



TOWARDS A SOCIAL ONTOLOGY OF MARKET SYSTEMS

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Abstract:

Academic analyses of market systems are deeply divided. While economists tend to neglect the personal and sociological factors that shape the behaviour of market actors, sociologists tend to discount the possibility of a systematic analysis of the consequences of market interactions. Economists thus end up with unrealistic models of markets, and sociologists end up unable to explain the economic impact of markets. This paper outlines a project that aims to produce an analysis of markets that is both sociologically realistic and capable of explaining economic effects.

The project will construct a realistic ontological analysis of market systems, developed using a critical realist methodology. Market systems, it will argue, are social structures that depend ontologically upon both human individuals and a number of normative institutions. These institutions tend to produce coordinated interactions between market actors, and these interactions underpin mechanisms that endow market systems with emergent causal powers. Different types of interactions underpin different market mechanisms, including mechanisms like those theorised by mainstream economists, but also others that they tend to neglect, and an adequate understanding of real-world markets depends on analysing these multiple mechanisms and how they interact.

This will be a theoretical project in economic sociology, drawing on existing empirical work without conducting new empirical research. It will be focussed primarily on contemporary product markets in advanced capitalist economies, while selected historical and alternative contemporary models will be considered more briefly to illustrate both the historical specificity of the dominant contemporary model and the possibility of alternative types of market system.

Keywords/tags:

social ontology, markets, critical realism, institutions, mechanisms

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1 INTRODUCTION¹

Academic analyses of market systems are deeply divided. Amongst economists, there is a tendency to neglect the personal and sociological factors that shape the behaviour of market actors, and to assume that these can be safely abstracted from in analysing the causal consequences of market interactions. Often their assumptions – most strikingly the common assumption that market actors are purely rational, calculating, optimising agents – are strikingly unrealistic and yet it is believed that they are acceptable, in part because they make it possible to produce mathematically tractable models of market interactions. Amongst sociologists, there is a tendency to focus on the social factors that shape the behaviour of market actors, while discounting the possibility of a systematic analysis of the consequences of market interactions. This may produce more realistic accounts of market behaviour, but it leaves sociologists poorly equipped to explain the economic effects of markets. Economists thus end up with unrealistic models of markets, and sociologists end up unable to explain the causal impact of markets.

This paper outlines a research project that seeks to bridge this gap by producing an analysis of markets that recognizes the need for both a realistic sociological explanation of the behaviour of market actors and an analysis of how such behaviour produces systematic economic effects. Such an analysis has the potential to be both more credible than economists' models and more productive than sociological critiques of those models. From a political perspective, it has the potential to integrate our understandings of the strengths of markets and their weaknesses. Hence, although this is not a project with short-term policy-related deliverables, it offers a potential framework for a more balanced and productive politics of the market.

The paper begins by outlining the intellectual context of the project, then its scope and methodology. This is followed by two sections introducing the kind of argument I expect to develop during the project. I will argue that market systems are best understood as two-level social structures. At the first level normative, organisational and emotional factors shape the practices of individual market actors, including specific market strategies. At the second level, interactions between buyers and sellers that are driven by these strategies generate market mechanisms and thus systematic economic effects. Each of these levels is discussed in a separate section, and I conclude with a discussion of the project's potential significance.

2 INTELLECTUAL CONTEXT

In terms of its objectives and its objects of study, this project bridges the disciplines of economics and sociology. In recognising the potential validity, if only partial and limited, of economic models of market mechanisms, it will engage more positively with mainstream economics than is perhaps common in economic sociology. Furthermore, arguments complementary to those to be developed here can be found in the work of some contemporary institutional economists (e.g. Hodgson, 1988) and perhaps some other traditions in heterodox economics. Nevertheless, in most respects this project has much more in common with economic sociology than with most economics: a central and fundamental feature of the ontology will be the manifold dependencies of market mechanisms on normative social structures; the project will adopt realism rather than mathematical tractability as its criterion of the adequacy of ontological hypotheses; and there is no intention or expectation that it might lead to new mathematical models of market mechanisms. The project will, as Smelser and Swedberg put it, follow the tradition of economic sociology in regarding "the economic process as an organic part of society" (Smelser & Swedberg, 2005: 6), while also pursuing their vision of "complementary articulation" of theories from both economics and sociology (Smelser & Swedberg, 2005: 20).

¹ This working paper presents an initial tentative outline of a future research project. I would like to thank Mark Harvey for his very valuable comments, and the British Academy for its financial support, as this paper has been prepared during my tenure of a British Academy Post Doctoral Fellowship in the Department of Sociology at Essex. I also thank the participants at a CRESI seminar in November 2009 for their useful comments.

