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The Market

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Abstract Markets have led a shadowy existence in economics. The ruling paradigm, neoclassical economics, for which markets are a central institution, has mainly been concerned with the determination of market prices. Until recently, sociological investigations of modern markets focused on production, as did anthropological work that ascertained how each culture made a living. The major debate among anthropologists to date has been about whether the economic rationality of the maximizing individual is to be found in all societies or whether substantive economies are always embedded in a cultural matrix that determines its logics and forms of transaction. A new feature of financial markets is that they are based upon scopic systems – electronic and informational mechanisms of observing and contextualizing market reality and of back-projecting this reality onto the computer screens of globally operating traders. When such a mechanism is in place, coordination and activities respond to the reflected, represented reality rather than to pre-reflexive occurrences. This form of coordination contrasts with network forms of coordination that are pre-reflexive in character. In network markets, participants rely on their relationships to determine 'where the market is'. In a market based on scopic systems, the market is fully visible on screen – as a set of tradable, comprehensively contextualized, quickly moving prices for various trading instruments. In this situation, a level of global inter-subjectivity emerges that derives from the character of these markets as reflexively observed by participants on their computer screens in temporal continuity, synchronicity, and immediacy. As a consequence, these markets are communities of time. As temporalized systems, financial markets project a form of coordination adapted to a global world that leaves behind the patterns of traditional producer and exchange markets.

Markets of one kind or another are common in known Western and non-Western history, and they are central to capitalist economies. What differentiates the capitalist economy from the socialist economy, from gift giving, tribute, subsistence economies and kinship-based economic patterns, as Polanyi has argued ([1944] 1968; Swedberg, 2003: 104–5), is the way distribution is structured – as market exchange rather than as redistribution or reciprocity. Yet our knowledge of what types of markets there are, of the cultural dimensions of markets, and of how we are to understand them analytically remains oddly underdeveloped. Markets have led a shadowy existence in the discipline in charge of them, economics, as economists will freely admit (e.g. Coase, 1988: 7). The ruling paradigm, neoclassical economics, for which markets are a central institution, has mainly been concerned with the determination of market prices. Until recently, sociologists, following Marx and Weber, focused most of their attention on production, in an attempt to understand the rise of capitalism, modernity and industrialization. Anthropologists, meanwhile, took their domain to be ascertaining how each culture made a living, thus also privileging production. Their major debate to date has been about whether the economic rationality of the maximizing individual is to be found in all societies or whether substantive economies are always embedded in a cultural matrix that determines its logics and forms of transaction (Wilk, 1996: 3–13). Markets have nonetheless awakened ever more interest in recent years – perhaps in response to the rise of financial markets and the increased 'marketization' of public services, social security and other welfare provisions that were previously the domain of nation-state policies and regulations. In many ways, capitalism appears to come into its own fully as a market society only at the turn of the 20th century. Not surprisingly, current concepts of the market originate from work in and on Western market societies.

What Are Markets?

