual behaviour in Table 4. When trading is personal, traders either participate unreservedly in it (collusive trade) or do so in a limited way while upholding competitive market roles (rivalrous trade). Personal trade in Table 2 engenders collusive or rivalrous behaviour in Table 4. The links between market structure and trading behaviour are loose enough to permit choices, ruling out a deterministic influence of structure on behaviour. Agents have the freedom to engage with or stand apart from market structures and may have different attitudes towards S-S, B-B and S-B relations. Individual agents cannot be pigeonholed as competitive, rivalrous, collusive or casual traders because their behaviour may vary over their trading relationships.

Actual markets demonstrate a good deal of slackness in role playing. Diverse market trade derives from variable agency-structure relations as well as from differences in market structures. For market structures to be reproduced over long periods a core of agents must be prepared to support them; roles need willing occupants and personal relations need active personal involvement. Engagement with market structures is necessary for markets to survive, and a market made up solely of casual traders would be unable to function smoothly and replicate itself. Yet individual agents can have different relations to structure, with many agents being constrained by social structures or distanced from them. Diverse agency-structure relations add richness to market behaviour and move us further away from a single market template.

## **5. Seller-buyer asymmetries**

The classification of market structures in Table 2 gives all the cases equal weight and rules none of them out - one might infer that they are equally likely, but this would be unwarranted. Fully

impersonal markets (case (a)) are rare and good examples elusive; fully relational markets (case (h)) are also rare, as personal contacts seldom span the whole range of S-S, B-B and S-B relations. Most markets have asymmetries from the stronger personal relations on one side of the market than the other (usually the seller side). The behaviour of agents is spread unevenly across Table 3 and, as a rule, the majority of rivalrous and collusive trade occurs among sellers.

Why do these asymmetries arise? Are they accidental, or do they reveal something inherent in the nature of markets? The economic and social context impinges unevenly on the way markets function. Pure exchange economies do not exist outside neoclassical theory, and markets are embedded in larger economic systems including production and consumption. Once the wider context is considered it becomes clearer why market trading is asymmetrical. Five reasons for this are worth emphasising.

First, in most markets the seller produces the item being traded and the buyer consumes it. Any good must be produced before it can be consumed, with distribution coming between them, so the temporal sequence has to be production-distribution-consumption. In developed economies production is a complex, lengthy and meticulously organised process - the producer plans carefully what to produce and how. The planning stages offer many opportunities for considering how other producers behave and entering rivalrous or collusive relations with them. Consumers take part in the planning of production only when goods are made to order and the buyer specifies what should be produced. Bespoke production, which induces a close relation between seller and buyer, has been confined mainly to luxury goods or large, technically complex machinery or services (ships, aircraft, defence equipment, computer systems, etc.). For mass-produced consumer goods, buyers are presented with a finished product and decide whether or not to buy it; they have little say in determining what is produced and few opportunities for forming personal relations with producers or other consumers. Recent technical and organisational developments, described in the management literature as 'mass customisation', have allowed some producers to tailor their output and give consumers a voice in product specification (Oleson, 1998; Gilmore and Pine, 2000). These arrangements intensify seller-buyer relations and curtail anonymity, although the personal contact among consumers remains low. The temporal priority of production over consumption generally swings personalised and cooperative trading towards the producer/seller side of markets.

Second, economies of scale are often observed among producers, or among intermediaries such as large retailers, but seldom among consumers. Scale economies in manufacturing and other industries are well known and encourage the drift towards fewer producers/sellers (Pratten, 1971; Chandler, 1990). Orthodox economics tends to undervalue scale, but it lies at the heart of heterodox thought, in theories of monopoly capital, disequilibrium and cumulative causation (Baran and Sweezy, 1966; Kaldor, 1972; Skott, 1985). With a few large producers, relations among producers and sellers become rivalrous or collusive rather than competitive. There is no proper supply curve, and producers/sellers aim to coordinate price and output setting. Economies of scale may also pertain to retailers, who act in a double role as buyers from producers and sellers to consumers. Over the last fifty years or so, bulk buying by retailers has changed their relationship with suppliers, enabling them to exert greater control and bargain for lower prices (Dawson and Shaw, 1990; Ducatel and Blomley, 1990; Wrigley and Lowe, 2002, Part 2). They might be seen as defending the consumer against the producer, but lower prices for retailers are not necessarily passed on to consumers and may just inflate profits. In their role as sellers to the consumer, retailers have market power and benefit from relational selling and exchange. Most consumers, by contrast, are individuals or families whose consumption is tiny relative to the size of the market: they could try to coordinate their buying and form a buyers' organisation, but the sheer number of buyers and variety of products make this practically difficult. On the whole, scale economies favour large producers and retailers, tipping the balance of relational trade away from the consumer.