As a number of scholars have observed, economists have paid remarkably little attention to the nature of markets as real social phenomena as opposed to their representation as abstract mathematical models (e.g. Callon, 1998a: 1; Hodgson, 1988: 172; Nee, 2005: 56). In recent years the most prominent attempts in economic sociology to address this absence have come from the (post) actor-network theory tradition led (in economic sociology, at least) by Michel Callon.² At one level, this tradition appears to have revitalised the sociological analysis of markets. Perhaps its most valuable innovation is the concept of *market devices*, conglomerates or *assemblages* of practices and objects that help to structure markets by providing resources that come to shape the decisions of market actors or *calculative agencies* – devices such as financial charts, focus groups, analysts' reports, purchasing centres and supermarket displays (Muniesa, Millo, & Callon, 2007). But such analyses are entirely and indeed intentionally uncritical of the economists' conceptions of the market as essentially a site of rational calculation.³ They provide a sociological account of some of the ways in which market actors are *enabled* to become calculative agencies, to become the *homo economicus* (Callon, 1998b: 51) of the economists' models. One consequence of this analysis, it seems, is to validate and defend the economists' conceptions of markets as purely calculative, as abstractable (without adverse consequences) from the details of interpersonal interaction when it comes to theorising their economic effects. Callon's work, as Miller puts it, "amounts to a defence of the economists' model of a framed and abstracted market" (Miller, 2002: 218).

From the perspective to be developed in this project, Callon's approach is undermined by a failure to recognise that the economic behaviour of individual agents is not merely driven by calculative rationality but also by a range of other sociological factors. Because this is so, the strategy of separating the sociological analysis of such behaviour from the economic analysis of market effects cannot be sustained, since it is only if individual agents are purely calculative and interest-driven that the neoclassical analysis of markets can be justified, and insulated from further sociological considerations. If, as I will argue, the behaviour of economic agents is driven by a complex mix of factors, and if we recognise that market mechanisms depend upon the nature of the interactions between individual agents, then market mechanisms themselves depend upon considerations that Callon has marginalised.

These theoretical weaknesses arise, in turn, from the ontological weaknesses of (post) actor-network theory. In their determination to 'keep the social flat' (Elder-Vass, 2008b; Latour, 2005: 165-72) they deny the causal significance of social structures (see Barry et al., 2002: 295) with the result that they are unable to theorise *either* the systematic influence of the social institutions that provide the context upon which market systems depend *or* the market system as a structural entity that produces systemic economic effects (an issue that must therefore, for them, be passed over to the economists). Above all, they are unable to recognise the systematic ways in which the *economic* behaviour of market systems depends upon the characteristic patterns of interaction between market actors. Although they name markets "collective calculative devices" (Callon & Muniesa, 2005) the "collective" here is never more than a situationally-specific collection of human and non-human actants, and the "calculative" always relates to situationally-specific decisions of market actors and not to systemic outcomes.

By contrast, the project proposed here will draw on a tradition of thinking – critical realism – that stresses the existence of social structures, and their emergent causal capabilities (e.g. Archer, 1995), while also recognising that they depend upon the interacting activities of individual human actors (Bhaskar, 1998 [1979]; Lawson, 1997: 166-70). Although critical realism has had relatively little impact on economic sociology to date, an important exception is the work of Andrew Sayer on "moral economy" which he defines as "the study of how economic activities of all kinds are influenced and structured by moral dispositions and norms, and how in turn those norms may be compromised, overridden, or reinforced by economic pressures" (Sayer, 2004: 2). From this perspective, "we can acknowledge the partial autonomy of market forces... while arguing that they can never completely escape their dependence on non-market and non-economic processes or aspects of social life, so that in

² I call this tradition (*post*) actor-network theory in deference to its practitioners' recent ambivalence about its name. For a critique of this tradition from a realist perspective, see (Elder-Vass, 2008b).

³ Callon himself argues that we should abandon the critique of economists (Barry, Slater, & Callon, 2002: 301).

making abstractions in order to analyse modern economies, we must remember this conditionality" (Sayer, 2004: 3).

Critical realism thus offers an alternative to the methodological individualism of (post) actor-network theory, rational choice theory, and games theory. This is a perspective that enables us to recognise market systems as social structures with causal powers while examining how those powers depend upon the nature of socio-economic interactions. It is the exploration of these properties of real, as opposed to idealised, market systems, and how they arise from such interactions that is the central focus of this project.

3 SCOPE

The central objective of the planned project is to conduct a realistic ontological analysis of market structures. This analysis will be focussed on the relationship between the exchange behaviour of market actors, on the one hand, and systemic effects of market systems on the other. Market systems will be analysed as social structures with emergent powers that depend on the interactions between market actors and thus on their behaviour in market exchanges, and that behaviour itself will be seen as the causal product, not simply of isolated calculating individuals but of socially-embedded individuals whose actions are systematically affected by normative social structures as well as their needs, interests, and emotions.