At the root or our current notions of a market lie – arguably – two ideas. The first is the idea of a mechanism that solves the problem of *bringing together the diverse and dispersed interests of buyers and sellers*, of those who have goods to offer and those who need or want them. For centuries, this mechanism has been that of a specified place. Historians have shown that such marketplaces first materialized in early Greece at the periphery of settlements in the form of 'silent trade' between persons 'who left and retrieved their goods at a sacred boundary stone or its analogues' (Agnew, 1986: 20). With silent trade, exchange took place but buyers and sellers never needed to meet one another; in Sahlin's words, silent trade maintained good relations 'by preventing any relations' (Agnew, 1986: 24). These anonymous, silent markets were followed by the 'noisy' central place markets that resulted from the movement of markets to the centres of settlements, a process accomplished fully in England only by the 17th century. Such central markets are still with us today in various forms. Examples range from periodic open-air farmers' markets, which exist throughout the Western and non-Western world, to bazaar markets, such as the thousand-year-old market in Sefrou, an old caravan stop at the foot of the Atlas Mountains in Morocco famously described by Geertz (1978), and the Tsukiji market in Tokyo, the world's largest seafood market (Bestor, 2004). The most economically complex version of the central place market today is the modern, non-electronic stock exchange. The New York Stock Exchange itself started out as a physical gathering place, which on the Wall Street of 1790 was the now famous buttonwood tree under which those interested in trading securities met (the Exchange moved indoors in 1817). Central place markets need to be distinguished from the kind of dealing that increased and spread during the 16th century in the expanded space of international trade and involved long chains of supply and circulation and a multiplication of intermediaries. This generalized and more private trade presumably passed through networks of physical connections and business relationships between merchants, financiers and commercial explorers. It illustrates the expansion of the specialized role of traders who are not producers, but merchants – who find, buy and stock particular goods in order to resell them later to other traders or consumers at the end of a supply chain. Internationally active trade diasporas, that is, networks of traders that operated as intermediaries between communities, have their own long history dating back to several centuries BC; such networks also controlled long-distance trade within specific regions, such as China or the Indian Ocean. In the 15th and 16th centuries, the emerging scientific revolution in Europe generated knowledge of navigation that, together with the colonialist impulse, helped European traders take over much of world trade – but not without resistance. For example, members of the Hadrami diaspora of Arabs from Hadramawt, Yemen, that operated in the arc of coasts across the Indian Ocean, played an important role as intermediaries and political leaders in the recurrent and persistent confrontations that emerged between the diaspora and various Western empires: first, the Portuguese, then the British, then the Dutch – and now the USA; Bin Laden is a member of the Hadrami diaspora (Ho, 2004). In the 17th and 18th centuries, the Industrial Revolution led to a further explosion of Western long-distance trading and the emergence of decentralized trade-based markets that illustrate the principle of travel as a way to physically connect producers and consumers in spatially dispersed situations. Generalized trade and the industrial revolution prepared the ground for a third kind of market, the modern consumer market, and another mechanism by which buyers and sellers can become connected: the retail store. Stores date back to the emergent cities of the 11th century, but they became the distribution channel of choice of the newly emerging consumer markets whose beginnings have been traced to England in the second half of the 18th century (Swedberg, 2003: 147; McKendrick et al., 1982). Thus, besides buyers and sellers, trading corporations, stores and long, potentially global supply chains – as well as advertising and marketing agencies – are central elements of the enlarged concept of a mass consumer market. At the same time, the mass consumer market illustrates the idea of the market as an *interface* between producers and consumers that was also present in peripheral and central place markets.

Economists' Market: A Price Discovery Mechanism

The modern, decentred consumer market and the modern stock exchange as a place where buyers can find sellers (via intermediaries) also illustrate a second idea with which modern markets are associated. This is the idea of *price discovery and adjustment*. The idea is embodied in the economist's concept of the market – in particular, in the neo-classical model of general equilibrium theory, which presupposes that there are independent agents equipped with a set of preferences, technological opportunities and an endowment of wealth who maximize their utility by working out what they want to buy and sell relative to prevailing prices. Buyers' demand and sellers' supply are viewed as forces operating in the market. The relative prices of goods adjust themselves according to the laws of supply (all other things being equal, sellers will tend to supply more at a higher price) and demand (*ceteris paribus*, the quantity demanded of a commodity is inversely related to its price) until a mutually acceptable price emerges that represents the balance of these forces. When this happens, the market is said to 'clear' and a state of equilibrium is attained at which supply and demand are in balance and a mutually acceptable price has emerged. The equilibrium price is something to be discovered in this market, but the price also coordinates the interests of buyers and sellers: it allows them to satisfy their needs by pushing supply and demand in the right direction. The model hence conceives of markets as tending toward a state of rest, though this state may only be attained through complicated processes of adjustment and negotiation among players who react to the various signals. The equilibrium state will be disturbed by external shocks that lead to renewed adjustments.

