

Aspers, Patrik (2005) "Markets, Sociology of", pp. 427-432 in *International Encyclopedia of Economic Sociology*, Jens Beckert and Milan Zafirovski (eds.), London: Routledge Ltd.

MARKETS, SOCIOLOGY OF

Markets are at the centre of the economy, and the focus of political controversies. Corresponding with economic liberalization and marketization, there has been an increased scientific interest in markets. This is reflected in economic sociology, which has generated a large body of knowledge on markets.

A market is a *social structure for exchange of rights, which enables people, firms and products to be evaluated and priced*. This means that at least three actors are needed for a market to exist: at least one actor, on the one side of the market, who is aware of at least two actors on the other side whose products or services can be evaluated in relation to each other. The social structure consists of roles (buyer and seller, and consumer and producer), divided on the two sides of the market interface. Different interests or goals characterize these two roles. Property rights, often embedded in **trust**, are conventional in a market, which makes market interaction peaceful. Actors take part in markets to get better off. **Exchange** implies that something, for example money, is traded for something else, such as a commodity. What is traded in a market is usually what gives it a name: for example, 'the market for used cars'.

This is a minimal definition, and in this entry several aspects of markets will be discussed. There are further aspects of real markets, but most of them are shared by other forms of social structure, such as time and size, and should not be part of a definition of markets. There are also a number of other aspects of markets that are reflected in theoretical, normative as well as empirical works by social scientists that are beyond the scope of this entry.

The first section discusses the history of ideas of markets. The following section outlines the two fundamental kinds of market structures, exchange and role markets. Finally, the most important dimen-

sions of markets, according to the sociological literature on markets, are discussed.

The development of markets and market theories

It is not possible to identify the first real market (see Swedberg 2003 for a more extensive treatment of the topics discussed in this section). Historically the market was a physical locality where people met with some regularity to barter goods, e.g. fish and chickens. The word is derived from the Latin *mercatus*, which refers to trade. With more advanced societies the notion took on further meanings in addition to a place of trade. It is clear that markets gradually became more sophisticated, and with the industrial revolution, consumer mass markets emerged. A change in markets occurred when money was introduced as a means for exchange; only then can one speak of actual 'buyers' and 'sellers', as Alfred Marshall argued in *Principles of Economics*, published in 1920. The introduction of the Internet means that one may speak of virtual markets, and the idea of physical markets is less important (see **electronic commerce**).

Adam **Smith** is generally seen as the economist who pulled together the dispersed knowledge of the field that existed at the time he wrote his *An Inquiry into the Nature and Causes of the Wealth of Nations* (1776). Smith, and most of his followers, saw the market, a term that is frequent in his book, as a price mechanism. In Smith's version the market is a way of generating the 'natural price'; classical economists saw price essentially as a reflection of the natural value of the product traded in the market. Later on, John Stuart Mill, David Ricardo and Karl **Marx** discussed the market, and Marx added the idea that also social relations exist between actors and the things exchanged in the market. Marx, as is well known, criticized the market logic, which he equated with exploitation.

With the marginalist revolution the market was seen as a mechanism for determination of **value**. At the same time the link between real markets and the market theory weakened. Léon Walras contributed with the market theory that is still the core of neoclassical economic theory. His theory was modelled on a single stock exchange, the Paris Bourse. Walras argued that a market is best organized as an auction, operated by brokers and other intermediaries. Austrian economists argued that markets emerge spontaneously.

It was only with the publication, in 1933, of Edward Chamberlin's *Theory of Monopolistic Competition* that economic theory also opened up for a serious discussion of other markets than exchange markets. The development of transaction cost economics, and institutional economics more generally, with its emphasis on the role of property rights and contracts, has increased also the sociological understanding of markets. These schools put more emphasis on the structure of the market than on price, the latter being the focus of the mainstream neoclassical market model.

Economists have continued to develop the theory of the market, and Gary Becker has argued that essentially all human behaviour can be analysed with the economic approach, in which the market is key (Lie 1997: 343). Economists, of course, have raised many more aspects. Nonetheless, economists have written comparatively little on markets, and it may be due to their propensity to view the market as natural, and sometimes also as a priori good.

Max **Weber**'s outlook on markets is by and large economic, but he added the ideas of power, conflict of interests and market struggle to the analysis of markets. Many sociologists, including Weber, have studied how markets are related to the rest of society. Karl **Polanyi**, who in 1944 published his seminal *The Great Transformation*, argued that market exchange is only one of three forms of organizing the economy: the

other two are redistribution and reciprocity. Pierre **Bourdieu** repeatedly mentions the market, which according to him, must be analysed in relation to the power structure of what he calls fields (Swedberg 2003: 127). Sociologists, however, did not pay much attention to markets until Harrison White, in 1981, wrote an important article, 'Where Do Markets Come From?' White's insights made ground for the fundamental distinction between exchange markets and role market, which reflect two different forms of social structure.

