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EDITORIAL

Economic thought has given rise to two competing market paradigms: the pure Walrasian market and the instituted market. The former implies an optimal allocation of products in a perfectly informed, atomistic world. The power of this ideological postulate has helped to justify the unprecedented privatisations and deregulations which we have seen in recent years. But the limits and contradictions of this movement are starting to reveal themselves. In the article which follows, Benjamin Coriat and Olivier Weinstein provide an analysis of the alternative approach to markets as historical and social constructs. Bringing out the importance of a Regulationist research programme which would focus its attention on the major role played by the firms in the construction of markets, they signal the inconsistencies and tensions between markets and other institutional forms which such a process may imply in the medium and long term.

THEORETICAL NOTE

The social construction of markets

Benjamin Coriat (CEPN-IIDE, UMR CNRS 7115, Univ. Paris 13) coriat@club-internet.fr

Olivier Weinstein (CEPN-IIDE, UMR CNRS 7115, Univ. Paris 13) weinstei@seg.univ-paris13.fr

In every period, and notably since Walras, economists have focused their attention on the functioning of the market, its more or less 'perfect' nature, its self-regulating or self-equilibrating properties (Guesnerie 2005) and, above all, the conditions in which it is able to determine prices. Given the fact that its existence was taken to be almost 'natural', the study of the emergence and real constitution of markets has, until recently, held little interest for economists.

The recent wave of deregulations in telecommunications, transportation or energy and the increased number of privatisations, notably in the former centrally-planned economies, have, however, gradually imposed a reconsideration of the theory of the market. Thus, the construction of new forms of markets for existing products and the appearance of new markets for kinds of products and services which escaped existing market logics demonstrate three problematics.

Far from being natural facts, markets are the fruit of complex social and historical developments involving multiple players with specific interests; in this sense, they are social and political constructions which are part of the 'artificial' world (Simon 1996, 2004). These constructions take extremely diversified forms which are quite removed from the vision of the pure Walrasian market: the way a market is constructed has determining effects on its operating conditions, its development and price determination. Notwithstanding the dogma of the standard approach, the existence and functioning of the markets are guaranteed by a wide variety of complex institutional arrangements.¹

In the first section of this text, we come back to the notion of exchange as a market transaction and the social and institutional conditions which make such acts possible. In the second section, we examine the fact that, beyond

isolated individual exchanges, a market can be constituted in the form of a permanent structure permitting the development of repeated exchanges according to rules shared by the agents. In the conclusion, we suggest several directions for an institutionalist, regulationist research programme dealing with the nature of markets and their functioning.

Setting up the conditions for market transaction

It is important, first of all, to define what is understood by market transaction or market exchange, a question which has not elicited a great deal of attention from standard economics. Commons (1934) was the first to demonstrate clearly that a transaction is above all 'a legal transfer of ownership', and not, as in the standard vision of exchange, the physical transfer of goods. The transfer arising from the exchange (or transaction) only bears on objects because it bears on rights.² This is also the reason why it is carried out under terms defined via negotiation between the parties. The rules framing the definition of the object of exchange, the negotiating conditions, the terms of the rights transfer all constitute the institutional basis of the transaction.³

Here we would add another key point: a market transaction is a monetary transaction. The conditions for determining a price, or more generally, monetary counterparts to the transfer of rights, constitute an essential dimension of every market transaction. These conditions, like the

¹ There is considerable literature on these questions, including two special issues of *La Revue d'Économie Industrielle*: no. 101 (2002) and no. 107 (2004).

² 'What is exchanged on a market is not, as economists often suppose, physical entities, but rights to carry out certain actions', Coase (1992).

³ For Commons, a market transaction is only one particular form of transactions which is characterised by the parties' *equality of position and equality of desire*. This form is defined in contrast to other kinds of transactions which are based on the *subordination* of one contracting party to the other. In American institutionalist terminology, these would be 'managerial transactions' (Commons 1934).

preceding ones, must be defined and constructed.⁴

Taken in this way, the notion of market transaction can cover a very great variety of relationships, in terms of both the objects and rights involved and the modalities and framework of the transaction. It goes far beyond the standard Walrasian vision of the market conceived as a momentary transfer of a good between parties.

It remains to determine the conditions of market transaction more precisely. The new institutionalist economics foregrounds two related conditions which are, in our view, fundamental:

(i) In order for a market to exist, the agents must define and accept ownership rights for the goods which are subject to exchange. These rights are institutional in nature: they depend on the existence of collective rules and standards which will be imposed on the agents according to terms which may be quite varied. Ownership rights theorists justly insist on this point.