Critics both within and outside economics have taken issue with many aspects of this model; in particular, they have asked exactly how the right set of prices might be discovered by participants, given the difficulties of identifying and comparing the respective goods and prices. Interestingly, as Earl points out, when early equilibrium theorists like Walras and Edgeworth attempted an answer to this question, they appear to have drawn their inspiration from auctions and the workings of the Paris commodity and stock markets (Earl, 1995: 299–300) – where expert traders shouted their way to the discovery of a 'fair' price – by making provisional buying or selling offers without deposit or fee, and which they could cancel once they found a better deal. In essence, this corresponds to the idea of a continuous auction, which the stock exchange indeed embodies while at the same time delivering a standardized, regulated and consistent version of the central trading places of the past. Economists tend to interpret these institutional provisions in functionalist terms, without considering further the internal differentiation and social construction of institutions, which social scientists see as social conventions. They assume that institutional provisions render the exchange process efficient by solving some of the information, comparability and consistency problems of decentralized, unregulated markets.

Social Scientists' Markets: Mostly Producer Markets

One interesting characteristic of the neo-classical economists' take on markets is that they focus on an abstract version of 'exchange' markets viewed as a price-making and resource-allocating mechanism for which the stock market provided the model. This was not always the case. As Swedberg points out (2003: 105–9), classical economists such as Adam Smith, David Ricardo and John Stuart Mill saw the market as something more concrete, often synonymous with a place or geographical area, and they saw the prices of goods as being determined by the amount of work it took to produce the commodity. Social scientists will recognize here the origin of Marx's famous labour theory of value. Like Marx, economists before the neo-classical revolution thought in terms of producer markets, while Walras and later economists turned to the stock market for inspiration. This movement from producer markets to exchange markets was reversed when sociologists (re)turned to studying markets and the economy in the 1980s after decades of neglect; a time during which economic sociology had been equated with industrial sociology and the perspectives of Parsons, Smelser and Wilbert E. Moore, who shied away from addressing core economic activities. Besides economics itself, the new economic sociology is the field most actively involved in discussing and studying aspects of markets. It is generally traced back to Granovetter's (1985) ground-breaking article on economic embeddedness and his belief in the need for a fundamental attack on neo-classical arguments. When it comes to markets, one upshot of the rebirth of interest in economic matters since the early 1980s in the USA is a major line of research that focuses on producer markets. Thus, while economists turned to exchange markets, taking the stock exchange as their point of departure, sociologists have predominantly focused on producer markets, taking the firm as a point of departure. This corresponds to the emphasis early economic sociologists placed on the internal workings of organizations in line with their understanding of production as central to industrialization (e.g. Swedberg, 1991), and with their interest in social distribution as a facet of social inequality and social structure. Definitions of producer markets generally assume the stable role of the producer as a firm, encompassing a governance structure and internal production processes, and vary in accordance with how the sociologist conceives of the relationship between producers and consumers. For example, White's influential model (e.g. 2002) stresses the existence of 'tangible cliques of producers' that constitute networks of sellers, monitoring each other to find distinctive niches for their products. In conventional market theory, producers may be oriented toward consumers in monitoring demand; they may also be seen as driving prices down and homogenizing their products. Though some models of markets were concerned with securities markets (e.g. Baker, 1984; Smith, 1999), advances in recent research have not been in the area of market differentiation but have involved a shift in focus from what goes on within firms to what goes on between them; the dominant line of research specializes in the analysis of inter-organizational ties, in effect joining organizational analysis and market analysis through the use of network approaches that look at the nature of relationships and their effects as well as at 'upstream' and 'downstream' markets composed of such networks (e.g. DiMaggio and Louch, 1998; White, 2002; Uzzi and Lancaster, 2004).