Third, price setting creates and sustains asymmetries. To have all sellers and buyers acting as price takers would imply a separate price-setting role, distinct from selling and buying roles, performed by an external agent. This can exist only if formal arrangements have been made for setting and announcing prices, as in an auction, commodity market or stock exchange. The neoclassical notion of general equilibrium with universal price taking has to invoke fictional price-setting devices like the Walrasian auctioneer (Sawyer, 1993). Actual markets with price-taking behaviour function on a small scale and through institutions designed to set, publish and regulate prices. When relational trade permeates a market, as with case (h) in Table 2, prices may be negotiated and both sides of the market may be price setters. Otherwise the price-setting role will be fulfilled by one side of the market, usually the producers/sellers

who organise production and set prices during the same planning process. Once asymmetry has emerged it will persist and become normalised, whereupon producers/sellers and consumers/buyers acquire supplementary roles as price setters and price takers.

Fourth, most markets lack independent and accurate information about the goods being traded. Sellers and buyers must obtain their own information, and the producer/seller can gain an advantage over the consumer/buyer. A producer/seller should have reliable knowledge of the design of a good, the raw materials used and the details of production (though exceptions are possible if production is outsourced to suppliers whose raw materials and production processes are not fully observed). A consumer/buyer, on the other hand, frequently has no information other than the seller's description and a visual inspection of the goods on offer. By describing and advertising their products, sellers fulfil the tacit role of information provider, which extends outside the competitive seller role and causes an asymmetry. Buyers can reject the seller's information and opt out of trading or accept it and participate in relational exchange where information is part of the seller-buyer relationship. Having limited ability to judge the quality of goods, consumers are prone to misinformation from producers and may form brand loyalties on flimsy grounds. Sellers may be able to exploit their informational advantage to prolong trading relationships detrimental to the consumer's interests. Any pooling of information among sellers will promote relational selling and further asymmetries. In orthodox economics, unequal information between sellers and buyers prevents a competitive equilibrium and leads to market failure or relational contracting (Akerlof, 1970; Stiglitz, 2000; Spence, 2002). Problems of asymmetric information are modelled as special cases, contrasted with the benchmark of perfect competition, but in reality they are apt to be the norm. Many trading agreements and other market institutions - 'imperfections' or 'rigidities' in neoclassical parlance - may be attempts to reduce the uncertainty surrounding trade (Kregel, 1980). This can only go so far, however, and few markets have the tight monitoring needed to attain complete, symmetrical information.

Fifth, asymmetries appear when new products are developed and new markets created. Unless a good has a natural origin, as with agricultural produce and natural resources, it will originate on either the seller or buyer side of the market. Producers/sellers initiate most new products, and consumers/buyers decide after the event whether to buy them. Again the

producers take on a further role, as product innovator, which breaches the role of competitive seller. In developed economies the producers/sellers create markets that would otherwise not have existed (Galbraith, 1972, Chapter 18; White, 1981, 1988; Fligstein, 2001, Chapter 2). When consumers are not already seeking the products on offer, they have to be persuaded by advertising or other means that the products are desirable: this goes beyond information to the cultural matters of preference formation and manipulation of consumer behaviour (Fine and Leopold, 1993, Chapter 14; Bowles, 1998; Slater, 2002). Producers find it easier to stabilise demand and realise profits if they can generate brand loyalties that tie the consumer to their own products. Modern marketing practices include 'relationship marketing' and 'customer relationship management', whereby firms seek to establish a profitable long-term relation with loyal customers (Adcock, Halborg and Ross, 2001, Chapter 12; Egan, 2001; Christopher, Payne and Ballantyne, 2002; Kotler, 2003, Chapter 2). Key techniques of relationship marketing are the compilation of customer databases allowing communication with regular buyers and the issuing of loyalty cards to attract loyal customers while acquiring information on their spending habits. Such techniques, if successful, make buyers behave as if they had a personal relationship with the seller, even though no personal contact takes place. Under impersonal trading conditions, sellers would be debarred from modifying their products, cultivating brand loyalty or managing their relations with customers - the government or some other external agency would have to regulate product innovation. This seldom happens, and new products generally emerge from the seller side of the market.

Market asymmetries abound on all levels within the present theoretical framework. At the level of impersonal social structures, traders fulfil roles supplementary to those of competitive seller and buyer: examples are the roles of price setter, information provider, and product innovator. Symmetry would require a neutral agent to fulfil these roles, but they fall by default to producers/sellers. At the level of personal social structures, relational trade is slanted towards one side of the market, and some cases in Table 2 predominate over others. Relational selling is widespread, whereas relational buying is common among large retailers but rare among consumers. At the level of individual agents, structure-agency relations are distributed unevenly: producers and large retailers reside mostly on the top row of Table 3 as rivalrous or collusive traders, and consumers on the bottom row as competitive or casual traders. Exceptions are possible, since social structures do not wholly govern agents' behaviour, but this



would be the expected pattern in most markets. Asymmetries pervade market trading and extend across roles, personal relations and the behaviour of individual agents.

