16 Markets

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Economists have long been concerned with market prices and quantities.[1] But, despite this ongoing preoccupation, they have until recently paid relatively little attention to the institutional structure of markets and the details of market rules and mechanisms. Markets dominate the modern world economy, yet economists have had little to say about market institutions. Why? In part this is explained by a reluctance of many post-1945 economists to adopt historically specific definitions (Hodgson, 2001), especially with a concept as central as the market. Yet an adequate recognition of markets as institutions must also acknowledge that they are historically specific phenomena.

We first consider the historical evolution of markets and several alternative definitions of them, involving different degrees of historical specificity. It is proposed that developments since the 1980s point to a more nuanced view of markets, recognizing different types of market mechanisms and institutions. These developments include work in economic sociology, experimental economics and auction theory. A definition of markets is offered that is consistent with these developments.

The astonishing lacuna

No fewer than three Nobel Laureates have noted the paradoxical omission of discussion of markets institutions in the literature in economics. George Stigler (1967, p. 291) wrote:

> The efficacy of markets should be of great interest to the economist: Economic theory is concerned with markets much more than with factories or kitchens. It is, therefore, a source of embarrassment that so little attention has been paid to the theory of markets and that little chiefly to speculation.

Stigler's plea for the theoretical study of markets went unheard for a long time.

Matters had not been rectified when Douglass North (1977, p. 710) similarly remarked: 'It is a peculiar fact that the literature on economics and economic history contains so little discussion of the central institution that underlies neo-classical economics – the market.' Even in the 1980s Ronald Coase (1988, p. 7) could still observe that 'in modern economic theory the market itself has an even more shadowy role than the firm'. Economists are interested only in 'the determination of market prices', whereas 'discussion of the market place itself has entirely disappeared'.

Of course, while economics textbooks have little to say about the structure of markets, the m-word is commonplace, and markets are classified by their degrees of competition or their numbers of buyers and sellers. By contrast, it is the institutional aspects and detailed mechanisms of markets that have been widely neglected. For much of the twentieth century there has been little discussion of how specific markets are structured to select and authenticate information. Economists refer to the 'forces' of supply and demand, and locate market equilibria at the intersection of their curves in price–commodity space, but until recently they have offered little discussion of the mechanisms through which these forces operate. Instead, 'the market' has been treated as a relatively homogeneous and undifferentiated entity, with little consideration of different market mechanisms and structures.

Our task is to try to identify the nature of market phenomena. A brief historical sketch of the evolution of the market follows, including a review of various meanings of the term. This is followed by a discussion of why the specific anatomy of markets has been neglected by economists, what recent developments in economics and elsewhere have helped to remedy the deficiency, and the contribution of economic sociologists and socio-economists. A definition of the market is offered.

A very brief history

Within prehistoric tribes there were gifts and transfers of goods from one individual or family to another. Such transfers have occurred within human societies for hundreds of thousands of years. But the available anthropological evidence suggests that much of this internal circulation was powered by custom and tradition. It involved elements of ritual and gift-giving. It typically created an obligation of future reciprocation, but without exact or agreed value equivalence. Such arrangements persisted for millennia, with negotiated barter transactions remaining insignificant or confined to external transactions with strangers. Notions of contract and ownership were underdeveloped.

Within tribes, transfers of goods involved 'the continuous definition, maintenance and fulfilment of mutual roles within an elaborate machinery of status and privilege' (Clarke, 1987, p. 4). This internal circulation of goods had little to do with voluntary, contractual transfer of ownership or property rights in the modern sense. These personal, familial and kin-based exchanges were very different from modern contracts in the organized and money-driven markets of today. They were much to do with the ceremonial validation of custom and social rank.

Nevertheless, some kind of trading in goods between tribes has existed for tens of thousands of years, perhaps for as long as the capacity for abstract language that was required to facilitate it. However, as Max Weber (1927, p. 195) wrote, commerce did 'not take place between members of the same tribe or of the same community', but was 'in the oldest social communities an external phenomenon, being directed only towards foreign tribes'. The proposition that trade first developed externally and between communities – rather than within them – has withstood scholarly re-examination.

