the market

The term *market* refers first of all to an area within which exchange takes place. It also refers to a social mechanism for economic growth or what the economists call a mechanism for the efficient allocation of resources. These two meanings are confusing since they differ so greatly. While one emphasizes what goes on inside the market, the other puts the emphasis on what happens *outside* the market or, more precisely, the relation of the market to the rest of the economic process.

The term also plays a central ideological role in today's world, adding to the difficulty of assessing the importance of the market for the modern economy and modern society. A quick inspection of today's major ideologies finds references to the market in most of them, from the Right to the Left. Libertarians have one opinion, communists another, and so on. One way to think of the spectrum of political opinions about the market is to imagine a two-by-two table with "efficient/not efficient" on one side, and "positive/negative" on the other. Libertarians, for example, view markets as efficient and good; communists, in contrast, see markets as inefficient and bad. European Social Democrats see markets as efficient but bad, while Keynes and some of his followers favor markets but do not find them efficient. According to Keynesians, markets will eventually self-destruct if the state does not properly intervene. The Keynesians also remind us that our view of the state as a political actor is often closely related to our view of the market.

Markets have an ideological charge because capitalism has been surrounded by political struggle since its inception. Groups that get their income or resources from "status" as opposed to "contract" (to use the famous terms of the legal historian H. S. Maine) have typically fought capitalism. So have those who rely on "contracts" for their income but get little of it. The ideological battle of capitalism, however, has been waged in terms of the market only since around the time of World War II. For example, this period gave rise to one of the most famous denunciations of capitalism phrased in terms of the market, Karl Polanyi's *The Great Transformation* (1944).

But markets also had their ideological advocates who stepped forward around the same time, such as Friedrich Hayek and Ludwig von Mises, and they eventually got the upper hand. The support of political forces has also been significant for the rise of the market as an ideology, especially with the election of Margaret Thatcher in 1979 and Ronald Reagan in 1980. Reagan, for example, coined the phrase "the magic of the market."

Thatcher's and Reagan's ideology, neoliberalism, claims that the market represents the best solution not only to standard economic problems, but also to many of the problems that have traditionally been handled by the state or local communities. The state, according to this ideology (which has also been called "market fundamentalism"), should first ensure that the market gets to decide. While the state still has a number of noneconomic tasks to perform, its general purpose is to ensure the primacy of market forces. Neoliberalism soon swept the world, providing an ideological justification for the dismantling of the welfare state in the developed countries and for imposing various pro-market reforms via the International Monetary Fund in the developing world (known as the "Washington consensus").

Since the role of any ideology is to support certain actors and not to explain how reality works, neoliberalism has little to say about what a market is and how it operates. Historical research can help us here, especially in gaining a better understanding of the first meaning of market, namely, an area within which exchange takes place or, to cite one of the definitions in the *Oxford English Dictionary*, "a public space, whether an open space or covered building, in which cattle, provisions, etc. are exposed for sale."

The first markets in history were probably situated on the outskirts of or just outside communities and were intended to serve members of other communities. Eventually these external markets were replaced by internal markets situated inside the community. What we know about early Greece, a few centuries before Christ, illustrates the complexity of early markets.

The *agora* (marketplace) of Athens was situated inside the city in an area set off by boundary stones. Special stands (*stoa*) were constructed where merchants could display their goods. Many social and political activities also took place in the market, where Socrates, for example, harassed wealthy young Athenians for thinking more about

Contexts, Vol. 6, Number 4, pp 64-66. ISSN 1536-5042, electronic ISSN 1537-6052. ***http://www.ucpressjournals.com/reprintInfo.asp. DOI: 10.1525/ctx.2007.6.4.64***

 vol. 6, nr. 4

their wealth than about their souls. Specially appointed officials kept order in the market, ensured the accuracy of measures and weights, and aimed to prevent the circulation of forged money. Crimes in the market were punished in special courts.

There was also a special god of the market—Hermes, the god of merchants as well as of thieves. This odd pairing is usually explained as the view of the huge land and slave owners in Athens, who considered conquest by force to be the only proper way to procure a fortune. Merchants with their haggling in the market were seen as thieves.

The idea of the market as a specially marked off area for exchange was very common during the centuries following the decline of Greece and until the 19th century. There were, for example, special market places in the cities during the Middle Ages. There were also the occasional fairs, from Roman times onward, until permanent stock exchanges and other financial markets were created in Amsterdam, Paris, London, and other major cities.

As the money economy expanded, markets also changed. In the 19th century, fully integrated national markets appeared for the first time in history, thanks to a combination of economic, political, and technological developments. Political rulers unified nations—and so did the railroad, the telegraph, and other technological innovations. What characterized this new type of market was that buying and selling could take place over a large and diffuse area.