In neoclassical theory, symmetry betokens the efficient allocation of a fixed stock of resources through competitive markets - any asymmetries would be evidence of market failures. Heterodox economics, with its historical and institutional approaches to markets, has a more pragmatic attitude to asymmetries. In classical/Marxian economics, for example, market power for producers/sellers is necessary to generate a surplus and fuel capital accumulation; competition occurs for control of the surplus but does not endanger the surplus itself (Eatwell, 1982; Auerbach, 1988). In Austrian economics, short-term asymmetries foster the temporary profits and rewards to entrepreneurship that drive innovation and economic growth (Schumpeter, 1942, Part II; Lachmann, 1986; Kirzner, 1992). From heterodox perspectives, market asymmetries are integral to the reproduction and development of capitalist economies. Relational trade, supplementary role playing and rivalrous/collusive behaviour help producers/sellers bolster their market position and secure a regular surplus to finance investment and capital accumulation. The market analysis adopted here, which tolerates asymmetries and gives them parity with symmetrical cases, is consistent with heterodox views on the non-allocative functions of markets (though the structural element jars with the individualism of Austrian economics). Market asymmetries should be recognised as being normal to capitalist economies and not dismissed as irregularities or market failures.

Symmetry holds for case (a) in Table 2, but this cannot be said to characterise the average market. It may perhaps be observed in markets for primary goods with many small producers and consumers but it would be peculiar in markets for manufactured products (Robinson, 1979). Markets for many consumer goods correspond to the asymmetrical case (b), with relational trading on the sellers' side only. When retailers intercede, relational trade extends to producer-retailer transactions but leaves intact the asymmetry with respect to consumers. In cases such as (d) and (h), large institutional purchasers bargain with producers - the outcome has a formal symmetry since relational selling is set against relational buying, though the balance of power will be variable. Labour markets have their own special attributes and, unlike other markets, can never be truly symmetrical because employment contracts guarantee asymmetry in seller-buyer relations: contracts of service give the employer control over the

employee's activities. Symmetrical market structures can be found in certain sectors of a developed capitalist economy, but they are scarcer than asymmetrical cases and a long way from being the norm.

## **6. Historical and cultural specificity**

A general, ahistorical approach to markets might seem discordant with the institutional detail of heterodox economics. Doubts may linger about whether markets should be placed within a universal scheme or discussed on a piecemeal basis. The scheme of Table 2 permits wide differences in trading relations but all eight cases comply with the weak definition of a market in Table 1. Competition is a feature of some cases but not a prerequisite, and cases with relational trade are classed as markets despite the scant competition among traders. Trading activities called markets in everyday language are thoroughly heterogeneous; a general market concept should be sensitive to diverse, personalised trading behaviour and embrace the relational content of market exchange. Any classification scheme for markets must reckon with diversity and avoid imposing a straitjacket on how markets are perceived.

Extra room for variation comes from the differing agency-structure relations of Table 3. Collusive and casual traders do not always pursue the best price and may persevere with suboptimal trading arrangements as long as they deliver satisfactory results. Rivalrous and competitive traders actively pursue the best price and strive to optimise their trade. A layered approach is compatible with the multiple modes of behaviour identified in heterodox economics. Some traders may be satisficers who follow non-competitive trading routines and adjust their behaviour only when they miss their goals (Simon, 1957; Cyert and March, 1963). Other traders may be optimisers who maximise their net gains and continuously revise their trading arrangements. Market structures can host diverse trading behaviour, and a market may have more than one species of trader.

To adopt a single definition of markets is not to insist that every market is the same. While markets do have common properties, they vary in the goods and services being traded, the personal relations among traders, the manner of payment, the contractual background, and so forth. Personal relationships are, by their nature, unique to particular people and circumstances. If interest focuses on the trading of a certain good at a certain time and place, then ad hoc theorising and empirical case studies may be appropriate. Empirical study would clarify whether the trading constitutes a market and, if so, determine the type of market in question. In the present framework, a market has to satisfy the weak market definition and fall somewhere within the scheme of Table 2, which itself lies within the context of other institutions.