With the rise of more complex societies, particularly ancient civilizations, both external and internal trade increased substantially. Our first evidence of a market, in the sense of an organized trading forum involving multiple buyers and sellers where goods were regularly bought and sold, is in semi-mythological texts from Ancient China. In roughly 3000 BC, it is recorded that Emperor Shennong gave permission for rows of houses in the centre of his capital (in modern Shanxi Province) to be used for trading. He ruled that selling should start at noon each day. Many centuries later, during the Zhou Dynasty (1046–256 BC), the shops in this same market were taxed (Wang, 1936, pp. 3–4). As economic historian Kang Chao (1986, p. 5) documented: 'China was a market economy for more than two millennia before the 1950s.' In fact, markets may have existed in China for about five millennia, thus ridiculing the crass description of the Chinese economy today as an 'emerging market'.

Archaeological evidence of early markets in Europe and the Middle East is patchy or inconclusive. The Greeks had trading ports on Mediterranean shores by the eighth century BC (Tandy, 1997, ch. 3). The extent to which these trading zones constituted organized markets is unresolved.

We have more evidence of markets in this region from around 600 BC, when it seems that the first coins outside China were in use. There are records of an organized marketplace (or *agora*) in Athens in the sixth century BC, where goods were regularly traded according to defined rules (Polanyi, 1971; North, 1977).

Chapter 27 of the biblical book of Ezekiel, written when the prophet was exiled in Babylon from 593 to 571 BC, mentions the locations of several 'markets' and 'fairs' in the Middle East, and notes trade in metals, ivory, ebony, jewels, slaves, horses, mules, vessels, spices, embroidery, linen, wool and other commodities. There is no other mention of a market in the Old Testament, but Genesis and Exodus report portable forms of money several times. According to modern bible scholarship, Genesis and Exodus were also drafted in the sixth century BC (Davies, 1998). Herodotus noted the introduction of coinage in the seventh century BC. Hence Middle Eastern markets in the sixth century BC probably involved coin money.

At around the same time, also according to Herodotus, there was an annual auction market in Babylon where young women were put on display and male bidders paid money for marriage rights (Cassady, 1967). Peter Temin (2002) examined recorded price data of goods from Babylon from 464 to 72 BC and concluded that the longer time series of apparently responsive and readily adjustable prices was evidence of market forces in operation.

There has been some debate on whether these ancient civilizations were predominantly market economies. Karl Polanyi and other scholars have denied this (Finley, 1962; Polanyi at al., 1957). By contrast, Temin (2001, 2006) and others have argued that the Roman Empire contained developed and interlocking markets with variable prices. But banks and money markets played a relatively small role by modern standards. The existence of many other markets in Ancient Rome is undeniable (Bang, 2008). The dispute concerned their role in and degree of influence over the economy as a whole. The resolution of this debate depends partly on both the definition of a market and the extent to which markets dominated production and distribution. Some have estimated that three-quarters of production was directly for subsistence. Their critics respond that markets and prices still affected the system as a whole.

But, if Temin is right, this does not mean that Ancient Rome was essentially a capitalist economy, at least according to definitions of capitalism discussed elsewhere that stress the role of finance as well as other markets. By these definitions, markets are a necessary but insufficient condition for capitalism. It can be argued that it was an eighteenth-century revolution in banking and other financial institutions that led to the rise of capitalism as such (Schumpeter, 1942; Ingham, 2008; Hodgson, 2015).

After the fall of the Western Roman Empire in AD 476, European and Mediterranean trade contracted dramatically. The most important driving force behind the recovery of trade in the medieval period was mercantile activity, often over long distances. ‘Strange though it may seem,’ wrote the historian Henri Pirenne (1937, p. 140), ‘medieval commerce developed from the beginning not of local but of export trade.’ Trade created hubs where routes converged. These attracted settlers, and sometimes gave rise to organized markets.

