

Beckert, Jens

**Working Paper**

## The social order of markets

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MAX-PLANCK-INSTITUT FÜR GESELLSCHAFTSFORSCHUNG  
MAX PLANCK INSTITUTE FOR THE STUDY OF SOCIETIES



MPIfG Discussion Paper 07/15  
**The Social Order of Markets**

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Jens Beckert is director at the Max Planck Institute for the Study of Societies.  
beckert@mpifg.de

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Max-Planck-Institut für Gesellschaftsforschung  
Max Planck Institute for the Study of Societies  
Paulstr. 3 | 50676 Cologne | Germany

Tel. +49 221 2767-0  
Fax +49 221 2767-555

[www.mpifg.de](http://www.mpifg.de)  
[info@mpifg.de](mailto:info@mpifg.de)

## **Abstract**

In this article I develop a proposal for the theoretical vantage point of the sociology of markets, focusing on the problem of the social order of markets. The initial premise is that markets are highly demanding arenas of social interaction, which can only operate if three inevitable coordination problems are resolved. I define these coordination problems as the value problem, the problem of competition and the cooperation problem. I show that these problems can only be resolved based on stable reciprocal expectations on the part of market actors, which have their basis in the socio-structural, institutional and cultural embedding of markets. The sociology of markets aims to investigate how market action is structured by these macrostructures and to examine the change of institutions, networks and cultural frames of market action.

## **Zusammenfassung**

Dieses Discussion Paper stellt einen theoretischen Ansatz für die Marktsoziologie dar, in dessen Zentrum die Frage nach der sozialen Ordnung von Märkten steht. Ausgangspunkt der Argumentation ist, dass Märkte hochkomplexe Arenen sozialer Interaktionen sind, deren Funktionsweise nur dann gewährleistet ist, wenn drei unvermeidliche Koordinationsprobleme gelöst werden können: das Werteproblem, das Wettbewerbsproblem und das Kooperationsproblem. Die Argumentation zeigt, dass diese Probleme nur auf der Basis stabiler reziproker Erwartungen auf Seiten der Marktakteure lösbar sind, die in der soziostrukturellen, institutionellen und kulturellen Einbettung der Märkte wurzeln. Das Ziel der hier entworfenen Marktsoziologie ist herauszufinden, wie diese Makrostrukturen Handlungen von Marktakteuren prägen, und die Dynamik von Institutionen, Netzwerken und kulturellen Rahmungen des Markthandels zu analysieren.

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## 1 Introduction

Markets are the central institutions of capitalist economies. The development of modern capitalism can be viewed as a process of the expansion of markets as mechanisms for the production and allocation of goods and services. This applies not just to labor markets, which only emerged on a significant scale with industrialization, but also to the organization of the production and distribution of consumer and investment goods, services and commodities. The increasing separation of the economy from the household and its organization through market exchange allowed for a scope in the development in the division of labor and production of wealth that would otherwise have been unattainable.

The dramatic expansion of markets does not mean that markets are the only instruments that regulate economic processes in capitalist economies. Hierarchical structures as well as redistribution and reciprocity play an important role alongside the market mechanism (Polanyi 1957). Markets nevertheless stand at the core of the organization of the capitalist economy. Although enterprises are not themselves organized as markets, the structures and decisions of companies are orientated towards anticipated market outcomes. Welfare state redistribution only comes in as a secondary allocation mechanism when actors cannot earn their income through the market. Reciprocal exchange relationships persist alongside markets, but wane in significance with the decline of production in the household.

No one seriously questions the central role of markets in capitalism. This makes it all the more surprising how little attention has been paid to the study of markets in modern economic theory, but also in the other social sciences that address economic subject matter. For a long time, modern economics focused only in a very limited way on markets. General equilibrium theory, as the heart of neoclassical economic theory, analyzed the formation of efficient distribution equilibria via the market. The interest here was not in studying the empirical functioning of markets and its institutional preconditions (Coase 1988: 7–8; Lie 1992: 508), but rather in the mathematical proof of efficiency postulates, conducted under a variety of simplifying assumptions. These include not just the assumption of the flexibility of prices, but also, in particular, assumptions concerning the characteristics of goods as well as the actors' rationality and information supply. Neoclassical economic theory thus has not so much a theory of the market as a "pure theory of exchange" (White 1990: 3).

In its founding phase, sociology was interested in the institutional preconditions for markets, as reflected especially in the work of Max Weber (1978) and Émile Durkheim (1947). By the post-war period, however, sociologists interested in economic structures

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This is the much changed version of a paper that has appeared before in German (Beckert 2007b). Parts of the text are based on a translation by Pamela Selwyn. The article is currently under review for publication in a journal. I would like to thank Patrik Aspers, Marie-Laure Djelic, Rudolf Richter, Marc Schneiberg and Richard Swedberg for their insightful comments.

were far more concerned with analysing the organization of industrial production processes. Only labor markets received more intensive attention. The reason for this may be sought in the strong state influence in the organization of post-war economies, which curtailed the impact of the market mechanism (Djelic 2006: 59), but also in the influence of Talcott Parsons and his suggestion for the division of labor between economics and sociology (Beckert 2002: 135ff.). Later, the orientation towards Marxist approaches with their primary interest in exploitation in the sphere of production contributed to a de-emphasis on markets in sociological scholarship as well.

It was only developments in economics and sociology since the 1970s and the 1980s, respectively, that put markets back in the spotlight of the social sciences as a field of empirical study (Lie 1997; Swedberg 2003: 115). In this article, I sketch the constitutive concern standing at the core of the sociology of markets and outline more concrete research problems that must be addressed in order to understand the operation of markets. I argue that the core issue of the sociology of markets is to explain the order of markets. By the order of markets I mean the simple fact that the coordination of economic production and distribution through the mechanism of market exchange brings about a system of continuous high level of coordinated economic activity despite the heterogeneous motives and interests of the participating actors. What are the preconditions under which markets lead to an orderly coordination of economic activities and not to economic and social chaos?

My point of departure is that markets are highly presuppositional arenas of social interaction, in which actors are confronted with profound coordination problems. While economic organization based on redistribution and reciprocity also entails coordination problems, these problems become much more taxing in market economies. This is because capitalist economies not only constantly create new markets but also destroy old ones, which leads to a continuous reentering of uncertainty both inside the economy and outside of it (Beckert 1996). It is from the analysis of the coordination problems and the conditions for their resolution that the functioning of markets can be understood. I argue that three such coordination problems can be analytically distinguished: I call them the *value problem*, the *problem of competition* and the *cooperation problem*. These coordination problems can only be resolved if market actors are able to form stable expectations with regard to the actions of other market actors and future events relevant for their decisions, and if the expected outcomes are considered normatively acceptable, i.e. legitimate. While the notion of the “order of markets” refers to the macrolevel result of the solution of the three identified coordination problems, the stable expectations formed by actors constitute the building blocks of this order on the actor level.