It follows from this focus that the project will not address a great deal of other economic activity and the structures that may result from and shape it, including processes of production and consumption, and the vast range of gifts and exchanges that occur outside the market even in the most marketised of contemporary economies.

Furthermore, any account of the operation of market systems must inevitably draw its understanding from evidence that relates to specific market systems. An account that seeks to explore real, as opposed to idealised, market systems must recognise that not all market systems are necessarily alike. Hence we must recognise that we may develop different understandings of market systems depending on *which* ones form the evidence base for our analysis. As I will argue below, the causal effects of market systems depend at least in part on the institutional context and on the effects that this has on the strategies and indeed the nature of market actors, and since such institutional contexts do vary between societies we should expect that there will be different kinds of market systems with different economic mechanisms and effects. If this is so, there can be no universal theory of market systems, but only historically specific theories of specific market systems, from which we may sometimes be able to generalise, but only cautiously and provisionally.

Given the vast range of historical contexts in which markets have operated, and the vast range of evidence in the literature, it will be necessary to narrow the focus of the study to restrict it to a manageable size. The primary focus will be on contemporary product markets – markets for goods and services – in advanced capitalist economies, since these are the paradigm case of markets most commonly studied by both contemporary economists and economic sociologists. Within this category, several varieties of product market will be considered, including primary commodity markets, inter-producer markets, and final consumer markets. However, the project will also consider a small number of other cases more briefly, for two reasons. First, in order to illustrate the possibility of different mechanisms occurring in different types of market systems, and thus to justify the claim that its analysis of contemporary product markets is historically specific. And second, to illustrate the possibility that markets could be different; that policy makers need not assume the necessity for markets to follow the predominant model in contemporary capitalist product markets. The alternative cases to be studied will be selected during the project. They may include past market systems documented in the historical literature (e.g. Braudel, 1982), specific contemporary labour or financial markets, and/or 'alternative' contemporary markets that do not conform to the dominant commercial model.

Nor will the project address questions of historical development or change in market systems, including the historical roots of those contemporary market systems that will be its main focus. Such questions would be of central importance to a more general theory of market systems, but the focus of this project is different: it is on the synchronic mode of operation of market systems, on the ways in which actually existing market systems exert a causal influence on the

social world, rather than on the diachronic question of how those market systems have come to be the way they are.

4 METHODOLOGY⁴

This section briefly outlines both a philosophical ontology and a method, consistent with this philosophical ontology, for developing more local ontologies. This method is justified in more detail elsewhere (for example, Elder-Vass, 2005, 2007b; forthcoming: chapters 2-4); the purpose of this section is to provide just enough detail to enable the reader to make sense of the proposal developed in the remainder of the paper.

The philosophical ontology assumed here is a realist ontology based on Roy Bhaskar's work, as developed primarily in *A Realist Theory of Science* (Bhaskar, 1975) (also see Elder-Vass, 2005). This is most easily approached through the concept of causal powers. For Bhaskar (at least in this work) causal powers are possessed by things, which we may also call *entities*. These powers arise from what he calls *generative mechanisms*, or sometimes just *mechanisms*: processes in which the parts of the entity interact to produce its powers (see Bunge, 2003: 20). These mechanisms therefore depend on the composition and structure of the entities concerned. To be more precise, they depend upon (i) the set of parts; (ii) the powers of those parts; and (iii) the set of relations between these parts; that are characteristic (and definitive) of entities this type. Because they depend not just on the parts of the entity possessing them, but also on the relations between those parts that only obtain when they make up a whole of this type, these powers are *emergent properties* of the things possessing them. They are emergent in the sense that they are possessed by the whole but would not be possessed by the parts in isolation or in some other type of structure because they depend on the relations in which the parts must stand to be an entity of this type.⁵

Actual events, however, are not produced by single causal powers, but instead are the result of interactions between whatever contingent sets of causal powers are implicated in the event. They are, to use Bhaskar's term, *multiply determined* by a set of interacting causal powers (Bhaskar, 1975: 109-11). One consequence is that causal powers do not produce exceptionless regularities like those described by Hempel's deductive-nomological causal laws (Hempel, 1968), but rather operate as tendencies, tendencies that may be frustrated when causal powers with conflicting tendencies interact with them.