From the eleventh century, markets and fairs multiplied in Europe. Annual fairs often complemented the expansion of organized markets by providing outlets for longer-distance and higher-value trade (Casson and Lee, 2011). In several European countries, the principal organized markets were chartered by the king. However, systematic evidence of a king enforcing his right to license all markets and fairs does not appear until the thirteenth century.

What about markets for wage labour? By the fourteenth century, bonded labour was in decline in England. A large class of potentially mobile wage labourers emerged, making up roughly half of the adult male population by the seventeenth century (Lindert and Williamson, 1982). But organized markets for employees, involving labour exchanges or employment agents, did not become prominent until the nineteenth century.

Financial bond markets began in Venice in 1171. The state drew a forced loan at 5 per cent interest from the citizenry. The evidence of a loan, or bond, became tradable. Florence and Genoa followed by issuing their own bonds. After the development of a banking system in Venice in the thirteenth century, trade developed in government securities in several Italian cities.

In 1309 a 'Beurse' was organized in Bruges in Flanders, apparently named after the Van der Beurse family, who had previously hosted regular exchanges of material goods. Soon after, similar 'Beurzen' opened in Ghent and Amsterdam. In 1602 the Dutch East India Company issued the first shares on the Amsterdam Bourse or Stock Exchange. The London Stock Exchange, founded in 1801, traces its origins to 1697 when goods and stock prices began to be published in a London coffee house. The origins of the New York Stock Exchange go back to 1792, when 24 stockbrokers organized a regular market for stocks in Wall Street.

Clearly, in the last five centuries, markets have expanded enormously in scope, volume, sophistication and economic importance. Today, markets pervade internal as well as external trade and dominate the global economic system. There is international trade in countless commodities, and financial markets have become the drivers of the world economy.

Against this historical background, at least three different ways of defining markets emerge, involving different degrees of historical specificity. The broadest definition of 'market' refers to all forms of transfer of goods or services, including anything from customary or ceremonial transfers within tribes or households to organized markets with multiple buyers and sellers. An intermediate option would be to identify markets with all forms of voluntary trade involving discernible property rights. A third and most restrictive option is to define the market more narrowly as a sphere of organized, competitive exchange. These alternatives are now compared.

What is a market?

In his book *Human Action* Ludwig von Mises (1949, p. 257) devoted an extensive chapter to 'the market', where he saw the market economy as 'the social system of the division of labour under private ownership of the means of production'. In his account, the historical boundaries of the market depend on what is meant by 'private ownership'. Von Mises defined ownership in terms of control of the services that derive from a good, rather than in terms of legal rights. Ownership for him meant mere possession (Hodgson, 2015) and his notion of 'exchange' could apply to most of human history. According to von Mises, 'markets' have existed for hundreds of thousands of years or more. His very broad definition of the market became possible because of his extremely wide definitions of exchange and contract. For von Mises (1949, p. 97), all action, even that by an isolated individual, is 'exchange' – an attempt to swap inferior for superior circumstances.

Many social scientists would not wish to go so far as von Mises. Instead they would insist that exchange involves property entailing legal rights. So if we reject the notion that markets can involve customary or ceremonial transfers without developed legal property rights, we still have further options for delineation. A dilemma emerges: whether the market is regarded as coextensive with the contractual exchange of commodities *per se*, or whether it has an even narrower meaning and is used to refer to forms of *organized* exchange activity. At least two factors weigh in favour of the narrowest definition of the term.

A primary consideration is the commonplace use of the word 'market' and its equivalent in other languages. A 'market' originally referred to a specific place where people gathered and exchanges of property occurred. The markets in China in about 3000 BC and in Athens and the Middle East in the sixth century BC involved recurrent trade organized in specific locations. Originally permitted by royal charters, medieval markets were located and regulated in specific towns. There are also permanent buildings that function as 'markets' or 'exchanges' for agricultural products, minerals, financial stocks and so on. Although today it has acquired additional meanings, the term 'market' still refers to places where trade is organized.