In line with other sociological approaches to markets, I pursue the argument that market actors’ stable expectations are formed by the structural, institutional and cultural embeddedness of market exchange. This reveals market exchange to be a form of social interaction that cannot be explained by a “natural propensity to truck, barter and exchange” (Smith 1976: 17), but only by the institutional structures, social networks and

horizons of meaning within which market actors meet. I contribute to the sociological conceptualization of markets the distinction between the three coordination problems, each of which has been extensively discussed individually, but which haven't been recognized as forming a comprehensive tableau of founding problems for the sociology of markets. If the order of markets depends on the resolution of the three identified coordination problems and if this resolution depends on the formation of stable expectations on the side of market actors and the social legitimacy of market outcomes, which themselves depend on social macrostructures, the task of market sociology is to study both: the emergence and shaping of the social macrostructures relevant in the market context as well as the structuring of market action – and the distribution of exchange opportunities – by these macrostructures.

In the first part of the article, I provide a brief outline of the analysis of markets in several economic approaches and in economic sociology with reference to the vantage point just sketched. In the second part, I introduce and discuss the three coordination problems based on a theoretical explanation of why these problems comprise the central subject matter for the sociological analysis of markets. In the third part, I counter the impression that a sociological approach to markets centered on the order of markets would lead to a static perspective by developing a model of the dynamic changes of markets, arguing that the dynamics of markets emerges from a constant oscillation between the stabilization and destabilization of expectations. This is followed by a brief conclusion.

## **2 The social order of markets**

Markets are arenas of social interaction. They provide a social structure and institutional order for the voluntary exchange of rights in goods and services, which allow actors to evaluate, purchase and sell these rights (Aspers/Beckert 2008, forthcoming). Markets contain not only the element of exchange but are characterized by competition, which means that the existence of a market presupposes at least three actors: one on one side of the market confronting at least two other actors on the other side whose offers can be compared. "A market may be said to exist wherever there is competition, even if only unilateral, for opportunities of exchange among a plurality of potential parties" (Weber 1978, Vol. 1: 635). Actors on both sides of the market interface have partly similar and partly conflicting interests: while they must both be interested in the exchange of a good, they have conflicting interests regarding the price and other specifications of the contract from which a "price struggle" between them emerges that results – if the exchange is to take place – in a compromise between the exchange partners.

How is it that economic production and distribution can be successfully organized through markets? At first sight, this may seem a pointless question, since billions of

market transactions take place “silently” every day, and the coordination of the production and distribution of commodities via the market thus appears to be quite unproblematic. Only by adopting an outside perspective do we realize how presuppositional and thus improbable the coordination of economic processes via markets actually is. For all market actors the organization of economic activities through markets entails risks that seem to make it unlikely that they would entrust their economic well-being to this mechanism. The producer may not find a buyer for his product at a profitable price, either because potential purchasers do not need it or because a competitor captures his business. Buyers and sellers may not fulfill their contractual responsibilities, defrauding their exchange partners instead. The product may not possess the promised qualities. Buyers do not know whether they might not be able to purchase the product more cheaply or in a better quality elsewhere, or whether the purchase of another product will turn out to be more profitable. Workers do not know whether their labor power will meet a demand in the labor market. These examples show that market exchange is full of contingencies beyond the control of single actors, and thus of a high degree of uncertainty in regard to outcomes. The contingencies of market exchange make markets precarious arenas of social interaction, the “functioning” of which is anything but self-evident. Only when it is possible to integrate the individual behavior of market actors in such a way that they develop enough confidence to accept the risks of market exchange can the market operate as a regulatory mechanism for the fulfillment of adaptive functions in society. But how can we explain this integration of action and thus the order of markets?

The most influential answer to this question is provided by liberal economic theory and is based on the assumption that actors participate in market exchange out of self-interest. According to this view, “social order” can be stabilized in markets because exchange offers advantages to the individual participants. The liberal train of thought is not limited to explaining individual participation in markets but entails a theory of social order as well. The coordination of economic activities through markets leads to an efficient allocation of economic resources where exchange takes place until no actor can increase his or her utility further without making at least one actor worse off (Pareto optimality). Assuming that exchange is always voluntary, liberal economic theory can explain a harmonious and wealth-maximizing social order based on actors pursuing their individual interests. This explanation of the stability and efficiency of markets, however, depends on far-reaching assumptions regarding the way actors make decisions and the information they have with which to make them. As long as one takes for granted that these assumptions are being met, one can explain the order of markets in terms of the self-interest of participating actors and restrict the study of markets to the creation of equilibria through price adjustment. “[O]rder is grounded in each agent acting rationally to maximize his or her own preferences within the constraints of a competitive economy” (Gould 1991: 92–93; cf. also Hirschman 1986: 123). To invert the argument, this means that the problem of order returns as soon as we depart from the idealized assumptions of neoclassical theory with its “single exit” solutions (Latsis 1972).

## Information economics and the new institutional economics

The unrealistic assumptions of the neoclassical market model have brought economists to distance themselves from some of these premises in their own modelling. Large parts of the development of economic theory since the 1970s have been attempts to understand what would happen to the equilibrium model if one changed its assumptions: if one abandoned the premise of complete information and radicalized the economic model of action in a Hobbesian manner. This brought back the previously “solved” problem of the order of markets, however.

The two most important lines of research here are information economics (Akerlof 1970; Stigler 1961) and the new institutional economics (North 1990; Richter/Furubotn 2003; Williamson 1975, 1985, 2000). Information economics abandons the assumption that actors are completely informed about the quality of a commodity. The paradigmatic point of departure for this line of research is George Akerlof’s essay “A Market for Lemons” (Akerlof 1970), in which he shows that assuming an asymmetrical distribution of information – the potential buyer of a used car knows less about the characteristics of the automobile for sale than the seller – no market for used cars develops, that is, market failure ensues. The solution proposed by the economics of information involves the introduction of safeguarding institutions by vendors, such as guarantees on used automobiles or investment in the vendor’s reputation, which reduce the purchasers’ risks (of buying a “lemon”) and increase their willingness to purchase. The market is less efficient in this case than it would be if all parties were fully informed, but market failure can be avoided.

The new institutional economics (North 1990; Richter/Furubotn 2003; Williamson 1975, 1985, 2000) radicalizes the action assumptions of neoclassical theory by giving up the notion – present since the beginnings of modern economics – of an “honest merchant” who acts based on his or her self-interest, while at the same time respecting the property rights of others (Hirschman 1987). This assumption is supplanted by a Hobbesian model of action centered around the notions of “opportunism” and “self-interest seeking with guile” (Williamson 1975: 255). In this model of action, it is assumed that an agent will opportunistically seek his own advantage, and, if this is in his or her interest, do so also by ruthlessly violating the interests of his or her exchange partner in the process. The opportunism and “bounded rationality” (Simon 1955) of actors lead to uncertainty, which would cause market failure. Institutions that restrict opportunistic behavior allow for economic exchange despite the Hobbesian action orientations. Market institutions – which are explained based on their contribution to efficiency – permit the stabilization of market actors’ expectations by guarding against exploitation, thus helping to make markets possible.