As an economy develops, market trade undergoes historical transformation. Markets predate the capitalist era, and the distinctiveness of capitalism lies not in markets as such but in their spreading to areas like employment and finance which were not previously organised on market principles (Hodgson, 1999, Chapter 7; O'Neill, 1999, Chapter 1). During the evolution of capitalism over the last two hundred years, the character of market trading has changed. In earlier stages of capitalism, agriculture had greater relative importance, production processes were simpler, the average size of producers was smaller, and impersonal competition was easier to accomplish; later stages have seen the growth of manufacturing and services, greater complexity of production, a larger average size of producers, and the burgeoning of relational trade with collusive or rivalrous behaviour. Developed economies are still unmistakably capitalist, but they now call forth an unprecedented range of market trading. The differences can fit within a single theoretical scheme only if it has sufficient breadth - in the present scheme, economies have drifted away from the more competitive cases (a)-(d) in Table 2 towards the more relational cases (e)-(h). Recent pressures for neo-liberalism have encouraged a reverse shift back towards competition and decentralisation, yet the ubiquity of relational trade seems unlikely to be overturned. Current economic transformations will probably bring new varieties of relational trade, as against anything resembling a competitive market economy.

Markets vary not only historically but culturally and geographically. Modern capitalism, often depicted as uniform and globalised, takes many shapes that differ in trading behaviour, the organisation of production, financial institutions, and systems of innovation (Whitley, 1999; Amable, 2003). The variations are intricate and may require specific theories, but they follow

patterns open to general theorising. Most attempts to classify modern capitalism contrast the competitive and individualistic versions (Anglo-Saxon) with the relational and social ones (German-Japanese); the alternative versions have proved themselves durable and coexisted for decades (Albert, 1993; Groenewegen, 1997; Trigilia, 2002, Chapter 10). Markets in Anglo-Saxon capitalism are less personal and come closer to case (a) in Table 2; markets in German-Japanese capitalism have more extensive relational trade and come closer to case (h). Capitalist economies may have different average modes of trading behaviour and different centres of gravity within Table 2, but they are internally diverse and never perfectly match the competitive and relational extremes of cases (a) and (h).

Market exchange is not the sole method of distribution, even in a capitalist economy, and some goods must be distributed by non-market means. When traders are families, firms or public-sector bodies, a market interacts with planned or informal distribution within these institutions, and to investigate distribution fully one would need to look at distribution outside the market. Other economic activities such as production and consumption are also relevant. Capitalist commodity production leads to exchange relations different from those under non-capitalist conditions (Fine and Lapavistas, 2000). A comprehensive view of market exchange should heed production and consumption as well as distribution. None of these activities can be separated from the others, and each has its own agents, structures and agency-structure relations. Study of specific markets should be augmented by study of how market exchange sits within the economy as a whole.

General theorising about markets can be seen as one level of analysis in a deeper, layered approach. Higher levels would deal with the total economy, including production and consumption; lower levels would deal with how markets operate and examine the personal details of trading. In this way general theory can harmonise with case studies and lower-level theories dedicated to a certain time and place. Historical specificity, as espoused by the old institutionalism and other branches of heterodox economics, can be allied with a layered theoretical framework designed to accommodate various analytical levels (Hodgson, 2001, Chapter 21). A classification of markets would be at a medium level, couched in general terms but not so general that it neglects to discriminate between market and non-market exchange or between alternative sorts of market trading. The variety of market types gives the leeway for

historically specific cases at lower levels of analysis which can be nested within the larger framework.

## **7. Conclusion**

To define markets as being competitive and impersonal would be unduly restrictive, for impersonal trade is rare and few markets can meet such a narrow definition. An alternative view, set out in the present paper, is to adopt a broader definition and a layered or stratified approach embracing personal relations. In a layered theory, markets consist of social structures among sellers and buyers, together with the trading behaviour of individual agents. Trading takes personal or anonymous forms, and agents may feel constrained by market roles and activities or enabled by them. The social structures and agency-structure interactions allow different styles of market trading.

A layered approach counteracts the neoclassical assumption that markets emanate from rational individual behaviour. Markets do not appear or reproduce themselves by chance and rely on trading routines backed up by elaborate institutional support. Traders fulfil pre-existing seller and buyer roles, though their behaviour is not entirely role-determined: they sometimes act outside their roles and, in doing so, diversify market trade. Layered theorising offers a framework general enough to be consistent with the complex agency-structure interactions within markets. Ideas such as stratification and agency-structure duality are in tune with the beliefs of critical realists and other heterodox writers who argue against individualistic reductionism.

The main advantage of a layered approach is that it appreciates the intricacy, diversity and asymmetry of markets. It can handle various types of market but still distinguish them from non-market exchange and other economic activities. Pure competitive markets lose their place as the universal benchmark; markets involving relational trade are fully recognised and not

relegated to lesser, non-market rank. Any particular market stands within the scheme of market structures, and its precise character is a matter for further empirical or theoretical study. As heterodox economists have long been aware, markets can be properly understood only by paying close attention to their social and institutional background.

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