Exchange and role markets

In exchange markets actors do not hold roles as buyers or sellers, which means that economic actors, individuals and firms, may switch roles so that one first is a buyer, and later a seller, of the same, or another, item. There are several real markets that are exchange markets, such as swap meetings, **financial markets** and stock exchange markets. People who come together to trade, barter, buy and sell, typically focused on a certain thing, such as model trains or Volkswagen Bugs, make up a swap meeting. That is, at least some of those who attend may both sell and buy, but they do not have permanent roles as buyers or sellers. The stock exchange is another example of an exchange market, but in which the commodities, stocks, are identical. Financial markets also represent exchange markets (Knorr Cetina and Bruegger 2002).

The exchange market is the archetype of the neoclassical model, and probably the type of market for which neoclassical analysis is most suited. Also sociologists have studied this form of market, and thereby shown that neoclassical theory is not necessarily the paramount tool for analysing financial and stock exchange markets (cf. Lie 1997: 344). Sociologists, however, have not presented theories of the market that seriously challenge the neoclassical analysis of these markets.

Most real markets are not exchange markets, but role markets (Aspers 2005), which means that the market identity of an actor is tied to only one side of the market (producer/seller or consumer/buyer). Thus, car manufacturers are committed to the role as producers of cars; they do not also operate as consumers of cars. They operate, however, as buyers in many business-to-business markets, where they buy commodities, such as steel and numerous components needed for the production from other producers, typically called suppliers, who are located upstream in the production chain.

It was Harrison White, in the above-mentioned article, who initiated the sociological approach to markets. White sees the works of Marshall and Chamberlin as important contributions to a phenomenologically as well as mathematically correct theory of markets. White developed his theory to study markets characterized by few competing producers, all of whom having stable roles as producers of a certain commodity, and having identities which are relative to other producers in the same market. These producers orient themselves, not as neoclassical theory suggests, towards consumers, but towards each other. The number of producers in each market is limited, about ten to fifteen, though the number of consumers is so many that they can be treated as anonymous. White calls these markets producer markets.

A key difference between the neoclassical theory and White's theory is that the latter stresses that producers differentiate themselves by selling different products, and they also use price differentiation. This means that actors have different identities; some are known as high-quality producers and others as low-quality producers. As a result, each firm holds a niche in the producer market, which is related to the price-quality mix of its products.

White says that the market is a social structure that reproduces itself as well as its

members. Firms in a market have access to essentially the same information, and they perceive the market situation in similar ways. This information is gathered through gossip and by observing the behaviour of rivals in the market, and a consequence is that only insiders know the boundaries of the market. The consumers in White's model have a less leading role; they are essentially restricted to saying 'yes' or 'no' to what producers offer, but in doing this they determine what quality means in a market.

In addition to White's works on markets, Neil Fligstein's approach should be mentioned. Fligstein (2001) focuses on the market context, rather than providing a detailed theory of markets. His approach is 'political-cultural,' stressing the role of institutions, such as rules and classifications, as well as the point that markets are outcomes of political struggle. In this struggle some actors may fashion the market, which he conceptualizes as a field, for example by using the state as a means to gain benefits and a competitive edge. Fligstein stresses the role of the state in this process of stabilizing markets. Other sociologists have discussed the role of status in markets, and several studies analyse the importance of networks in the economy.

Though many economic sociological studies have addressed **labour markets**, few have produced alternative sociological theories of how they operate. One reason may be that labour markets sometimes are viewed as 'a distinct species of their own' (Swedberg 2003: 155). Moreover, both economists and sociologists have frequently used the neoclassical economic model to approach labour markets, though this theory is not developed for analyses of this type of market. Labour markets, according to the central distinction made in this section, are role markets.

Aspects of markets

This section discusses aspects that sociologists as well as others have seen as important or even essential characteristics of markets. However, the literature is divided on exactly which aspects are essential, and the minimal definition acknowledges this by not including them. Analyses of concrete markets may benefit from including one or more of these aspects.

Markets are often embedded in social structure, typically in other markets in the same production chain. The cotton market, for example, is connected downstream to the markets for fabrics, which are linked to the production market for garments, and the buyers of these products, garment retailers, face consumers in the final consumer who buys clothes in stores. This means that some markets are business-to-business markets, or wholesale markets, whereas others are consumers' markets (see **consumption**). Some markets are oriented upstream the production flow whereas others are oriented downstream, towards the consumers.

Some markets are close to the ideal market of neoclassical economics, with many small actors, each of which is a price taker, with access to essentially the same information, selling identical products, and without any formal barriers for entering the market. Other markets are monopoly markets (one seller) and monopsony markets (one buyer), or positioned in between the pure market, and the monopoly market, called oligopolistic markets. Each of these markets represents a different composition of power relations between the actors.