To generalize the findings of information economics and the new institutional economics: If we depart from the central premises of general equilibrium theory, the regulatory problems of markets silenced by the heroic assumptions of neoclassical theory return.

In order to resolve them, we need to include institutional regulatory mechanisms. At the same time, these economic approaches explain the emergence of institutional regulations in terms of the interests of the participating actors, thereby retaining the individualist basis of the explanation of the order of markets.

### The new economic sociology

The new economic sociology, whose development over the past twenty years has made the study of markets an important subject of sociological research once again, also takes up the problematic of explaining the order of markets (Aspers 2005; Fligstein 2001a; Podolny 2005; Swedberg 2003; White 2001). In doing so, however, it does not share the individualist basis of economic theories.

Classical sociological theory already addressed the social preconditions for stabilizing market relations, and rejected the economic solution of the problem of order based on the self-interest of market actors. Émile Durkheim's (Durkheim 1984) concept of the non-contractual elements of contract makes it clear that the observance of contracts by market parties presupposed in neoclassical theory could not be explained solely in terms of the interests of the participating actors. Max Weber's (Weber 1978, 1992) explanation of the development of the institutional foundations and individual action dispositions against the backdrop of which modern western capitalism arose is also not based on the self-interest of the participants, but rather on power-saturated political processes and religious transformations. To put it in more general terms: The introduction of asymmetrical information and strategic action have far more serious consequences for the understanding of markets than economic approaches assume, because they fundamentally challenge explanations of ordering processes that proceed from an individualistic vantage point using the rational actor model.

Two reasons account for this: First, institutional entrepreneurs are acting in an already institutionally structured environment, making outcomes dependent on past occurrences (Djelic/Quack 2007: 163ff.; Streeck/Thelen 2005). Second, since actors are confronted with uncertainty (Beckert 1996) they cannot, on the one hand, know in advance which strategies will lead to an optimal outcome, and on the other are inevitably confronted with collective action dilemmas. Therefore it is impossible for them to devise and realize an *optimal* institutional design (Beckert 1996; Jagd 2007: 77ff.). The imponderables that result from strategic uncertainty and the essential unpredictability of future events belie an understanding of market action that proceeds from atomized, utility-maximizing actors.<sup>1</sup> Actors do not have the calculative bases for optimizing their

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1 In game theory, the idea of the "institution as the equilibrium outcome of a game" was introduced to resolve this problem (Schotter 1981: 155). Institutions are understood here not as "rules of the game" as in the new institutional economics, but rather as a Nash equilibrium in a

utility-functions in the face of bounded rationality, social interdependence and new action situations (Beckert 2002: 7ff.). The resulting uncertainty leads them to resort to socially anchored scripts or “conventions” that serve as a “collectively recognized reference” (Orléan, quoted in Jagd 2007: 79), giving orientation to intentionally rational actors.<sup>2</sup> These “substitutes” for optimizing in the sense of economic theory reduce uncertainty based on culturally anchored understandings of situations, allowing actors to make sense of the complex circumstances of the decisions they face. Hence individual decision making must always be understood within its social contexts that lead to the “framing of markets” (Fiss/Kennedy 2007). That decision making in capitalist economies cannot be grasped in terms of optimal “single exit” situations is, moreover, – as I will argue in the last section of this article – a critical element of the dynamism of capitalism (Beckert 2002; Deutschmann 1999).

In consequence sociological explanations of the emergence, stability and change of institutions and their effects on market interaction differ fundamentally from the economic approach: Institutions are understood not from a contractarian perspective as the efficient result of an agreement of socially unbound individuals, but rather as situated within a specific political, social and cultural context that constitutes the actors’ goals, strategies and cognitive orientations. Institutions are historically and cognitively bound.

Market sociology focuses on the question of how social networks, social norms, cognitive structures and formal institutions reduce the contingency inherent in the situation. In order for markets to be operational, these social macrostructures must lead to stable expectations with regard to the likely behavior of other relevant market participants, so market actors are confident enough to engage in market transactions despite the risks they must take. For market exchange to gain legitimacy, the expected outcomes must, moreover, be considered normatively acceptable distributional results. Only on this basis can stable role structures reproduce themselves in markets, and social order emerge.

In the past twenty years, the concept of embeddedness has become established in economic sociology as a categorical instrument for describing those ordering processes that lead to a reduction of the uncertainty of the action situation and the social structuring of decisions in market contexts (Granovetter 1985; DiMaggio/Powell 1991).<sup>3</sup> The differentiation of the concept of embeddedness – Zukin and DiMaggio (1990) distinguish between social, cultural, political and cognitive embeddedness – points to different ap-

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repeated non-cooperative game. This solution, however, demands perfect rationality and thus has preconditions that neither the new institutional economics nor economic sociology anticipates. On this, see Richter (2000).

- 2 Furthermore, in non-cooperative games like the prisoner’s dilemma, the departure from the logic of individual utility maximizing can lead to more efficient outcomes, also rejecting rational actor theory as a normative theory of utility maximization.
- 3 The use of the term in the new economic sociology, however, has little in common with its meaning in the work of Karl Polanyi, to whom the concept is generally attributed (Beckert 2007a; Krippner 2001).

proaches in market sociology. What these approaches share is the assumption of action-structuring social macrostructures, which are reproduced and shaped by the actors, but cannot – in efficiency theoretical terms – be causally attributed to individual rational action. This can be seen in all three main approaches to the study of markets in the new economic sociology (Dobbin 2004a; Fligstein/Dauter 2007; Fourcade 2007):

(1) The network approach associated particularly with the works of Mark Granovetter (1985, 2002) and Harrison White (1981, 2001), emphasizes the *social embeddedness* of market actors. The approach explains economic outcomes based on the structure of social networks and the positions individual nodes hold within these structures. According to network analysts the structures of social relationships are more important for explaining the behavior of market actors than ethical attitudes or institutional arrangements (Granovetter 1985: 490).

(2) By contrast, the institutional approach, which is associated with the work, for instance, of Neil Fligstein (2001a), Frank Dobbin (1994), Bruce Carruthers (1994; Carruthers/Halliday 1998) and Viviana Zelizer (1979, 1994, 2007), primarily stresses the *institutional and cultural embeddedness* of market exchange.<sup>4</sup> The term “institution” is used in different ways, but proponents are largely orientated towards the new sociological institutionalism, where a broad definition of institutions prevails (DiMaggio/Powell 1991; Scott 2003). By emphasizing the importance of formal institutions and state regulation in constituting and stabilizing markets, some authors associated with the institutional approach exhibit an affinity to comparative political economy, and its attribution of different national strategies of firms to the specific institutional structures of national economies (Hall/Soskice 2001: 4ff.).<sup>5</sup>

(3) Finally, a third approach in the sociology of markets is centered on notions of cognitive embeddedness. This approach is not fully separated from the institutional approach, at least not from sociological institutionalism. Institutional organization theory (Meyer/Rowen 1977) explains organizational structures as responses to taken for granted scripts prevailing in the institutional environment of actors. The more recently developing performativity approach (Callon 1998; MacKenzie/Muniesa/Siu 2007) is

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4 The concept of *cultural embeddedness* has not produced an autonomous market sociological programme, but rather has acquired significance above all in various combinations with the network approach or the institutional approach (Bourdieu 1999, 2005; DiMaggio 1994; Zelizer 1979). *Political embeddedness*, and with it discussions of the state regulation of markets, is associated with the institutional approach.