Given such a philosophical ontology, an important part of the scientific enterprise is the development of local ontologies – what Bhaskar calls *scientific ontologies* and Benton and Craib call *regional ontologies* (Benton & Craib, 2001: 5; Bhaskar, 1986: 36). A regional ontology describes the complex of entities and powers at work in the events studied by some particular discipline, or in a set of disciplines that studies a particular group of phenomena. One implication of the critical realist philosophical ontology is that we can develop regional ontologies by identifying the causal powers at work in producing these phenomena, the entities that possess them, the mechanisms that produce them, and hence the structure of parts and relations upon which they depend (Elder-Vass, 2007b).⁶ This becomes a potentially recursive exercise because those parts are themselves entities with properties that must be analysed in the same way. Ultimately, we would hope to be able to follow this chain back until we can recognise the parts as entities that are already adequately theorised in neighbouring disciplines.

The primary criterion that must be satisfied by regional ontologies is coherence, at a number of levels. First, the set of entities, powers, mechanisms, parts, and relations hypothesised must be mutually consistent. Second, they must be consistent with the broader philosophical ontology (or it must itself develop to accommodate any fundamental problems). Third, they

⁴ Much of this section is drawn from (Elder-Vass, 2009).

⁵ This is what may be called a *weak* version of emergence (Stephan, 2002: 79). Although Stephan argues that weak emergentism is necessarily reductionist, I have disputed this (Elder-Vass, forthcoming: ch. 2) At times Bhaskar himself is ambivalent about the variety of emergence he endorses (Kaidesoja, 2009: 301-6).

⁶ Hence I am not employing the method of *transcendental argument*, employed by Bhaskar in *A Realist Theory of Science* (Bhaskar, 1975), and by the leading critical realist economist, Tony Lawson (Lawson, 1997: 49-51; 2003: 34). Although, unlike some of Lawson's critics (Davidsen, 2009; Vromen, 2009), I consider this method useful, it is not appropriate to the kind of detailed ontological work to be pursued here.

must be consistent with a plausible complex of local theory. Indeed ontology and theory overlap at the level of theorising mechanisms, a task referred to in the critical realist literature as *retroduction* (and the retroduction of market mechanisms will be a central concern of this project). And finally, the plausibility of that theory itself depends upon consistency with empirical evidence, and so the ontology must be consistent with such evidence by proxy: by being consistent with empirically sound theory. Such consistency is not, however, easily tested, since individual events may be causally influenced by many different mechanisms, and claims for the effect of any particular mechanism may difficult to disentangle from the effects of other interacting mechanisms.

A social ontology is a regional ontology for the social sciences, an ontological analysis of the entities with causal powers that interact to produce social events. As the argument above implies, a realist social ontology should be consistent both with the realist philosophical ontology of causal powers and also with plausible sociological theory and empirical evidence.

It is perhaps unfashionable, even amongst realists, to argue that it is entities with causal powers that cause social events. I have, however, been developing this argument for a number of years, and have argued, for example, that we can understand human agency, organisations, and normative social institutions in these terms (Elder-Vass, 2007a, 2007c, 2008a; forthcoming: chs. 5-8). This section illustrates the approach with a brief discussion of normative social institutions, as these are fundamental to the proposal developed in this paper. Inevitably, as an introductory version of the argument, this section neglects many complexities and issues; the reader is referred for a fuller account to (Elder-Vass, forthcoming: ch. 6).

While many sociologists have argued that social practices are guided by norms, which are inculcated into individuals through a process of socialisation, the ontological status of norms and of normative social institutions has always been contentious. Is normativity simply produced by individuals, as methodological individualists argue, or is it a product of some kind of social structure, and if so what form could such a structure take, that is in some sense distinct from individuals and yet able to influence them? Applying the philosophical ontology outlined above, I have argued that there are entities with the causal powers to encourage individuals to conform with social norms, and that these entities are what I have called *norm circles*.

A norm circle is the group of people who are committed to endorsing and enforcing a particular norm. Each member of such a norm circle believes not only that the norm concerned is an appropriate guide to behaviour, but also that it is appropriate for them to act in support of that norm, and that when they do so they are likely to be supported by others as they are acting in a way that is itself socially endorsed. Norms may be endorsed and enforced in a wide variety of ways, from outright physical punishment for non-compliance through to the most subtle indications of approval or disapproval of a particular style of behaviour. The result of such actions in support of a norm is to produce in those who experience them the belief that they face an environment in which conformance with the norm will be positively approved and/or non-conformance will be negatively sanctioned. As a result, they will develop a belief that it is in their interests to conform with the norm (and they may also internalise a moral commitment to it) and an increased tendency to conform with it. This does not, however, entail consensus about norms: individuals may conform to them for purely instrumental reasons, and such conformity may be in part a product of unequal power relations between the members of the norm circles concerned.