Financial Markets

Historically, central markets and trade-based markets were not isolated economic institutions, but tended to involve civic institutions and activities. For example, the Greek agora, a public area at the centre of Greek city-states, where central markets appeared before the 6th century BC, was originally a political, military and religious assembly point. When trading and exchange by professional merchants for profit appeared on the scene, they were regarded as a threat to social norms and cohesion – a response to the perceived encroachment of middlemen within the household of the agora (Agnew, 1986: 21–2). The area of market studies where scholars have gone beyond the study of flows of resources, trust and power – pumped through inter-organizational ties – is that of financial markets. Financial markets do not sell commodities that have use value to consumers; as a consequence, they can no longer be viewed as an interface between producers and consumers. Instead they become a primary framework for self-contained economic transactions. Goods in the form of financial instruments (currencies, stocks, bonds, options, etc.) circulate in these markets; though these instruments may expire, lose value or decay in other ways, they do not get used up by market-external consumption.

Financial markets therefore pose the question of 'what markets are' in a new way. We cannot simply define them as being centred on matching buyers and sellers or on the price-finding mechanism, since such definitions fail to convey that these markets' raison d'être is by and large endogenous to them. In other words, profit generation in these markets does not derive mainly or exclusively from intermediary services rendered to commodity users and providers. What has to be spelt out in these markets is the logic of investment and speculation, and this points away from a concept of markets as simply a means of distribution and exchange. Many economists hold that financial markets conform more directly to their assumptions because inbuilt mechanisms guarantee their efficiency (new information will quickly be incorporated in price changes) and transparency; and some social scientists (Callon, 1998) appear to support this claim by arguing that the performative character of economic knowledge transforms economic domains into closer approximations of economic models. But empirical studies by sociologists and new work by anthropologists (e.g. Dilley, 1992; Carrier, 1997) demonstrate, in contrast, that all markets are composite and 'entangled' in character (Miller, 2002). They show that financial markets in particular include a rich mixture of cultural and global interaction patterns that enable and shape the functioning of these markets and explain their breakdown (Abolafia, 1996; Knorr Cetina and Bruegger, 2002; MacKenzie, 2004). They also show the various roles knowledge, technology and information play in these markets. The knowledge systems in these markets not only deliver cognitive information for financial decision-making and help in developing financial instruments, but motivate the reproduction of these markets and enter the process of price formation (e.g. MacKenzie and Millo, 2003).

A final characteristic of some financial markets that is new compared to the markets discussed previously is that they are based upon scopic systems – electronic and informational mechanisms of observing and contextualizing market reality and of back-projecting this reality onto the computer screens of globally operating traders and financial units (Knorr Cetina, 2003). Like an array of crystals acting as lenses that collect light, focusing it on one point, such mechanisms collect and focus activities, interests, and events on one surface, from whence the result may then be projected again in different directions. When such a mechanism is in place, coordination and activities respond to the reflected, represented reality rather than to pre-reflexive occurrences. This form of coordination contrasts with network forms of coordination that are pre-reflexive in character – networks are embedded in territorial space, and they do not suggest the existence of reflexive mechanisms of projection that aggregate, re-contextualize, and augment the relational activities within new frameworks that are analytically relevant to understanding the continuation of activities. In network markets, participants rely on their relationships to determine 'where the market is' – who wants to deal and at what price. In a market based on scopic systems, the market is fully visible on screen – as a set of tradable, comprehensively contextualized, quickly moving prices for various trading instruments. In this situation, a level of global inter-subjectivity emerges that derives from the character of these markets as reflexively observed by participants on their computer screens in temporal continuity, synchronicity, and immediacy. As a consequence, these markets are communities of time, and they are also flow markets – the previously spatially dispersed trading interests are now integrated into one temporal stream of sequentially connected prices and transactions. As temporalized systems, financial markets of this kind (an example is the institutional currency market) project a form of coordination adapted to a global world that leaves behind the patterns of traditional producer and exchange markets.

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