5 Comparative political economy focuses on the explanation of entrepreneurial strategies rather than the analysis of the preconditions for stable market relations. As a result, comparative political economy is far more interested in the production problems of enterprises. The observed coordination problems become concentrated in the question of how and under what conditions enterprises gain access to the resources they need to manufacture products (Hall/Soskice 2001: 4). Market sociology, in contrast, stresses the coordination problems that arise in the exchange of goods or services, drawing more attention to the exchange processes themselves and to the demand side.

more distanced from institutionalism. It stresses the role of economic theories in the explanation of the structuration of markets (Garcia 2007) and of actor strategies in markets (MacKenzie/Millo 2003). This allows demonstrating that the way economic actors think about the functioning of markets actually shapes markets by aligning organizational structures, strategies and reciprocal expectations of market participants.

### 3 Value, competition and cooperation as central coordination problems

The explanation of economic outcomes in terms of social contexts is the common denominator in the differing approaches to market sociology (see Dobbin 2004b). While innumerable empirical studies based on the three above-mentioned approaches demonstrate the role played by social macrostructures in the explanation of economic outcomes, when it comes to addressing theoretically the systematic problems to which the embeddedness of economic action is actually a response, they remain largely silent. In the new economic sociology, the emphasis on demonstrating the embeddedness of market action through empirical investigation has meant that the previous issue – namely *which* general problems confronted by market actors that are of theoretical interest to the explanation of the order of markets can be addressed by focusing on the embeddedness of market behavior – has been virtually disregarded. Programmatic statements aimed at defining a future research agenda often either stress approaches (Dobbin 2004b) or identify appealing empirical research topics (Carruthers 2005: 346ff.; Zelizer 2007).

I contend that the coordination problems faced by market actors in the complex and uncertain situations in which they make decisions are at the heart of a sociological approach to markets. How is it possible to integrate interaction in a social arena populated by actors with highly diverse backgrounds and conflicting interests? The notion of the “order of markets” expresses in abstract terms the explanandum of the sociology of markets. The order of markets is grounded in social macrostructures that allow for relatively stable reciprocal expectations which actors have with regard to the behavior of relevant others and future events. Thus some occurrences are considered more likely than others, allowing for the reduction of the uncertainty of expected outcomes by creating a sense of normalcy and constituting a basis for means-ends calculations in market interaction. Moreover, some outcomes are normatively acceptable to actors, while others are not, making the order of markets also dependent on the legitimacy of distributional results. It is my contention that the problem of the integration of markets must be addressed on the basis of a theory of action, bringing two interrelated questions to the foreground. First: How do institutions, networks or cognitive structures contribute to the solution of the coordination problems faced by market actors by influencing their behavior? And second: How do these macrostructures become established, stabilize and change?

In this section I argue that one can distinguish between three fundamental coordination problems, which represent the central sources of uncertainty for market actors. I call these issues the value problem, the problem of competition and the cooperation problem. My claim is that these three topics provide a comprehensive tableau of the relevant coordination issues in markets and that an understanding of their resolution allows for the explanation of the order of markets. The sociology of markets must be able to demonstrate its contribution to the understanding of these coordination problems relative to economic approaches that in many ways address the very same questions, and which in their most advanced expressions have undergone a “sociological turn” (Greif 2006: XV).

I will discuss the three topics in turn, addressing for each of them the questions of how social macrostructures contribute to the resolution of the problems at hand and how the emergence and change of these macrostructures can be explained in terms of sociological action theory. This framing of the sociology of markets also rejects the distinction between network approaches, institutional approaches, and cognitive advances since networks, institutions and cognition are seen as complementary in the resolution of the cited problems.<sup>6</sup>

### The value problem

The value problem refers primarily to the constitution of actor preferences. One crucial source of uncertainty confronting market actors derives from the difficulties of assessing the value of commodities. Given the multiplicity of goods and their complex quality properties, market actors have trouble “forming clear subjective values for goods in the market” (Koçak 2003: 8). Only when purchasers are in a position to distinguish between the values of goods, and sellers can reliably demonstrate the value of their goods, will uncertainty be reduced and a disposition to buy arise (Koçak 2003: 5–6).

This is a central initial problem of market sociology, referring to the constitution of actors’ goals, which finds no place in neoclassical economic theory. The latter assumes preferences as given and stable, and thereby exogenizes their emergence and change. This led to Talcott Parsons’ critique (Parsons 1949) that economic theory was caught up in a “utilitarian dilemma.” What he meant was that economic theory either explained the action goals of agents on the basis of behaviorist determinism or had to leave them unexplained, viewing them as purely random: *De gustibus non est disputandum*. This did not mean that neoclassical theory was wrong, but that it contained a central limitation, since it could not explain the arising of preferences or the assignment of value to

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6 While there is a general unease with regard to the separation of these three approaches in economic sociology (Fourcade 2007: 1026), few articles address this problem explicitly. One excellent exception to this is Djelic (2004), who shows the connections between networks and processes of institutionalization. See also Beckert (2007c).

goods. Parsons' solution consisted in the introduction of ultimate values on the basis of which actors determine their action goals, which points to the social – and not individualist – constitution of preferences. How, though, are we to understand the processes of classification and commensuration with which actors assign value to goods?

(1) The value problem is concerned, on the one hand, with the assignment of different values to heterogeneous products within the same market. The classification may be based on standards that make possible objective quality descriptions of products in relation to other products of the same class. Thus the determination by technical test procedures of the load-bearing capacity of steel springs from different alloys would be an example of a technically defined classification for the purposes of quality distinction, which can form the basis of value differentiations. Different steel springs of a specified quality offered by different producers in the market can then be compared based on price, and preferences can be formed. The basis for the classification is a technical standard. Yet even such classifications aimed solely at establishing the functional value of a product in relation to others are possible unambiguously only in the case of very simple products. Once products turn out to be more complex, the criteria for valuation themselves become contested and must be established in political and social processes that lead to their acceptance. The question of what criteria to apply in assessing the value of used cars also depends on conventions established in a technical field. The same holds true, for instance, in decisions concerning the selection of personnel. Although employers aim to hire the best or most suitable employees, the question of what criteria should be used to establish an employee's qualification is subject to dispute among experts, changes over time and differs between countries (Segalla/Sauquet/Turati 2001).