What is ontologically distinctive about this argument is the claim that it is the *norm circle* that has this effect, rather than society in general, and rather than the individuals who endorse and enforce the norm. My argument is that those individuals support the norm as they do because they are members of such a group. Because they understand that their endorsing and enforcing action is likely to be supported by other members of the norm circle they are willing to act in support of the norm themselves. In other words, this group of people constitutes an entity whose parts are the individual members, related to each other through a mutual commitment to act in support of the norm concerned (though they are generally not aware of the precise extent of the network of such commitments that binds the whole norm circle together). Because they are related to each other in this way, they act differently than they would if they were not members of such a group: they endorse and enforce the norm. Even if, without the group, they still personally believed in the appropriateness of the norm, they

would be less likely to act in support of it if they did not feel that others were also committed to it. Hence this additional willingness to endorse and enforce it is a causal power of the group, a product of the set of parts and relations between them that exists only when the group exists. It is the *mechanism*, arising from the set of parts and relations between them that constitute the group, that produces the norm circle's power to influence individuals. And when individuals who are part of such a group act in support of the relevant norm, they do so *on behalf* of the group; the causal power of the group is expressed through those individuals who act on its behalf.

In practice, the concept of an *institution* is used quite diversely, and often reflects more complex social structures than single norms. Consider, for example, the highly pertinent cases of *property* and *money*. Neither property nor money is defined by a single social norm or rule, but rather a complex of interdependent rules, regarding the kinds of rights that individuals may claim over items of various types. Furthermore, the formulation and enforcement of such rules depends not only on the more informal sorts of interactions used to illustrate the concept of a norm circle above, but also depends critically upon formal organisations, above all the state and its use of the law to endorse and enforce normative standards. I propose to use the term *institutional complexes* to refer to such structures: those defined by multiple interdependent norms and/or laws.⁷

The project proposed here will apply the ontological method outlined above to develop an ontology of market systems. Such an ontology should be consistent with our actual experience of economic transactions, as opposed to a theoretically convenient idealisation of them. This is not to say that no abstraction will be involved, but such abstraction will be shaped by the ontological agenda of identifying social entities with causal powers and how these interact to produce socio-economic events, as opposed to the theoretical agenda of portraying markets as smoothly functioning systems that can be conveniently represented as mathematical models.

Furthermore, any ontology of market systems must be compatible/coherent with a plausible ontology of the rest of the social world, as opposed to the assumption that the rest of the social world can simply be ignored in theorising economic mechanisms. In addition to simple social institutions, it will need to be compatible with a coherent ontological understanding of individual agents, of firms, of property rights and of money (and possibly other related social phenomena). My previous work has already developed such understandings of individual agents and of organisations in general, but this project will need to consider firms more specifically, and the institutional complexes of property and money, as part of the process of analysing the ontology of market systems.

As should become clear from the remainder of this document, the development of a social ontology also depends on the production or assembly of a compatible body of theory, and through this requirement, on relevant empirical work. While this project will not include primary empirical research, I will seek to establish coherence with such a body of work through engagement with the existing literature on the operation of markets and related social phenomena. It is important to recognise that this is inevitably an iterative process: not only is our understanding of theory guided by our ontology, but our ontology must be responsive to empirically well-founded theory (see Elder-Vass, 2007b).

5 NORMATIVITY AND EXCHANGE

The next two sections outline some of the more specific arguments concerning exchange and the mechanisms it produces that will be considered and developed in this project. Market systems will be analysed in this project as two-level social structures; at the first level, institutional and other factors shape the market strategies of market actors, and at the second, interactions between buyers and sellers driven by such strategies generate systematic economic effects. This section considers some of the factors affecting the first of these two levels.

Exchange is a fundamentally institutional process. Most centrally, at least as regards the exchange of material commodities, what is exchanged is not merely material objects but

⁷ An *institutional complex*, therefore, corresponds roughly to the definition of *institution* given, for example, in (Nee, 2005: 55) and (Nee & Swedberg, 2005: xxxviii).

property rights in such objects, and such property rights always depend on *institutional complexes*, as defined above. When we purchase a commodity, we acquire a socially recognised and normatively enforced right to the exclusive use of the item concerned, or at least to *some* of the uses of the item concerned (when we purchase a book, for example, we do not acquire the right to reproduce the text as if it were our own work). Such rights depend on the existence of more or less ubiquitous norm circles prepared to support them; they are, in other words, dependent on social structures. Every market transaction is suffused with the institutional, since it is always an exchange of institutionalised rights.