A market may be designed, and thus intentionally created, or an unintended consequence. The state is not a necessary condition for the existence of markets. Markets existed before states, and markets exist that defy the state, such as illegal markets. The degree of regulation differs between markets. Some have formal reg-

ulations determined by the state, whereas others are virtually self-regulating. Self-regulation can be formalized or it can consist of informal sanctions. Actors in markets try to fashion them so that they become more in line with their interests, and the state can also be seen as an arena for this kind of struggle. Actors in a market usually have some common interests, and may have a body representing their interests, versus the rest of society.

Though the state, the law and the profound informal trust constitute the backdrop of many real markets, other dimensions for the construction of order are also important. The social structure, in terms of roles and status positions of producers and consumers, is an important element for generating order in markets where the products are not standardized, such as in art markets, or aesthetic markets (cf. Aspers 2005). Order in a market can also be constructed through product standards, for example pureness of gold (measured in the standard of carats).

Markets may be global, which means that there is just one market, which largely is the case with the foreign exchange market. Other markets, such as housing markets, are still national, both in terms of demand and supply, but also in terms of culture, legal frameworks and the like. Furthermore, most actors in markets are private entrepreneurs, but also states operate in markets. Furthermore, both private and public ownership exist of the rights that are exchanged in markets.

A market may be a demand market or a supply market. In the first case the service or product is only produced after the buyer has made a request, as is the case when one uses a hauler. A supply market exists if producers or sellers make or sell the commodities before someone has demanded them: for example, digital cameras, or a local fruit market.

Markets may be associative or dis-associative. An associative market exists

when it is necessary that the seller (producer) and the buyer come together. This is the case in many project-based activities, such as advertising, but also haircutting exemplifies this form of market relation. Disassociative markets exists when there is no need for the producer and the consumer to come together: when a shirt is made in a developing country for a retailer in a developed country, the product is made without contact with the consumer, the final buyer.

There are also future markets, where a contract is made at one point in time, and the delivery of the contract takes place in the future. In between the making of the contract and its ending, the rights may be traded in a future market. The commodity or service is also an important aspect of any market. In some markets identical products are traded, such as a given currency in a foreign exchange market. In other markets, such as markets for arts, each object is unique (see **art and economy**).

The ethical status of a commodity or service in a market may vary. Some markets are seen as highly ethical, for example fair trade markets, whereas people normally see prostitution as highly unethical (see **fairness**). Generally speaking, almost anything can be traded in a market. Furthermore, markets may be driven by profit, but other markets are driven by ethical considerations. Some of these ethical markets have the same social structure as other markets, but the logic is different.

A market is also characterized by its culture, different degrees of tradition and rationality, language, ways of interaction, meaning and so on. Furthermore, actors in a market have acquired knowledge that usually is specific to this market.

Though money sometimes is included in definitions of markets, it is not a necessary, or defining, aspect of markets. Relative evaluation (prices) of products, services or people in markets can be made without money; what is needed is some kind of

ranking, and 'prices' may be expressed in real terms. Money can also be subject to trade in markets. Obviously, money facilitates this process and the operation of markets, and may be almost a necessity if one is to engage in comparison across many markets, or in studies of the interconnectedness of markets.

Real markets show great variation between each other. This suggests that it is hard to have one single theory that encompasses all markets. Sociologists have suggested that there are different kinds of markets. The definition provided here harbours empirically existing markets, and identifies what effectively makes them markets. It is clear that there are two species of markets, exchange markets and role markets, and this suggests that there should be two different theories, one for each species. Economic sociologists need to study whether markets can be seen as instances of more general forms of social structure. Another issue is the relationship between markets and capitalism.

References and further reading

- Aspers, Patrik (2005) *Markets in Fashion, A Phenomenological Approach*, London: Routledge.
- Fligstein, Neil (2001) *The Architecture of Markets*, Princeton, NJ: Princeton University Press.
- Knorr Cetina, Karin and Bruegger, Urs (2002) 'Global Microstructures: The Virtual Societies of Financial Markets', *American Journal of Sociology*, 107: 905–50.
- Lie, John (1997) 'Sociology of Markets', *Annual Review of Sociology*, 23: 241–60.
- Marshall, Alfred (1920) *Principles of Economics*, London: Macmillan.
- Swedberg, Richard (2003) *Principles of Economic Sociology*, Princeton, NJ: Princeton University Press.
- White, Harrison (1981) 'Where Do Markets Come From?' *American Journal of Sociology*, 3: 517–47.
- (2002) *Markets from Networks, Socioeconomic Models of Production*, Princeton, NJ: Princeton University Press.

PATRIK ASPERS