The social processes behind the constitution of value become fully visible if we turn to a market where objective standards of quality assessment play no role at all. The market for contemporary art is such a market where actors have no recourse to objective standards located in the product itself. In this market, assessments of value are established in interactive processes of recognition within the field of art itself (Beckert/Rössel 2004). It is the recognition an artist finds among reputable and influential members of the art world – such as art critics, museum curators, galleries and collectors – that establishes the quality of his or her work. Much the same is true of the wine market (Diaz-Bone 2005; Rössel 2007). Although it is ultimately the individual buyer who decides what price he or she is willing to pay for a product, the assessment of value is not entirely of his or her own making, but rather relies on socially constructed judgements that reduce uncertainty and thereby stabilize expectations in a social field. "Confusion over the product's identity" (Zuckerman 1999: 1398) itself affects the value of goods, as has been shown for financial markets (Zuckerman 1999). If classifications of firms in terms of belonging to a specific industry are unclear, it becomes more difficult for analysts and investors to assign meaning to the information they gather from this firm, which in turn increases uncertainty and leads to lower stock market prices. At the same time, the stability of identities is constantly being undermined (Callon/Méadel/Rabeharisoa 2002) because new products enter the field and some actors are always interested in changing

existing categorizations in order to increase their reputation or profits by creating attachment to their products. This is most apparent in the field of fashion, and is a crucial background to the dynamism of modern capitalism.

(2) On the other hand, the value problem refers to the assignment of value to goods of a certain class, for example automobiles, works of modern art or wine. The value may result from the commodity's functional contribution to solving a specific problem, such as getting from point A to point B, or satisfying one's hunger. Contrary to the assumptions of economic theory, however, there is no evidence that efficient solutions – i.e., economically determined “single exit” solutions – consistently win out, nor can we explain purchase decisions in functionally saturated consumer markets biologically or in terms of objective functional requirements. This opens the question of why actors value certain products and not others to sociological analysis. The primary sociological postulate is that the valuation of certain categories of goods is socially and culturally patterned. This can be a normative orientation, a cognitive point of reference or a possibility for social positioning that is “realized” by acquiring a particular good.

The influence of normative assessments can be seen, for instance, in the effects of religious dietary restrictions on the evaluation of certain foods (for example pork among Muslims and Jews). But it can also be seen in financial markets. Viviana Zelizer's (1979) work on the emergence of the life insurance industry in nineteenth-century America demonstrates the initial blockage of market demand for life insurance by religious (and superstitious) convictions. An example of the relevance of normative and cognitive assessments for the valuation of products is also the market for whale watching. Its existence became possible only with profound changes in the symbolic meaning of whales in western culture (Lawrence/Phillips 2004). While for centuries whales were regarded as dangerous and thus threatening giants – e.g., in the epochal description by Herman Melville – today they symbolize the value of freedom and of intact nature, and are deemed particularly worthy of protection. Only on the basis of this shift of meaning did the value of “whale watching” as a product and thus the emergence of a market become possible. Assessments of specific characteristics of goods can form as “rationalized myths” (Meyer/Rowen 1977) within institutional fields. In more general terms, the normative and cognitive framing of markets, anchored in social belief systems, is a constitutive element of their emergence because it shapes the assessment of the desirability and suitability of the products offered and thus reduces uncertainty in markets.

The uncertainty of value attribution is additionally reduced when products facilitate status assignments. The value of goods arises from the social recognition stemming from their possession, which provides “status” to the owner (Aspers 2005). Examples for this are fashion markets but also luxury products. In order for status orders to work, goods must be imbued intersubjectively with corresponding meanings. A luxurious brand such as “Gucci” must be recognized by third parties in order to be effective in signalling social status. Thorstein Veblen presented this most impressively (Veblen 1973) in his description of “conspicuous consumption.”

The more the value of products becomes detached from the fulfillment of purely functional needs, the more they depend upon symbolic assignments of value that must be constructed by market actors. Through the “attachment” (Callon/Méadel/Rabeharisoa 2002) to goods, expectations are stabilized and uncertainty with regard to the value of a product reduced. To understand such attachments, market sociology needs a theory of preference formation, which could be based in socialization theory, learning theory or social movement theory. Talcott Parsons’ (Parsons 1949) theory of action establishes the role of the internalization of norms as an important aspect of preference formation. This remains, however, much too general and also too static for understanding the dynamic changes of preferences in markets. Pierre Bourdieu’s (Bourdieu 2005) notion of habitus, which can be understood as founded upon a socialization theory – Bourdieu (2005: 84) speaks of habitus as “socialized subjectivity” – provides an explanation for social stratification based on the valuation of goods (“taste”) which is, however, ultimately rooted in economic reasoning. Although the theory allows for an historical and social understanding of the emergence of preferences and tastes, the theory appears too simplistic in the mechanisms it describes for the emergence of attachments to specific products. Social movement theories enable us to explain the cycles in demand behavior, starting with a run on certain products and ending with their sudden demise (Deutschmann 1999: 130; Fligstein 2001a: 76f., 2001b). A theory explaining preferences for specific goods needs to take into account the paramount role of producers who attempt to create consumer attachment to their goods through their marketing investments. These activities account for an increasingly large proportion of production costs (Aspers 2005; Callon/Méadel/Rabeharisoa 2002) and are part of the market struggle between producers.

It is only through processes of standardization, cognitive anchoring, normative legitimation and social positioning that the subjective value attributions arise with which market actors assign value to goods. It is not a question here of all actors assigning the same value to a good, but rather of individual actors being sufficiently convinced by their own valuations to want to acquire the corresponding commodities as buyers in the marketplace. For this they not only rely on institutionalized standards (Fligstein 2001a), network positions of producers (Podolny 2005) or social norms (Zelizer 1979), but they must also take into account a social dimension of their purchases that consists in their communication of social belonging through buying products loaded with intersubjectively recognized meaning. The assignments of value are at the same time subject to a dynamic process of change, which is energized by technological or cultural innovations, advanced or impeded by the marketing activities of producers aiming at increased sales, and supported by consumer behavior aimed at social distinction.

## The problem of competition

While the issue of valuation refers to the constitution of actor goals and is in this sense prior to market exchange proper, the two coordination problems that remain to be discussed address the general issue of how market actors can turn their preferences into preferred market outcomes. Now the exchange itself takes center-stage. The discussion focuses again on the role of social macrostructures and on the questions of how stable and profit-enabling macrostructures are established in markets and how they change.

The coordination problem to be discussed first is competition.<sup>7</sup> One of the profound insights of neoclassical theory is the paradox that while efficient markets are based on perfect competition, in market equilibrium the marginal costs equal the marginal returns and thus no profit can be made, which also extinguishes any incentive to produce for the market. Profit becomes possible only when markets find themselves in disequilibrium (Chamberlin 1933; Knight 1985; Robinson 1933). This insight has profound consequences for the understanding of market processes: While competition is a constitutive precondition for markets, it simultaneously threatens the profit expectations of market suppliers. Suppliers therefore have an interest in establishing market structures that shield them favorably from competitors, allowing them to reduce uncertainty with regard to their profit or wage expectations. At the same time, however, this affects the interests of competitors and demanders. Through the deviation from the ideal of perfect markets, market barriers are erected (Fligstein 2001a: 41) leading to prices that are higher than economically necessary. This conflict of interest constitutes the market struggle (Weber 1978: 72), which takes place between market competitors, the state and interest groups on the demand side over the containment, expansion, shaping and regulation of competition (Lie 1997: 345). The behavior of market actors may be understood in the terminology of “getting action” and “blocking action” (White 1992), which describes the intention to gain an advantage over competitors in network terms. By shaping the terms of competition, market actors create and change market structures that affect their market position and consequently their profit opportunities and distributional shares. Hence the specific organization of competition is a contingent political and historical phenomenon, reflecting power structures within the market field. For a macrosociology of markets it is the investigation of this evolution of structures of competition and the explanation of its direction which provides access to the understanding of capitalist development (Djelic 2006).

