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## **Markets, Embeddedness and Trust: Problems of Polysemy and Idealism**

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### **Introduction**

In this paper I want to develop a critique of certain approaches to markets and firm behaviour in economics and economic sociology. The are two main targets of the critique. The first concerns some common approaches to markets and the nature of firms in relation to them. Here the diverse range of uses of the term 'market' in contemporary lay and academic discourse are argued to cause confusion. Also problematic in both mainstream and institutional economics is the tendency to treat market exchange as the atomic structure of all economic processes, and as the default form of economic coordination, so that any other forms of organization are either marginalised or treated as problematic exceptions. The second target of critique concerns literature on the socially embedded character of economic processes, on the nature of networks, and the role of trust. While largely endorsing the importance attached to these in recent literature, I argue that their treatment has suffered



frequently from being idealist, both in the sense of underestimating material aspects of economic life and in presenting an overly benign view which underestimates the instrumentality of economic relations. In the third section, I venture some observations on knowledge and economic systems and their implications for forms of competition. Finally, I conclude with a reminder of the political significance of explanations of markets and competition.

## 1. The multiple meanings of 'market'<sup>1</sup>

If we are to discuss market relations and competition, we need to be clear on what the former involve. However, such is the variety of uses of the term 'market' that it is important to distinguish them if we are not to talk at cross purposes. As Maureen Mackintosh observes, these are rarely distinguished so that people regularly slide unknowingly between quite different uses of the term, sometimes within one sentence, while imagining that they are talking about the same thing (Mackintosh, 1990; see also White, 1993). These conceptual slides are a feature of both lay and academic/scientific usages of the term, and are found in both liberal and radical economic theory. In everyday usages the shifts are often innocuous. Polysemy is not necessarily a problem and the scope and subtleties of everyday usages are worth treating with respect. By comparison, attempts to analyse and codify the tacit understandings involved are bound to seem lumbering and unsubtle. Nevertheless, the ideological influence of the discourse of markets in the shape of 'neoliberal fatalism' is too important for the conceptual slides to be ignored. While the variety of different uses of 'market' and 'markets' is confusing, many of the uses have contexts in which they identify something significant. The problems come when authors apply them outside these contexts, particularly where explanatory weight is transferred unknowingly from one referent of 'market' to another. On occasion, the conceptual confusion can have disastrous effects; Mackintosh found a World Bank report offering diagnoses and prescriptions for poor countries to have "at least three different meanings floating in the text" (Mackintosh, 1990).<sup>2</sup> I shall attempt to take further her strategy of distinguishing different senses.

### A 'core definition'

One of the few theorists to problematise the definition of markets is Geoffrey Hodgson (1988). For him, a market is

"a set of social institutions in which a large number of commodity exchanges of a specific type regularly take place, and to some extent are facilitated by those institutions." (p.174)

A market therefore includes not only commodity exchanges themselves and the associated transfers of money and property rights, but the practices and setting which enable such exchanges to be made in a regular and organised fashion. We might add that markets are also normally competitive to some degree. I shall take this as a core definition of a market, while noting that other uses may have some validity too.

The reference to the institutionalisation of commodity exchanges emphasizes that markets are not spontaneous products of exchange activity but are socially constructed - and as Abolafia adds, constructed by skilled and specialised actors (Abolafia, 1996). Hodgson further distinguishes market exchanges from exchanges of commodities made outside markets through some other sphere of activity - or 'non-market exchanges' (1988, p.177). An example of the latter would be occasional commodity exchanges between firms linked together by complementary asset specificities that have developed over long periods. Such exchanges are a significant feature of market economies, though highly elastic concepts of markets allow the difference between them and market exchanges to pass unnoticed.<sup>3</sup>

### Inclusiveness

Concepts of markets differ in their degree of inclusiveness. Markets may be defined narrowly in terms of routinised buying and selling under competitive conditions, or inclusively to embrace not only exchange but the production and consumption of the exchanged goods, and the particular property relations that hold therein.<sup>4</sup> Accordingly, for a fruit and vegetable market we could adopt a restricted focus, ignoring what buyers and sellers do outside of the



moment of exchange, or we could take a more inclusive view, examining how the sellers get their produce, how the supply chain is organised, even going back into production, and on the other side, how customers are differentiated into individual and institutional buyers and how their purchasing behaviour is related to things like income and ability to save.