Economic theory reflected this transformation. For Adam Smith and the early economists, the market had been synonymous with the marketplace, but by the 1830s the economist Antoine Cournot could argue that "economists understand by the term Market, not any particular market place in which things are bought and sold, but the whole region in which buyers and sellers are in such free intercourse that the prices of the same goods tend to equality easily and quickly."

In the late 19th century, economists developed the "neoclassical" theory of the market. Now, the market was understood primarily as a price mechanism, or a way to determine prices through the interplay of demand and supply. In addition, the idea of the market became excessively abstract. The demand-supply schedule includes no legal system, no state, no people, and no social relations. It is truly a "hypothetical market," as economist John Neville Keynes put it.

Economists used this abstract model of the market without much reflection until the emergence a few decades ago of what has become known as "new institutional economics." According to this brand of thought, the traditional, neoclassical analysis must be complemented by a theory of institutions, including that of the market. This can be done by introducing the idea of transaction cost (or the cost of using the market) into the analysis. The reason today's markets are such complex institutions is that constant attempts are made to lower transaction costs and increase efficiency.

The second major meaning of the term *market* is a social mechanism for economic growth, or what economists refer to as a mechanism for the efficient allocation of resources. This meaning is related to the late 19th-century idea of the market as a price mechanism. The key idea here is that the market—or rather, a full set of interrelated markets—will affect what a country produces in an efficient manner. If the price goes up for Good A, this will eventually be reflected in everything that is needed to produce this good and shift the resources in its direction. Price changes send information to other markets, ensuring efficiency throughout the economy.

As though guided by an invisible hand, this whole process will eventually lead to an increase in the wealth of the nation. By this metaphor, according to modern economists, Adam Smith meant the process of competition. The idea is that consumers will only buy from the bakers, brewers, and butchers who produce the best goods. Other goods will not be produced since they will not be bought.

Is this also what happens in reality? Sociologists have difficulty addressing this issue because they have not looked at the role of the market as a growth engine. But this is easy to do with the help of the three well-known concepts that Polanyi used to analyze how economies are organized: redistribution, reciprocity, and exchange. To understand this, we need to start from the common notion that the economic process consists of production, distribution, and consumption. You first produce something, then distribute it, and finally consume it.

Following Polanyi, there should be three major ways to organize whole economies, including the element of distribution. With redistribution, a center in the community, typically the state acts to distribute goods. Whatever is produced goes to the state; state officials then determine who will get what—as in socialism or in the way that Social Security works.

Alternatively, goods can be distributed through reciprocity, or according to norms that obligate members of a family or a community to share what has been produced. Both redistribution and reciprocity have as their primary goal the reproduction of the community or the household. Whatever growth occurs in systems that operate on

Richard Swedberg writes about economic topics and the classics in sociology.

these principles usually comes simply from having resources left over or not distributed, and it takes the form of slow evolution.

If goods are redistributed through exchange, that is, in a market, there will be a very different dynamic. In such a system, all that is produced is not going to consumption or to reproduction, but to profit. This profit is then typically reinvested—and it is this constant reinvestment and search for more profit that makes the market system or capitalism so dynamic, dramatically increasing its potential for growth.

While this Polanyi-inspired model shows why a market-centered economy leads to dynamic growth, it is silent on many issues. It says nothing, for example, about the role of culture in the economic process, or the role of the state in the economic process. It also has nothing to say about the interaction between market-induced growth and society as a whole, including how growth affects stratification or the exploitation of certain groups, for example, ethnic minorities or women. Many issues thus remain to be analyzed before we have a full sociological theory of the market—and before we fully understand the term market more generally.

recommended resources

Fernand Braudel. *The Wheels of Commerce* (Fontana Press, 1979). A great historian provides a fascinating account of the changing role of markets over time.

Karl Polanyi, Conrad Arensberg, and Harry Pearson, eds. *Trade and Markets in the Early Empires: Economies in History and Theory* (Henry Regnery Company, 1957). This important volume contains many useful concepts for analyzing markets.

Richard Swedberg. "The Economic Sociology of Capitalism: An Introduction and Agenda." In *The Economic Sociology of Capitalism* (Princeton University Press, 2005). An attempt to work out a sociological theory of the market as an engine of economic growth.

Richard Swedberg. "Markets as Social Structures." In *The Handbook of Economic Sociology*, ed. Neil Smelser and Richard Swedberg (Russell Sage Foundation, 1994). Summarizes how economists and sociologists have looked at the market.