The dynamism of the conflict arises from the clash of interests between the participants. The market suppliers themselves seek to alleviate the uncertainty created by competition by product differentiation, first-mover advantages, reciprocal agreements, corruption, collusion, cartels or by achieving a monopoly position to stabilize their profit opportunities. This also shows the interconnectedness between valuation processes and

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7 I limit the discussion to competition between producers, leaving out competition on the demand side.

competition. The creation of consumer “attachment” to specific products leads to their “singularization” (Callon/Méadel/Rabeharisoa 2002: 202), creating de facto local monopolies through differentiation, which structures competition among producers. Harrison White’s (White 1981) market model portrays the structure of markets in terms of product differentiations that allow producers to position themselves in niches. In this model, it is the relative positioning of competitors (which is evident to all producers) within the market that reduces the uncertainty as to their own price-quantity decisions in the next production cycle and permits the emergence of stable reciprocal expectations regarding profitable strategies.

The state is involved in the market struggle through its legislative role, for instance in competition law, labor law or intellectual property law as well as through the introduction of subsidies and duties and consumer protection measures (Trumbull 2006). While the role of the state is, on the one hand, to ensure competition despite the interest of powerful suppliers to reduce it, the state is also engaged in reducing competition among suppliers within its jurisdiction for instance through import tariffs and – in the case of labor markets – by restricting immigration and allowing for collective bargaining. The demand side of the market interface is primarily involved in these struggles through its interest in lower prices through the expansion of competition but also through honouring differentiation strategies with its purchasing decisions.

The consideration of labor markets introduces a special aspect of the role of the regulation of competition. The institutional regulation of competition not only reduces uncertainty by creating stable expectations; it also determines the distribution of economic wealth among market actors. As stated above, the order of markets depends not just on “stable worlds” (Fligstein 2001a), but also on socially acceptable outcomes. This refers not only to the level of wealth produced through markets in a society, i.e. the fulfillment of adaptive functions, but also and more particularly to the distribution of wealth among the members of society. Only if distributional outcomes are accepted will the organization of economic activities through markets gain the social legitimacy that is itself a precondition for the functioning of markets. The social and political power exercised in labor markets lead to significant levels of social inequality (Offe 2006), and extreme inequality may lead to the delegitimation of the market mechanism and result in social protest or social anomie and thereby even threaten the market system itself.<sup>8</sup> This makes clear that the operation of markets can only be understood within the larger context of society.

This issue of distributional results is especially pertinent to labor markets. This has to do with the often recognized specifics of labor as a commodity: The commodity cannot be separated from its bearer, implying that market results directly affect the livelihood of the worker and his or her family (Polanyi 1957: 72ff.). Workers need to be shielded

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8 This refers to Durkheim’s notion of anomic suicide, which is connected in his work with his discussion of unfair prices, especially the price of labor (see Durkheim 1984: 162f.; Beckert 2001).

from the imponderables of market competition in a qualitatively different way than other “commodities.” The encapsulation of competition in labor markets, which occurs through labor laws, and the cartelization of labor supply through collective bargaining and welfare state protection contribute to the order of markets by shifting the individual market risks of workers to employers and society at large. The resulting partial decommodification of labor is a precondition for ethically and socially acceptable distributional results. How exactly the risks are distributed between labor, capital and society is the result of continuous market struggles. The institutional embeddedness of labor markets shows how the concern with the operation of markets is inseparably interwoven with the normative concerns of equitable distributional results and the social order at large – issues that have so far found little resonance in contemporary economic sociology.

Every market supplier must either adapt the product offered to existing conditions of competition or influence these conditions in such a way as to create an environment in which the product can fill a profitable niche. This structuring of competition creates predictability for market actors but only contributes to capitalist growth if uncertainty is not removed altogether through the strangulation of competition (Collins 1990: 112). The economic position of suppliers must remain continually threatened by innovations or changes in regulations as well as by the competitive behavior of rivals and changes in consumer preferences. It is, however, the structures of competition with which “reproducible role structures” (White 1981) develop in markets that constitute the calculability of investments and contribute to the order of markets.

The market struggle described by Max Weber takes place only in parts through price competition between producers. It occurs mainly in the attempts of market actors to shape the macrosocial structure of exchange by regulating competition, collusion and creating differentiated products. In labor markets, the struggles are largely about shifting market risks between employers, employees and the state. Hence markets are as much political arenas as they are economic realms.

### The problem of cooperation

While the process of structuring competition focuses on the supply side of the market, the third coordination problem concentrates on the interaction between the demand and supply sides. The problem of cooperation arises from the social risks that market actors incur because of their incomplete knowledge of the intentions of their exchange partners and the quality of the product they wish to purchase. Market relations are risky when one exchange partner makes an advance payment without being sure whether the other party will actually fulfill the contractual obligations, or when contracts are incomplete. These risks are greater the more difficult it is to recognize or specify the quality of a product and the less able the buyer is to infer the seller’s actual intentions from

his manifest signals. Only when buyers are confident of not being exploited by their contract partners will they engage in market exchange. Creating this confidence is thus a fundamental precondition of stable market relations (Barbalet 1998: 82ff.; Beckert 2006; DiMaggio 2002). Conversely, markets implode as soon as this confidence disappears, a phenomenon of which the panic reactions of depositors with banks (allegedly) threatened with insolvency are only one especially pronounced example.

Solutions to the problem of cooperation have been discussed widely in the social sciences over the last thirty years (Axelrod 1984; Bacharach/Gambetta 2001; Coleman 1990; Cook 2001; Gambetta 1988; Luhmann 1979). Institutional economics and game theory as well as the new economic sociology have investigated a variety of social mechanisms that contribute to raising ego's estimation of the probability of cooperative action on the part of alter ego, and thus prevent market failure caused by the expectation of defection on the side of the exchange partner. The different approaches can be categorized largely along disciplinary lines.

Economic advances explain cooperation on an individualistic basis. This can be seen, for instance, in game theoretical approaches, which understand cooperation in prisoner's-dilemma games as a result of the expectation of repeated interactions (iterative games) or reputation effects that change the incentive structures of the players, making cooperation (or conditional cooperation) the rational strategy. A second line of argumentation developed in economic approaches takes institutions into account that induce cooperative strategies through the effective sanctioning of defectors. These economic approaches are limited: Game theory is unrealistic with regard to the knowledge actors require in the situation in order to act rationally. The new institutional economics remains individualistic as long as institutions are explained based on the efficiency gains they provide for actors (Greif 2006: 9). To the extent that institutions protecting cooperative relationships are seen as the result of efficient institutional design, the path-dependency of institutional development is not taken into account.