(ii) In addition, there must be mechanisms which serve to guarantee the respect of the rights themselves, to ensure their enforcement. In most cases, this implies the introduction of a 'third party' which, in our societies, mainly takes the form of 'State legal and political structures' (Aoki 2001). The neo-institutionalist perspective places heavy emphasis on the problem of the parties' respect of their commitments, which will be ensured by what Aoki calls a 'contract enforcing mechanism'. These modes of governance may take highly diverse forms with regard to the nature of the rules imposed on the parties, the sanctions systems and the agents or bodies taking part.⁵

(iii) The economic analysis of the markets, including its recent developments incorporating information asymmetries, implicitly considers that the object exchanged is perfectly defined. In most of the transactions proper to the complex economies we live in, however, the definition of the object of exchange is not self-evident: it must be constructed. This construction may become one of the major issues of the transaction, as Chamberlin (1953) saw quite well: the product, like the price, is an economic variable. Furthermore, on a large number of markets, the exchange does not concern well-defined products but rather, groups of rights and obligations which are often very badly specified. Such is the case with service transactions in particular. Similarly, it should be noted that the construction of the object of exchange becomes essential with the creation of new market spaces, which are linked either to the emergence of new activities or to the marketing of activities previously carried out in other forms. Two examples may be given here. The marketisation of knowledge, which in our view constitutes one of the main dimensions of the present transformations of capitalism, will be based on a certain way of defining and delineating 'items' which will be appropriated to begin with and then exchanged. The definition of these items will depend on both the changes in the intellectual property system and the way the players - the universities, research centres and businesses - are going to utilise this system.⁶ The privatisation of public services and their opening up to competition also illustrate the extent to which marketisation is going to pose difficult problems of 'perimeter'. The construction of the markets,

and the definition of their objectives, will thus reflect choices of vertical divisions of activities and participate in the structuring of the productive systems themselves.

The conditions of a market transaction can only be understood within the broader theoretical framework of the market per se, a complex institution which cannot simply be equated with a sum of bilateral relationships.

From transaction to market: the fundamental role of institutional arrangements

Carrying out transactions presupposes the existence of a certain institutional infrastructure, but not the existence of a market in the full sense of the term (Harvey and Randle 2002). A market is in fact a complex institutional system and one of its primary features is that it constitutes a lasting structure encompassing multiple, repeated transactions in such a way that beyond each specific transaction carried out, the nature of the relations between economic agents is identical and relatively continuous. Even superficial observation of the economic reality shows the great diversity of the configurations which can come under this institutional market structure.

Speaking of a market presumes bringing together a group of transactions held to be similar. How is such an aggregation justified? We know the standard economic vision, where a market is defined first of all as a space for carrying out identical transactions which bear on one well-defined product and lead to the determination of one price. This vision is far removed from the features of most markets, on which the individualisation of transactions and products has become one of the major dimensions of competition (Chamberlin 1953).⁷

We would posit that a market exists to the extent that, for the execution of their transactions, the agents are subject to a single system of rules framing their interactions on a long-term basis.⁸ Thus defined, the market cannot in any way be considered a 'natural' fact: it is an eminently social construction. This situation does not exclude taking into account the asymmetries of position and power relations to which these may give rise, since the dominant agents can work to orient the functioning of the market (and stabilise its rules) in a direction which privileges unequal divisions of the surplus or incomes attached to the products exchanged. Raw-materials markets or those of products covered by patents provide numerous illustrations of situations where stabilised market rules favour such asymmetrical appropriations of incomes. Following an approach inspired by Bourdieu (1977), the market may thus be analysed as a field: ". . . the agents try to produce a stable 'local' world where the dominant players produce meaning which allows them to reproduce their advantage" (Fliegstein 2001). In other words, a market should be analysed like any institution: it is necessary to study the conditions in which it emerges, is stabilised and transformed and possibly goes into crisis.⁹

On the basis of the first 'constitutive' rules which are the prerequisites for the existence of the market (property rights, enforcement, etc.), the players' actions will display a group of collective procedures, practices and rules of a more or less formal nature, which may be called 'regula-

⁴ Cartelier (2005) rightly points out that all the great theorists of the market within what we would call the standard approach have carefully refrained from taking money into account.

⁵ Aoki identifies ten modes of governance in exchange relations.

⁶ Thus, the extension of patentability to human genes has given rise to the formation of a kind of knowledge market. On this point, see Orsi (2002), Coriat and Orsi (2002), Coriat, Orsi and Weinstein (2003).

⁷ Possible exceptions may be found with specific markets, such as the spot financial markets, which, it should be recalled, only function on the basis of complicated institutional arrangements guaranteed over time by regulatory authorities (Revest 2001).

⁸ On this point, see Tordjman (2004).

⁹ See Fliegstein (2001) for an attempt to analyse the dynamics of market formation.

tive'.¹⁰ This institutionalisation process generally leads to the constitution of specific agents and bodies which intervene, in various ways, in the functioning of the market, whether in the course of the transactions themselves (e.g., the intermediaries) or as third parties responsible for supervising the transactions, monitoring the participants, defining the conditions for the application of the rules and possibly modifying them. These are all functions incumbent on the bodies regulating the markets.