Second, there is a well-researched form of contractual exchange that takes place in different contexts and involves other considerations. In three seminal and influential works, George B. Richardson (1972), Victor P. Goldberg (1980) and Ronald Dore (1983) established that many real-world commercial transactions do not take place in competitive market arenas. Instead firms are involved in ongoing and more intensive bilateral relationships: the parties cooperate and exchange relevant information before or after the contract itself. Such relationships are seen to enhance ongoing trust in circumstances of uncertainty where product characteristics are complex, unusual or involve continuous improvements. The relationship is durable and the contract is often renewed. This is commonly described as 'relational exchange' or 'relational contracting'. It is very different from the impersonal and competitive exchanges found in organized markets. Relational exchanges are nevertheless still contractual exchanges involving property rights. If they are distinguished by definition from market exchanges, then not all exchanges take place in markets.

Furthermore, the exchange of a good or service that is unique – such as a one-off contract to build a bridge or other bespoke construction – may be regarded as a non-market phenomenon, even if the exchange is not relational. The term 'market' is then reserved for forms of exchange activity, with many similar exchanges involving multiple buyers or sellers.

Consider financial markets. There are typically strict rules concerning who can trade and how trading should be conducted. Specific institutions sift information and present it to traders to help the formation of price expectations and norms (Hodgson, 1988). Market institutions reduce the costs of search, negotiation and monitoring entailed in transactions (Loasby, 2000). Market institutions in other contexts monitor the quality of goods and the instruments of weight and measure. Within these structures, trading networks emerge on the basis of business connections and reputations.

Modern electronic communication has made it possible to organize markets that are unconfined by any physical location. Bidders can communicate with other traders and the market organizers over long distances, as with many financial markets. The market*place* can itself disappear, as in the case of Internet-based markets, such as eBay. The latter case nevertheless remains a market, because it involves high-volume trade and is subject to codified procedures and rules.

Taking on board the above arguments, the market may be defined in the following terms. Markets involve multiple exchanges, with multiple buyers or multiple sellers, and thereby a degree of competition. A market is an institution through which multiple buyers or multiple sellers recurrently exchange rights to a substantial number of similar commodities of a particular type. Exchanges themselves take place in a framework of law and contract enforceability. Markets involve legal and other rules that help to structure, organize and legitimize exchange transactions. They involve pricing and trading routines that help to establish a consensus over prices, and often help by communicating information regarding products, prices, quantities, potential buyers or possible sellers. Markets, in short, are organized and institutionalized recurrent exchange.

But it is often difficult to draw the line between organized and relational exchange, with many possible intermediate cases. Such definitional difficulties are typical when dealing with highly varied phenomena and are commonplace in some other sciences, notably biology. The difficulty of defining a species does not mean that species should be undefined.

A question arises whether the definition of a market should involve money as opposed to barter. Clearly there are major differences between barter and markets where money is used as the medium of exchange and store of value. Furthermore, there is surprisingly little historical evidence of economies dominated by barter (Einzig, 1966; Dalton, 1982; Humphrey, 1985; Davies, 1994; Graeber, 2011). The inclusion of money exchange in the definition of a market is treated as optional here.

The operation of the law of one price is sometimes taken as an indication of the existence of a market. Of course, imperfect information and quality variations can explain price variations within a market. Nevertheless, the organized competition of the market and its associated information facilities are necessary institutional conditions for any gravitation by similar commodities to a single price level.

We may contrast the narrowest definition of the market – as an institution through which multiple buyers or multiple sellers recurrently exchange rights to a substantial number of similar commodities of a particular type – with the much broader definitions offered earlier. These differences in definition do not simply affect the degree of historical specificity of 'market' phenomena; they also sustain different theoretical frameworks and promote different questions for research.