Power-orientated approaches proceed from the enforcement of compliance based on the threat of force. Threats to secure cooperation figure especially prominently in illegal markets in which the exchange partners cannot rely upon state-guaranteed legal protections (Besozzi 2001) and must ensure cooperation privately, while under pressure of possible state prosecution. In labor markets, the structural position of workers who must sell their labor power in order to secure their livelihoods represents a situation of structurally coerced cooperation (Offe 2006). While power undoubtedly can play an important role in securing cooperation, its scope is at the same time limited in explaining the integration of market exchange to the extent that market relations are voluntary.

Other sociological approaches to the problem of cooperation show how networks and institutions pattern the cooperation between actors. Network approaches view the willingness of actors to accept the social risks of market exchange as a function of the structure of social networks. Mark Granovetter (1985: 490ff., 2005) points to the significance

of network structures for the development of trust between market parties. Someone who has already had positive experiences with an exchange partner in previous transactions or at least knows a trustworthy person who has had interactions with him or her is more likely to accept the contract risk than an individual for whom the exchange partner is a complete stranger. Networks through which information travels more easily are better equipped to induce cooperative behavior, because their structures facilitate the sanctioning of defectors. Although the extent to which “social capital” can actually be built instrumentally is contested (e.g. Burt 1992), network approaches to cooperation generally analyze social structure as the result of long historical processes (Putnam 1993; Gambetta 1988). Institutional approaches in economic sociology regard the exchange partners’ normative or cognitive commitment to institutionalized rules as key to explaining cooperative action. Culturalist approaches draw on the orientation towards universal ethical norms or behavior rooted in tradition for their explanations. The introduction of social norms in explaining cooperative behavior shows the limits of rational actor theories, since norm compliance cannot be reduced to individual rationality.

There is no guarantee that networks, social norms or tradition actually enhance cooperation, and it is also evident that some cooperation in markets is disadvantageous to economic welfare. Highly fragmented network structures are detrimental to cooperation (Granovetter 1973: 1373f.), as are non-universalist ethical orientations, which prescribe cooperative behavior in exchange with members of the same ethnic group but not in exchange with outsiders (Portes/Sensenbrenner 1993). Moreover, collusion between “competitors” can be a source of inefficiency and economic exclusion. However, whether restraints on individual rationality are “beneficial” (Streeck 1997) is also a question of perspective: Beneficial for whom? Market actors benefit and suffer differently from existing constraints and might gain advantages from free-riding; they will therefore engage in struggles to either change, defend, or exploit existing cooperative structures and rules as part of the “market struggle.”

While lasting market relations would be impossible without stabilized expectations regarding the cooperative intentions of exchange partners, the reduction of uncertainty through social macrostructures can never be complete. The possibility of defection is always present in the actors’ horizon of expectation, and is merely “suspended” (Mörling 2006) by trust between cooperation partners.

#### **4 The dynamics of markets**

Studying markets from the perspective of the problem of social order initially leads to a foregrounding of static elements. It is a matter of creating stable expectations for actors by reducing the contingency entailed in the freedom of alter ego, which allows for the confidence of decision makers of being able to make investment and consumer deci-

sions that will, by and large, not lead to disappointing outcomes. Such “stable worlds” (Fligstein 2001a) are a precondition for the expansion of markets. Historically, the emergence of modern, rational capitalism may be viewed as a process of developing institutional regulations, ethical action orientations and socio-structural linkages, which have made it possible to contain the coordination problems discussed here (Berghoff 2004; Block/Evans 2005; Fligstein 2001a; Hellmann 2003; Weber 1992; Zucker 1986).

In my discussion of the three coordination problems, I have indicated that the processes of creating stability of expectations nevertheless represent only one side in our understanding of market coordination. Value attributions change, profitable competitive positions are threatened by new products or altered regulations, and the danger of defection persists despite institutional safeguards, social norms and cooperation enhancing network structures. To be sure, “calculability” and “stable expectations” are preconditions for market exchange. This does not, however, remove the essential element of uncertainty from economic decision-making. Instead, the coexistence of “stable worlds” and uncertainty is an unavoidable state of affairs for capitalist economies.

*Empirically* speaking, capitalist economies are characterized by the systematic expansion and continual renewal of uncertainty (cf. Deutschmann 2007). This uncertainty can have its cause in exogenously caused crises (Fligstein 2001a: 32) but stems mostly from the innovative dynamism of capitalism itself and the substantive and geographical expansion of markets through changes in the competitive structure. In competitive economies, innovations endanger the economic value of the products they seek to replace. The same holds true for new regulations or the deregulation of markets. The extension of the competitive mechanism as a result of political and social struggles introduces uncertainty into fields of action heretofore subject to institutional constraints (Weber 1978: 635ff.; Polanyi 1957). The emergence of labor markets is the most important example of this. To investigate the political and historical processes leading to the concrete forms of market regulation to be observed and their changes opens the analysis of markets to the political macrodimensions of market development.

*Theoretically*, the relationship between uncertainty and profits demonstrates the constitutive significance of “zones of unpredictability” for the capitalist economy. Frank Knight (1985) has pointed out that under conditions where a probability calculation of risks is possible, what neoclassical theory showed for perfect markets applies: There are no profits. Only situations containing uncertainty open up a space for entrepreneurial action in the Schumpeterian sense, in which the chances of profit arise precisely from the incalculability of risks. Although market transactions are always institutionally and sociostructurally embedded, actors nevertheless necessarily face imponderables that provide the threats *and* opportunities upon which capitalist dynamism is based.

The nexus of the necessary reduction of uncertainty through the embeddedness of market exchange and the simultaneous preservation of a “realm of unpredictability” as core elements of the order of markets can be used to build a model of the dynamic char-

acter of capitalism centered on the notion of “dynamic disequilibrium.” By this term I allude to the continuous processual changes built into capitalist accumulation that are not moving in the direction of a static equilibrium but reflect permanent contestation in the economic field where actors with partly overlapping, partly opposing interests engage in “control efforts” (White 1992: 9ff.) to shape and use social macrostructures to enhance their goals. These control projects and their dynamic character have social preconditions that are partly systemic, partly institutional and partly rooted in the capabilities of human actors.

(1) The systemic preconditions for the unprecedented dynamism of modern capitalism can be described on two levels. First on the level of market competition where it is the “free-market pressures that force firms into a continuing process of innovation” (Baumol 2002: viii). Second it can be seen in the detachment of the economic system from the satisfaction of concrete material needs and its orientation toward an, in principle, infinite referential context of “absolute wealth” (Deutschmann 1999) in which the logic of capital accumulation takes center stage. The infinite character of wealth has its basis in the purely quantitative nature of monetary wealth. But in order to be maintained and increased, monetary wealth must be invested as capital in qualitatively specific and at the same time not fully calculable ventures (Deutschmann 1999: 130ff.). These logics of capitalist accumulation forces capital owners constantly to seek new opportunities for investment, from which they expect to derive profits.