The neo-institutionalists basically focus on the conditions which ensure the enforcement of the rules and the nature of the agents assuming this function.¹¹ Here, we would make four additional observations:

(i) Market formation implies an agreement on the nature and 'quality' of the objects exchanged. This is what might be called the issue of product qualification. In many markets for sensitive goods involving hygiene, food or health, for example, commercialisation cannot occur without an authorisation issued by the instance responsible for guaranteeing its quality. This prerequisite for exchange is a social construct. Defining product qualification presupposes the elaboration of an agreement on its status and uses and the decisive aspect of this process emerges in the constitution of new markets.

The case of cultural goods is particularly edifying here. The analysis of the market for photographic prints offers a good illustration: on the basis of the same material object (the photo), the qualification process leads to the creation of three kinds of products and three distinct markets (amateur prints, agency prints, collectors' prints). Thus, we observe that the market for collectors' prints is constituted by adopting the quality conventions of the art market: scarcity, innovation, authenticity (Moureau and Sagot-Duvauroux 2004).

(ii) The organisation of relations between the agents is itself subject to competition between players. Studies of the financial markets, or the nature of different fish markets in France or Italy, demonstrate the variety of possible forms of market organisation and the impact these have on its functioning and earnings.¹²

(iii) A major particularity of market relations stems from the fact that they are constructed around monetary evaluation and calculations. A market is the space where calculating agents, or, to borrow Callon's term, 'calculating agencies', come face to face. This means that the procedures, standards, agreements and techniques used for evaluation are thus an essential dimension of it.¹³ The conditions of price determination constitute a key aspect of every market but this is curiously misunderstood or even ignored or underestimated by most institutionalist or neo-institutionalist studies.¹⁴

(iv) A market is based on a certain social architecture, encompassing groups of agents, positions and modes of

relations between these groups. Here we come back to the economic sociology model drawing on the theory of fields cited above. The constitution of a market goes hand in hand with a differentiation of economic agents into separate groups.¹⁵ In this respect, it is inseparable from the division of labour and a mode of development of production structures. This process is accompanied by the formation of the different categories: on the one hand, intermediaries and agents involved with transactions and, on the other, organs intervening in the supervision and regulation of the market (consultants, intermediaries, experts, specialised financial institutions, professional organisations, standards agencies). And these players and groups also exist and act outside the market. Such is the case with family or professional relations, to cite only these examples, and more broadly, personal relations networks. Here we come back to the 'embedding' issue which lies at the core of the new economic sociology (Granovetter 1985, 2000).

Conclusion: Markets and capitalisms

A simple market transaction between two individual agents cannot arise without a complex group of institutional arrangements. A market defined as such by the participants calls for institutional arrangements. The acts of exchange taking place must bear on products whose definitions and qualifications are held to be identical by the traders themselves and they must respect shared, lasting rules which are imposed on the agents or emerge from their interactions.

In the course of history and its changing structures, markets are born, evolve or die. Polanyi (1944) and Braudel (1985) have shown, each in his own way, that the existence of a market, like the conditions of its development and transformation, must be compared to other markets and the complex system of institutions to which it belongs. This is the direction a Regulationist approach to the analysis of markets should take.

To begin with, it is necessary to study the historic transformations of capitalism, which have been accompanied by changes in the very forms of the markets and the modes of articulation and complementarity between them. Fordism was built around specific modes of structuring product markets (mass production, standardisation, etc.) dominated by forms of price competition and kinds of labour markets which ensured the mass conversion of unskilled workers into wage labourers. It is then possible to examine the way each accumulation regime relies on its own market regime and how the complementarities emerging between markets and institutions guarantee the long-term existence of the variety of capitalisms.¹⁶

Finally, it is necessary to consider the way the birth and subsequent rise of capitalism have modified the markets' very conditions of existence and operation. In contrast to the analysis which, since Coase, has privileged the opposition between firms and market, what should be brought out are their interdependencies and complementarities. In this way, it may be shown that we are often dealing with markets which are those of the firms, for in the societies of fully developed capitalism, it is the firms which give the markets their essential features.

(Translated by Miriam Rosen)

¹⁰The distinction between 'regulative' and 'constitutive' rules, which is in our view fundamental for the analysis of markets, was first introduced by Searle (1995).

¹¹"Markets . . . require the establishment of legal rules governing the rights and duties of those carrying out transactions. . . . The main problems faced by exchanges in this lawmaking are the securing of the agreement of the members of the exchange and the enforcement of rules" (Coase 1988).

¹²See Kirman (2001) for a review of different studies on this subject.

¹³It is on this level, in particular, that the product 'qualification' and 'quality agreements' mentioned above can play a decisive role.

¹⁴Notably in the literature on 'market microstructures'. See, for example, O'Hara (1995), Schwartz (1988) and, for a review of different approaches, Revest (2001).

¹⁵Harvey and Randle (2002) develop this point.

¹⁶On complementarities, see Hall and Soskice (2001).

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