Past neglect of the institutional character of markets

On the whole, the institutional character of markets has been neglected when institutions have been neglected. Exceptions consist of economists who placed a special emphasis on institutions. The institutional character of markets was emphasized by German historical school economists such as Gustav Schmoller and Werner Sombart in the nineteenth century (Hodgson, 2001). The British dissident economist John A. Hobson (1902, p. 144) wrote: 'A market, however crudely formed, is a social institution.' Likewise, for the American institutionalist John Maurice Clark (1957, p. 53): 'the mechanism of the market, which dominates the values that purport to be economic, is not a mere mechanism for neutral recording of people's preferences, but a social institution with biases of its own'. Coase, North and others have helped to revive an interest in the institutional structure of markets that was eclipsed by developments in mainstream economics during much of the twentieth century.

Another reason why social scientists have neglected the institutional character of markets lies in the use of looser definitions of key concepts such as property and exchange (Hodgson, 2015). Many economists have upheld that the principles of their subject should be as universal as possible – like physics – to the extent that substantial consideration of historically or nationally specific institutional structures is lost. The idea that economics should be defined as a general 'science of choice' (Robbins, 1932) is part of this tradition. Consequently, terms such as property, exchange and market are given a wide meaning. These loose definitions seemingly apply to many different types of system, from tribal societies through classical antiquity to the modern capitalist world.

Accordingly, the market assumes a de-institutionalized form, as if it were the primeval and universal ether of all human interactions. Whenever free people gather together in the name of self-interest, then a market somehow emerges in their midst. In this view, the market springs up spontaneously. It results neither from a protracted process of multiple institution-building nor from the full development of a historically specific commercial culture. Moral and ethical considerations become secondary, as everyone is simply assumed to be maximizing their utility rather than otherwise taking account of ethical imperatives.

Many sociologists have also assumed a de-institutionalized concept of the market. Accordingly, sociologists such as Peter Blau (1964) developed an 'exchange theory' where the concept of exchange was even broader than that used by many economists, including the 'exchange' of greetings and smiles and having no necessary relationship to exchanges of property rights.

Within sociology, the existence of a general and de-institutionalized concept of the market also results from the influence of Marxism. Despite its emphasis on historical specificity, Marxism also treats markets as uniform entities, ultimately permeated by just one specific set of pecuniary imperatives and cultural norms. Marxists stress the supposed universal logic of the market system, rather than specific institutional market structures or rules.

Reflecting similar defects in neoclassical economics, exponents of the 'rational choice' approach within sociology have also defined markets in ahistorical terms. Characteristically, James Coleman (1990, pp. 35–6) saw markets as simply 'transfers of rights or resources' within 'systems of relations' or a 'system of exchange'. For Coleman, markets cover a wide range of phenomena including taxation and gift-giving, as well as agreed legal contracts between two parties.

From the 1940s to the 1970s, economists attempted to understand the universal functioning of markets within the framework of general equilibrium theory. But even here significant attention had to be paid to institutional mechanisms and structures. Something special like the 'Walrasian auctioneer' had to be assumed in order to make the model work. Some elemental institutional structures had to be assumed to make the model function on its own terms. The limits to this project of theoretical generalization became more apparent in the 1970s, when it was shown that few general conclusions could be derived. Hugo Sonnenschein and others demonstrated that, within general equilibrium theory, the aggregated excess demand functions can take almost any form (Kirman, 1989; Rizvi, 1994).

Within the general equilibrium approach a complete set of markets for all present and future commodities in all possible states of the world is often assumed. The existence of 'missing markets' poses a challenge for this approach (Hart, 1975; Magill and Quinzii, 1996). Crucially, if market institutions are themselves scarce and costly to establish, then some may be missing for that reason. Furthermore, while capitalism has historically promoted market institutions, modern developed capitalism prohibits several types of market, such as markets for slaves, votes, drugs, or complete futures markets for labour. The development of markets for children or slaves within capitalism would undermine the egalitarian legal principles that modern capitalism has championed. For such reasons, 'missing markets' are unavoidable within capitalism.