(2) Institutionally, it is precisely the expansion of markets and with it the anchoring of competition as the basis of the organization of economic production and distribution that provides actors with an institutional environment that is comparatively open to change through deviant behavior. Competition forces suppliers constantly to seek out new opportunities in order to make profitable investments. The – ideal-typically viewed – curbing of traditional limitations and restrictions on the exercise of hierarchical power in markets constitutes an environment favorable to innovation (Beckert 1999: 792f.).

(3) On the actor level, the dynamic processes of continuous change are rooted, first, in the human ability to envision future states of the world and, based on these visions, to abandon routinized behavior (Beckert 2003: 775). In Joseph Schumpeter’s (Schumpeter 1934, 1991), concept of “creative destruction,” this “creativity of action” (Joas 1996) became the starting point for a theory of the dynamism of capitalism.<sup>9</sup> The second precondition to be mentioned on the level of actors is the historical *formation* of the motivation to engage in utility-maximizing behavior. While liberal economic theory

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9 Following Christoph Deutschmann (1999, 2007), the significance of this quality of action for the capitalist economy can be extended still further: Creativity is not merely typical of entrepreneurial action, but is the characteristic of free labor power as such. “Added value,” the argument goes, arises from exhausting the creative – and in their results always incalculable – potentials of manpower in the production process.

holds economic rationality to be a “natural propensity” (Smith 1976), it is evident that rational action orientations were at least expanded in the historical process of the emergence of capitalism. This expansion was grounded in ethical transformations (Weber 1992), but also took place through violent disciplining measures (Thompson 1968).<sup>10</sup>

These general considerations regarding change in the composition of markets can be related to the three coordination problems identified. Entrepreneurs are systematically trying to change consumers’ value attachments by attempting to convince them of the (superior) value of their products. Their success contributes at the same time to the devaluation of the products substituted, hence creating uncertainty in the market. This process is fueled not only by market suppliers, but also by consumers looking for new ways to express status differentiation and lifestyles and to create “self-illusionary experiences” (Campbell 1987: 89) constructed from the meanings associated with products. At the same time entrepreneurs are seeking to remodel the structures of competition in ways that provide them with more favorable market positions. If they succeed, this results in regulatory changes or advantageous market structures for them that change the composition of markets and thereby create dynamism. Finally entrepreneurs are trying to induce others to cooperate with them by investing in activities that signal the trustworthiness of their products and by forming coalitions or social movements in markets which align others’ behavior with their own interests.

In capitalist economies, the creativity of action comes up against the motivations of actors and institutional as well as systemic structures that lead to a continual challenging of existing processes, products and technologies by innovation. This perpetually renews the uncertainty for actors – paradoxically enough precisely in the attempt to master it. Deviant action produces both the chances of profit that provide the incentive to produce for the market and the destabilization that forces other actors to adapt, and that must be mitigated by the socio-structural, institutional and cultural embeddedness of markets. In this way the market struggle between competitors leads to states of disequilibrium, which are constantly changing. New products, altered regulations, changed networks or new cultural perceptions of products or market opportunities transform the competitive situation in markets, creating dynamism. But to the same degree that uncertainty opens up a realm of possibilities, it also demands the stabilizing of expectations for which social macrostructures play a pivotal role.

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10 This becomes visible, for instance, in historical studies of the development of free labor markets that reveal that the possibility of higher earnings did not initially motivate tradition-bound workers to do more work, but rather to shorten their working day (Thompson 1968).

## 5 Conclusion

If one views market action from the perspective of the three coordination problems, the focus is on the interaction between actors and their institutional, cultural and social embeddedness. These social macrostructures and their dynamic changes play a more fundamental role in the study of ordering processes in markets than the price mechanism foregrounded in neoclassical theory (Hayek 1973: 115ff.). Although changes in prices emerge from changes in supply and demand, these changes themselves reflect changes in the social, institutional and cognitive structures of markets. Hence prices are not seen as the aggregate result of individual preferences but rather as the outcome of social macrostructures patterning economic action.

The approach to market sociology suggested in this article seeks to develop a fundamental understanding of how coordination problems are solved in order to account for why, and under what conditions, markets become successful devices for the organization of economic activities. The concern is, on the one hand, with the constitution of actor preferences, which are explained based on normative, cultural and social structural influences stemming from the social context in which market actors live. On the other hand, market sociology aims to understand how market actors realize their preferences in the exchange process. In this they are confronted with two coordination problems – competition and cooperation – which must be resolved if stable exchange relationships are to evolve. Again, the assumption underlying the sociology of markets is that these problems are resolved based on the regulative influence of social macrostructures – institutions, social networks and cognitive structures.

The challenge for market sociology is not just to show a correlation between these structural forces and market outcomes, but rather to explain in detail how the macrostructures emerge, stabilize, and change in processes of social interaction and how they actually influence behavior in market contexts. Contrary to economic institutionalism, it is not assumed that social macrostructures can be explained out of the efficiency concern of market actors. Not just the complexities of decisions, but also collective action dilemmas and the historicity of institutions and networks, speak against this possibility. Instead, social macrostructures are viewed as manifestations of contingent social processes whose evolution can only be analyzed in historical terms. This is not to deny that market actors are involved in instrumental control efforts through which they try to change the regulative structures they are subjected to in the attempt to enhance their market position. However, the outcome of these struggles cannot be explained in efficiency terms since the underlying processes are far too complex to be open to the instrumental control of actors. Instead the development of the macrostructures prevailing in markets needs to be understood as a political, social and cultural process which can be explained only by following the historical development of the evolution of specific markets.

Just as the emergence and change of institutions, networks and cognition are important fields for market sociology, so is the influence of these structures on the interaction processes of market exchange. What we need are theories that explain how institutions, networks and cognitive structures actually influence behavior. How do the preferences of actors interact with the social macrostructures that form the conditions for action in the exchange process? We have little systematic knowledge of how social macrostructures translate into preferences and the behavior of actors. In order to lend weight to the claim that individual preferences are rooted in political, cultural and social macrostructures, we need a theory that clarifies how the transformation from the macrolevel to the actor level actually occurs. It is not enough to look at social macrostructures as constraints on action, and explain outcomes as rational or culturally infused responses to these constraints. Rationalist interpretations are unsatisfactory because they cannot account for the effectiveness of norms in social interaction. Cultural and morphological determinism remain unsatisfactory because they fail to take into account the *contingency* of interpretations of social macrostructures by agents (Jagd 2007: 78). Although the meaning that a social situation attains for actors, as well as their reactions, are influenced by cultural templates, institutions or network positions, they are not determined by them. These issues can be explored by studying diverse markets empirically and historically with an eye to the coordination problems mentioned here. The broadest objective of this undertaking is to develop a “sociological theory of economic action” (Weber 1978, Vol. 1: 68).

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