The Research Area “Sociology of Markets”
Jens Beckert

In capitalist economies, the exchange of goods is organized mostly through markets. During the last thirty years, the liberalization of Western capitalist economies, the transformation of the former socialist countries of Eastern Europe and market-based growth in Asia have led to an expansion of markets’ pivotal role as coordinators of economic processes.

How do markets work? What social prerequisites are necessary for the creation of markets?

Being a form of social action, the processes of exchange in markets have long been a subject of sociological research. The analysis of markets and their prerequisites was a hallmark of the sociological classics. However, this interest waned considerably in post-war sociology. It was not until “new economic sociology” emerged that international sociological research turned the spotlight onto markets again.

Using the theoretical and methodological tools of sociology, projects in the research area “Sociology of Markets” aim to understand the way markets work. From a sociological perspective, markets are understood to be arenas of social action in which actors who share a pragmatic interest in exchange come together under competitive conditions. Ideal-typically, market exchange is based on voluntary participation.

In many respects, markets are full of social prerequisites. Although the exchange of goods is based on utility calculations, it also needs to be legitimized socially. Potential buyers must be convinced that the goods they want to purchase are valuable, while sellers must be convinced that profits can be made. Both are dependent on cultural, social-structural, and institutional conditions. Lastly, parties participating in the marketplace run social risks that lead to market failures if not corrected. Such risks are inherent in advance deliveries or payments, incomplete contracts, and any opportunistic action taken by trading partners.

The social prerequisites for markets point to the main focus of sociological research: social order. Only when uncertainty is reduced can expectations be stabilized to the
point where ongoing processes of exchange become possible in markets. We can distinguish between four constitutive problems:

1. **Legitimizing market exchange**

   History shows us that organizing processes of exchange through markets is not a natural development. The prohibition of charging interest on monetary loans found in Christianity during the Middle Ages and in Islam today, the prohibition of trading human organs and human beings (slavery, adoption), and the strong regulation of labor markets by the state are examples of normative market prerequisites. Under what conditions do societies legitimize the exchange of goods in markets? What happens when market exchange is prohibited? Is the exchange regulated by redistribution or reciprocity? Do illegal markets arise?

2. **Creating preferences as the basis for market demand**

   Except for the demand for the basic necessities of life, the value of goods and services on consumer markets is contingent on culture. Only on producers’ markets is demand determined largely by technical manufacturing requirements and economic calculations. The value subjectively attached to consumer goods evolves from social processes that attribute importance to goods. Owning certain goods can enhance social status. For this to work, an intersubjective consensus must exist on the value and importance of these goods. Particularly in modern economies, the value of consumer goods such as automobiles, wine, and clothing is often divorced from production costs and is created instead on the respective markets through communication. This is also evident on financial markets, where the value of the products traded is derived from several very different theories on the “actual” value of a financial product. All markets require classifications to distinguish valuable products from less valuable ones. However, these classifications are only partially technical and objective in nature; often they derive from culturally contingent attributions of value.

3. **Restraining competition**

   Markets are based on competition, but sellers can only make a profit if they are not perfect in the economic sense. If markets were perfect, marginal utility would equal marginal costs, and the appeal of producing for the market would vanish. Therefore, market actors are always interested in market structures that give them a competitive edge. A power-driven “market struggle” (Max Weber: “Marktkampf”) ensues in which market actors attempt to restrain competition or use it to their advantage. The state plays a major role in market struggles by laying down ground rules, such as competition law or copyright law, and by granting subsidies or collecting tariffs. Market relations are always tense because the participating parties have conflicting interests. The emerging structures of competition and their dynamics constitute another aspect of the social structuring of markets. Research in this area focuses on several different types of structuring: legal structures; network structures; competitive structures resulting from product differentiations and first-mover advantages; the cognitive structuring of competitive behavior; and political constraints, especially as they affect labor markets.

4. **The problem of cooperation**

   Exchange relations are risky undertakings when the dissemination of information is
asymmetrical and contracts between the actors are incomplete. One of the participating actors must always make advance deliveries or payments, without knowing whether the other party will actually fulfill its contractual obligations or the goods and services delivered will actually meet the quality standards agreed upon. Only when the former party is sufficiently convinced that the latter will indeed deliver the goods and services promised will he be willing to enter into an exchange. Guarantees, the development of stochastic approaches to weighing risk (e.g. scoring systems), and branding are reactions to this inherent problem of defection found in market relations. In this research area, social mechanisms such as trust, power, legal guarantees, the structure of social relations and emotions are studied as the basis for a solution to this problem and, thus, as elements that make market relations possible.

Analytically, these problems of coordination differ from one another. Yet empirically, they are closely related. By studying markets as problems of social order, we can understand them as socially structured spheres of action. This economic model is different from the invisible hand concept, which sees actors with individual sets of preferences coordinating their interaction based on the workings of the price mechanism. It focuses instead on the social contexts that reduce the inherent contingency for exchange partners on both sides and establish the reciprocal expectations without which stable exchange on the market would be impossible. Embeddedness is understood in a broad sense that includes institutional, cultural, cognitive, and social-structural contexts. Methodologically, the approach is based on action theory. Market behavior is explained in the tradition of interpretive sociology, which examines the meaning that actions have for actors.

Projects in the research area “Sociology of Markets” focus on studying the coordination problems cited above. They analyze specific markets, such as the market for industrial goods, financial markets, job markets, and consumer markets. Newly emerging markets are especially interesting because adjustments within them that lead to solutions for coordination problems can be observed very well. Illegal markets are especially interesting because they are economically significant yet seldom studied. Moreover, they have to develop special structures because they face a very different kind of cooperation problem.

Research in this area also examines the social mechanisms with which actors react to coordination problems, such as power, cognitive structures, social norms, trust, corruption, discursive processes, and emotions. The interest in an empirical understanding of markets leads to an approach that is historical and comparative in nature. It can create ideal types, but will not tend to yield normative recommendations for a particular course of action. The analyses reveal the social prerequisites for establishing capitalist market economies and point to the varieties of capitalism. Going beyond understanding market processes, this research area aims to develop a sociological theory of modern capitalist economies.