The revived understanding by economists of markets as institutions

After technical problems with general equilibrium theory were exposed by Sonnenschein and others, economists shifted their attention to game theory. By its nature, game theory tends to lead to less general propositions and points instead to more specific rules and institutions.

Several further developments helped to promote the study of markets as social institutions, in both economics and sociology. In economics the basic theory of auctions emerged in the 1970s and 1980s (McAfee and McMillan, 1987). It was assumed that participants in an exchange did not have complete information, and it was shown that choices concerning auction forms and rules could significantly affect market outcomes. These ideas assumed centre stage in the 1990s with the use by governments of auction mechanisms in electricity and telecommunications deregulation, most notably in the selling of the electromagnetic spectrum for telecommunications services, and subsequently with the growth of auctions on the Internet.

A closely related development was the rise of experimental economics in the 1980s. By simulating markets in the laboratory, modern experimental economists have found that they have had also to face the problem of setting up the specific institutional structure of a market. Simply calling it a market is not enough to provide the experimenter with institutionally specific structures and procedural rules. As leading experimental economist and Nobel Laureate Vernon Smith (1982, p. 923) wrote: 'it is not possible to design a laboratory resource allocation experiment without designing an institution in all its detail'. Experimental economics has underlined the importance of these specific rules, by showing that market outcomes are sometimes relatively insensitive to the information-processing capacities of the agents involved, because particular constraints govern the results.

In the real world, each particular market is entwined with other institutions and a particular social culture. Accordingly, there is not just one type of market but many different types, each depending on its inherent routines, cultural norms and institutional make-up. Differentiating markets by market structure according to textbook typology – from perfect competition through oligopoly to monopoly – is far from the whole story. Institutions, routines and culture must be brought into the picture. Experimental economists have discovered an equivalent truth in laboratory settings, and have learned that experimental outcomes often depend on the tacit assumptions and cultural settings of participants. Different types of market institution are possible, involving different routines, pricing procedures and so on. This has been acknowledged by a growing number of economists, as the notion of a single universal type of market has lost credibility (McMillan, 2002).

Following the collapse of the Eastern bloc in 1989–91, a number of advisers presumed that many markets would emerge spontaneously in the vacuum left after central planning. This view turned out to be mistaken, as capital and other markets were slow to develop and their growth was thwarted by the lack of an appropriate institutional infrastructure. Several formerly planned economics slipped back into severe recessions. Critics such as Coase (1992, p. 718) drew attention to the necessary institutional foundations of the market system: 'The ex-communist countries are advised to move to a market economy . . . but without the appropriate institutions, no market of any significance is possible.'

Recent contributions by economic sociologists and socio-economists

Sociologists, like economists, had previously paid relatively little attention to market institutions. But when 'economic sociology' was revitalized in the 1980s it addressed social structures and institutions of economic life that had been long neglected even by economists.

Leading economic sociologists such as Mark Granovetter (1985) addressed the arguments of Polanyi (1944) concerning the degree of 'embeddedness' of markets in social relations. This discourse suffered from inadequate definitions of the 'social', the 'economic' and 'embedded'. The lack of consensus on the meaning of these crucial words, and consequently whether institutions (such as the family) are 'economic' or 'social', has undermined the key concept of 'embeddedness'. Consequently, Neil Fligstein (1996, p. 656) reports that the 'empirical literature has failed to clarify the precise nature of social embeddedness'. Granovetter wrote later: 'I rarely use "embeddedness" any more, because it has become almost meaningless, stretched to mean almost anything, so that it therefore means nothing' (Krippner et al., 2004, p. 113).

While the discourse on embeddedness has reached a dead end, economic sociologists have nevertheless made a huge contribution to our understanding of the operation of financial and other markets (Abolafia, 1996; Baker, 1984; Burt, 1992; Fligstein, 2001; Lie, 1997; Swedberg, 1994; White, 1981, 1988, 2002). These works show how specific networks and social relationships between actors structure exchanges, and how cultural norms govern market operations and outcomes. Amitai Etzioni (1988) argued that ethical issues impinge on human behaviour, even in a market context.