Furthermore, the entire process of exchange is normatively framed and constrained (in ways that may vary from one social context to another). We are guided, for example, by social norms that regulate what kinds of things may be exchanged, who we may or should not purchase from or sell to, the actual conduct of the sales process, and obligations to provide accurate information regarding the goods concerned. Buyers are motivated, in part at least, by desires that are themselves normatively influenced – we may feel obliged to wear smart clothes, for example, and thus to replace them frequently. Callon's *market devices*, which help market actors to evaluate the alternatives open to them, are also at least in part institutional products: analysts' reports, for example, are of value only because of certain standards of accuracy that are required in financial reporting and certain standards that enable the reader to interpret them, and supermarket displays can influence us only when and because we understand the conventions guiding them.⁸ Even practices on how to price commodities are institutionalised (Harvey, forthcoming). It is not enough to say that economic activities are embedded in a social context; as Sayer puts it "this overlooks the norms which are *internal* to economic practices themselves" (Sayer, 2004: 5).

For thinkers like Callon, such institutions merely make us into the calculative rational actors of traditional economic theory, but in practice they also produce habits of action, commitments to practices that can only be described as *rational* by stretching this concept to the point of triviality, and commitments to social relationships that are at least as much emotional as calculative. As Bourdieu argues, such institutionalised dispositions become embodied in our *habitus*, providing "a highly economical principle of action" in "the ordinary conditions of existence, which, either because of time pressure or an insufficiency of requisite knowledge, allow little scope for the conscious, calculated evaluation of the chances of profit" (Bourdieu, 2005: 85).⁹ And our actions are also influenced by our emotional needs and moral commitments, including for example a desire to avoid harming others (Sayer, 2004: 4), the desire to provide for our loved ones, and our need to maintain a set of enriching social relationships. Such needs and commitments may take forms that are influenced by our normative environment, but they are also a distinct and non-trivial factor amongst the set of causes that influence our behaviour.

To the extent that our behaviour is *systematically* influenced by normative standards and more emotional factors, we may adopt regularised social practices. Such practices may have two structural faces. On the one hand is the aspect that has been stressed above: that to the extent that they are normatively shaped, they are the *product* of social structures, of norm circles. But the other is that where such practices lead to regularised patterns of interaction those interactions themselves may generate further causal mechanisms. I have discussed this phenomenon in my analysis of the ontology of organisations (Elder-Vass, forthcoming: ch. 7). Organisations, like market systems, depend profoundly on normative institutions: it is the normative expectations associated with different roles that shape the interactions between members of organisations. But at a second level, those normatively coordinated interactions become the mechanisms that generate the organisation's causal powers. For example, an organisation adopting something like Adam Smith's principle of the division of labour will establish a set of relations between its members that give the organisation the causal power to be more productive than its members would be outside such an organisation (Archer, 1995: 51; 1996: 686; Smith, 1970 [1776]: 109-110). Here we have two levels of mechanism at work. The way the members of the organisation interact is a product of their normative beliefs,

⁸ It is striking that Callon ignores the dependence of the institutional element of market devices on normative social structures (see Miller, 2002: 223).

⁹ I have discussed Bourdieu's concept of *habitus* in more detail in (Elder-Vass, 2007c).

and thus of the norm circles that produced them, but the coordinated interactions within the organisation itself produce a further and non-normative causal mechanism that gives the organisation its causal powers.

The project proposed here will seek to apply a similar model to the ontology of market systems. It will investigate not only how the behaviour of market actors is influenced by normative institutions but also how this results in coordinated interactions that generate further systemic structural effects: the causal powers of market systems.

6 MARKET MECHANISMS

In this paper I have avoided the term *markets*, and instead talked of *market systems*. This reflects an initial provisional ontological hypothesis: that the concept of a market, as it is used in economic theory, refers to an imaginary idealisation that is not to be found in real product exchange. Clearly product exchanges do occur, and we may reasonably refer to these as market transactions, and to those who transact as market actors. But the concept of a *market* implies that there is a bounded set of such transactions (bounded, that is, by excluding other transactions) that inter-relate in ways that can produce the effects theorised by mainstream economics; it implies market closure. Perhaps in some financial markets such closure is obtainable by organisational fiat, but in product markets this is much less plausible. As an initial ontological hypothesis, then, I propose that the social structure to be examined in this project should be understood as a *market system*, that such systems are composed of people and organisations that buy or sell commodities of any type or consider doing so, and that the boundaries between market systems, if there are such boundaries, must be established by investigation and analysis rather than assumed at the outset. It is through studying the interactions between market actors that we will understand the real market mechanisms at work in our social economies, and once our objective becomes the analysis of real market systems rather than idealised models we cannot assume neat market boundaries.