Remarkably, several of these considerations have emerged in empirical and simulation work by economists, which stresses the importance of learning and previous experience in trading-partner selection and in the decision to accept a transaction (Kirman and Vignes, 1991; Härdle and Kirman, 1995). The general equilibrium approach has been overshadowed by an array of theoretical and empirical methodologies, including game theory, agent-based modelling, laboratory experimentation and real-world observation. A milestone paper by Alvin Roth (2002) challenged the view of a single universal theory of market behaviour. While those economists who had paid attention to different market mechanisms had typically been preoccupied with a search for 'optimal' rules and institutional forms, gradually this has become a will-o'-the-wisp with the realization that typical assumptions in the emerging literature concerning cognitive and information impairments have made this search difficult or impossible (Lee, 1998; Mirowski, 2007). Generally, economists have begun to adopt a much more nuanced and institution-rich concept of the market (McMillan, 2002). These developments have gone so far as to challenge the meaning and legitimacy of the boundaries between economics and sociology.

In this context, markets reappear as varied and historically specific phenomena. Both economists and sociologists are now paying detailed attention to the nature of specific market rules and mechanisms. An outcome is to challenge the former widespread notion – shared by many theorists from Marxists to the Austrian School – that 'the market' is a singular type of entity entirely understandable in terms of the same principles or laws. While Friedrich Hayek (1948) and his Austrian followers should be given inspirational credit for their emphasis on the informational limitations inherent in all complex economic systems, they stressed that markets are the most effective processors of information while downplaying or ignoring the differences between their various types.

Conclusions

There is no methodological golden rule that unfailingly points to the superiority of one definition over another. A number of options for defining a market exist. The broadest option is to regard the market as the universal ether of human interaction, depending on little more than the division of labour. A second option is to regard the market as synonymous with commodity exchange, in which case markets are tens of thousands of years old.

Several considerations militate in favour of a narrower definition, and recent developments in economic theory and economic sociology point in this direction. In the narrower sense, markets are organized recurrent exchange. Where they exist, markets help to structure, organize and legitimize numerous exchange transactions. Pricing and trading procedures within markets help to establish a consensus over prices, and communicate information regarding products, prices, quantities, potential buyers or possible sellers.

Variation in market rules and procedures means that markets differ substantially, especially when we consider markets in different cultures. The markets of 2000 years ago were very different from the electronic financial markets of today. In the real world, and even in a single country, we may come across many different examples of the market. The market itself is neither a natural datum nor an ubiquitous ether, but a social institution, governed by sets of rules restricting some and legitimizing other behaviours. Furthermore, the market is necessarily entwined with other social institutions, such as the state and the legal system. It can emerge spontaneously, but it is often promoted or guided by conscious design.

Given the arguments outlined here, the unnuanced but familiar pro- and anti-market policy stances are both insensitive to the possibility of different types of market institution. Instead of recognizing the important role of different possible cultures and trading customs, both the opponents and the advocates of the market have focused exclusively on its general features. Marxists, for instance, have inferred that the mere existence of private property and markets will encourage acquisitive, greedy behaviour, with no further analysis of the role of ideas and culture in helping to form the aspirations of social actors. This is the source of their 'agoraphobia', or fear of markets. Obversely, over-enthusiastic advocates of the market claim that its benefits stem simply and unambiguously from the existence of private property and exchange, without regard to possible variations in detailed market mechanism or cultural context. In a strange alliance, Marxists and many market advocates underestimate the degree to which all market economies are unavoidably made up of densely layered and interconnected social institutions.

Such complex institutional arrangements mean that markets can take a variety of forms, with important differences in outcomes. Because markets involve institutional and cultural, as well as monetary, factors, their analysis can usefully draw insights from several disciplines.

Note

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