In order to study these interactions it will be necessary to focus on particular types of regularised practice. My intention is to focus on the various *strategies* of market actors that are licensed or encouraged by different normative, emotional and organisational pressures. These strategies may include those assumed and modelled by neoclassical economists, such as, for consumers 'buy as cheap as possible' and 'buy what meets your needs best in the current circumstances', and for commercial businesses 'adjust prices and production to improve profits and/or growth'. For traditional neoclassical economics, such strategies provide the bridge between the presumed motivations of *homo economicus* (the disposition to pursue self-interest by rational choice) and the price-equilibration mechanism that they see as characteristic of markets.

But as has been argued above, there are other motivations at work in exchange behaviour, and these may generate other strategies that are equally fundamental to buying and selling behaviour. Such strategies cannot always simply be subsumed into the neoclassical model as 'preferences': some may not just affect demand curves but alter the whole mode of operation of the market system. To be more specific, such strategies may combine in ways that generate market mechanisms *other* than neoclassical equilibration. Here I do not intend to justify this argument in detail; this will be one of the tasks of the project. But I do want to indicate some of the strategies that seem to indicate that such an analysis would be fruitful.

For the purpose of illustrating the structure of the argument, consider some of the other strategies that may be adopted by capitalist enterprises when they act as sellers: (a) product innovation; (b) market innovation; (c) drive out competitors; but perhaps most significantly for market structure (d) seek to develop *preferential attachments* by buyers, where preferential attachments are non-price reasons why buyers prefer to purchase from one seller rather than another.¹⁰ This last strategy rests on differentiation of the seller's product or of some aspect of their offer, and thus fits well with Chamberlin's well-known account of monopolistic competition (Chamberlin, 1956). For example, preferential attachments may be established by developing 'personal' relationships with customers that encourage a sense of

¹⁰ On this strategy, which appears to be widespread, "The way to profitability is not through disentanglement, but through further entanglement" (Miller, 2002: 227).

loyalty, or providing a particularly user-friendly interface on the seller's web site. Similarly, sellers might exercise various forms of power to secure preferential attachment, such as pressing governments to place non-price obstacles in the way of other sellers, or bribing purchasing staff in buying organisations. However, Chamberlin seeks to model this process using conventional mathematical models of supply and demand. By contrast, I suggest, this strategy exploits key sociological (and indeed economic) elements of buyers' motivations that cannot be represented adequately in conventional demand curves.

On the buyer side, consider for the purposes of this illustration some of the possible strategies of individual consumers. These may include, for example, (A) buy conveniently (which economists may analyse as 'minimise transaction costs' but which is also motivated by the avoidance of psychological disruptions, so that buyers may follow this strategy in ways that don't minimise transaction costs; and it may be rational to do so, for example because the purchase of necessary commodities is not what we live for and may represent a distraction from activities that are more important to the buyer)¹¹; (B) reduce risk (e.g. by buying from trusted suppliers or buying familiar commodities, even when potentially 'better' alternatives are available; economists may analyse this in terms of information costs but again the considerations are often psychological rather than quantitatively rational); (C) pursue status (not just in terms of what is bought, but also in terms of where and how it is bought – e.g. using high status shops rather than low status ones even though goods are more expensive); (D) pursue life goals (e.g. 'green' purchasing decisions, which may include avoidance of unnecessary purchasing – as in Soper's notion of an alternative hedonism (Soper, 1998; Soper, Ryle, & Thomas, 2009)); (E) seek enriching social interaction through the buying process (perhaps increasingly common if contemporary life is characterised by increasing social isolation); (F) shopping as an enjoyable leisure activity.

This is not intended as a comprehensive list of significant market actor strategies, but it gives some initial indication of how this approach might contribute to understanding market mechanisms. Each of these strategies may be traced back to more basic motivations that are shaped by norms and emotions (at least for individual actors). Having identified such motives and strategies the project will work through the kinds of interactions that result and their causal consequences: in other words, to identify the systemic mechanisms that they generate, how these mechanisms produce the causal powers of market systems, and how these powers interact with others to produce socio-economic events. For example, each of the buyer strategies listed here opens up the possibility of matching strategies employed by sellers seeking to secure preferential attachment by appealing to the corresponding motivations, and thus the possibility of structural market mechanisms that are driven by the relevant combinations of buyer/seller side strategies.

The need to allow for factors other than the price mechanism is demonstrated, for example, by the evidence that, despite the claims of neoclassical economics, most market systems do not produce price homogeneity, let alone equilibrium. If we evaluate actual market systems against the neoclassical model we find that they often establish a pattern that is more or less the opposite of that predicted by the model: instead of homogeneous prices across a 'market', which move dynamically in response to variations in demand and supply, we often find that market systems lead to a diverse set of prices for the same commodity, that is relatively stable over the short term. It seems likely that these stable price differentials can be explained in part by the mechanism of preferential attachment. There is, again, a clear connection here to Chamberlin's argument: the strategy of pursuing preferential attachment may lead to deliberate product differentiation by sellers, thus producing the very de-homogenisation of commodities that undermines the empirical viability of the neoclassical model of competitive homogeneous markets.

This is not to deny that there is a price mechanism, which in some circumstances tends to produce an equalisation of prices for equivalent products, offers incentives to both buyers and sellers, and sometimes produces a tendency towards the mutual adjustment of demand and supply. There is widespread evidence of such effects: prices of primary agricultural commodities go up and down in response to variations in demand and may lead producers to alter the crops they grow; manufacturers producing similar products feel obliged to drop prices

¹¹ There is a clear connection here to Bourdieu's argument concerning the efficiency of the *habitus*, cited above.

when their competitors do and know that if they do not they will lose business; people will compare prices for significant purchases and sometimes buy what for them are equivalent goods from cheaper sources.

Nevertheless, non-price mechanisms affecting systemic market outcomes should not be seen as market imperfections to be removed by policy, or abstracted from in theorising the working of markets, or treated as an exceptional condition. Rather, they are normal features of economic behaviour that may play as important a role as price equilibration in determining the spread of actual prices, the distribution of transactions, the process of change in economic systems, and the benefits obtained from market transactions. If this is so, they should play as important a role as price equilibration in the ways in which we theorise the behaviour of markets.

7 SIGNIFICANCE

The market has always been of central importance to the political project of European union. The European project is premised upon the belief that market systems can have beneficial effects both at the economic level, in terms of delivering prosperity to a united Europe, and at the social level, in terms of producing new levels of integration between formerly divided communities. Yet the European project has always recognised the need to regulate markets, to manage their sometimes adverse effects on, for example, the environment, public health, regional poverty, inequality, and unemployment. Europe, it seems, is founded on an ambivalence towards the market.

That ambivalence, I suggest, is also reflected in academic understandings of the market. The potential systemic benefits of market systems are stressed by the neoclassical tradition that dominates economics. This tradition tends to see their adverse consequences as resulting from imperfections in the market system, to be managed by minimalist interventions designed to restore the smooth functioning of the market. On the other hand, it has become commonplace for economic sociologists to advance variants of Polanyi's critique against neoclassical economics: that it neglects the essential dependence of market systems on a set of non-market institutions including the state, law, property, money, and normativity. Such dependencies are not merely imperfections but fundamental to the operation of market systems, and hence it seems that we should not allow policy towards the market to be determined by the neoclassical model.

At a time when the world is suffering from market-led economic crisis, the neoclassical model is surely questionable as a guide to policy. Yet it retains a degree of credibility since its competitors are largely unable to theorise the systemic effects of markets, and in particular the market-led growth that has been pivotal to the success of the European project.

This project offers the prospect of new ways of thinking about market systems that accommodates some of the most powerful arguments from both traditions in a unified framework. It has the potential to show how a variety of different market mechanisms are produced, with different kinds of structural effects that interact to produce some of the complex phenomena of contemporary economies, and to show how these depend on the kinds of social relations that are conventionally theorised by sociologists. Although this is not a project with short-term policy-related deliverables, it is my hope that such a framework could support the development of a more balanced and productive politics of the market.

By developing an account of market systems that shows how their systematic economic effects are produced by essentially sociological mechanisms the project holds out the promise of a new theoretical synthesis for economic sociology, responding to a need that has already been identified by leading figures in the discipline (Smelser & Swedberg, 2005: 20). While it is perhaps too much to hope that mainstream economists could be persuaded of the value of such an approach, it is possible that such a synthesis might provide ways for economic sociologists and some traditions in heterodox economics to work together.

Although this is therefore an ambitious project, it is a logical development of, and built on, my previous work. It will adopt a philosophical ontology and a methodology which have already been used productively in that work, which has delivered coherent accounts of the ontology of structure and agency, discourse, culture, and knowledge. It will also build on the substantive content of that work, in particular its ontological accounts of individual human agents,

normative institutions, and their relation to organisations, in its construction of an ontology of market systems. It therefore holds out the prospect of an economic sociology that is not only coherent internally but also consistent with a wider ontology of the social world.

Such an ontology may also point us towards a more nuanced and constructive critique of market systems than is possible from traditions that rest on hostility to markets, such as some streams of Marxism, or that accept them uncritically, such as (post) actor-network theory. It is therefore compatible with contemporary critical stances that see markets as necessary but not necessarily universal, and as requiring regulation that seeks to influence their systemic effects rather than taking them to be naturally beneficial (e.g. Nelson, 2002; Wade, 1990). It may therefore help to equip us with ways to answer one of the most vital political questions of our age: how can market systems be governed in ways that allow us to realise the benefits they can offer while minimising their potentially harmful consequences?

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