Many abstract discussions of 'the market' slide between restricted and inclusive versions (Hodgson, 1999, p. 177). The basis for the powers or forms of behaviour commonly attributed to markets are consequently often ambiguous; is it markets in the restricted sense which give rise to the effects of interest, or markets when mediating between particular kinds of producers, with certain kinds of property relations, and particular kinds of consumers? Since markets can co-exist with different property relations and systems of production, we cannot expect to read off an inclusive account from a restricted focus. This is of critical importance in political economy for understanding and evaluating market economies, and for identifying the sources of competitiveness. Restricted accounts of markets exclude major contextual influences which explain behaviour. On the other hand, a more inclusive view which takes in those influences is going beyond exchange into production and consumption. Thus price competition in buying and selling, identifiable in the restricted view, differs from competition through the product and process innovation, identifiable in the inclusive view. (These correspond to 'weak' and 'strong competition, respectively, to use Storper and Walker's distinction (1989)). The dynamism of capitalist economies is not simply a consequence of markets in the restricted sense, but of capital, obliged to accumulate in order to survive, and liberated from the ties which bind petty commodity producers. Hence this slide from a restricted to inclusive concept of markets also enables the term 'market economy' to serve as a euphemism for capitalism.

Marshallian demand-supply diagrams provide restricted views of markets, marginalising the social relations of production and the processes of production and consumption on which demand and supply depend. As Maurice Dobb pointed out in 1937, this treats production and consumption as the creature of price rather than vice versa. Moreover, the static equilibrium approach with its conflation of ex ante and ex post quantities treats markets as closed systems. Instead of tracing the aetiology of actual markets in an inclusive sense, taking into account the semi-autonomous, evolutionary dynamics of production and consumption, this approach attributes change either to an exogenous black box (technologies and preferences) or to the endogenous variable of price signals.

### **Production and market 'optics'.**

The problems regarding inclusiveness are frequently combined with those of broader conceptual frameworks. In practice, decisions about what is included are largely determined on the Left by a 'production optic', in which production and capital are generally treated as prior to exchange, thereby marginalising markets, and on the Right, by a 'market optic' which swallows up production in exchange. In the market optic of mainstream economics, the whole economy becomes 'the market' in the singular, or 'market system'.<sup>5</sup> Moreover, this positive prioritising of markets is coupled with and frequently slides into a normative preference for markets as a form of economic organization.

Economies are about the provisioning of societies, and hence are necessarily about production. While they necessarily involve production as a transhistorical feature, they only contingently involve market exchange as a specific mode of coordination of divisions of labour. Arguably markets in the restricted sense may be good at stimulating production, but certainly they produce nothing themselves. The illusion that they can is further present in the assertion that firms can either make things or get them from the market (the 'make or buy' decision). While this is true, in fact of course, the existence of a market for inputs is dependent on the existence of other producers making those inputs. Markets are not an alternative to production or to firms or 'hierarchies' but a mode of coordination of the division of labour. Enterprises or hierarchies are usually involved not only in coordination but production; they are therefore not merely an alternative mode of coordination, as is often assumed.

Production and exchange are therefore not alternatives such that more of one means less of the other; a vertically-disintegrated form of industrial organization involves no less production



than a vertically-integrated one, even though it involves more market coordination. Nor should markets and firms be seen simply as alternative forms of economic organization where one can be substituted for another. In fact, they are generally mutually dependent in their development: a developed market economy requires large scale commodity production and firms themselves are leading constructors of markets (and non-market exchange) (Auerbach, 1988).<sup>6</sup> Market and authoritative coordination therefore develop together and it is their combination which is the important thing to explain (Hodgson, 1999).

However, numerous theorists adopt a market optic in which firms represent a problem to be explained whereas markets are a natural phenomenon. While Coase's much celebrated question regarding why firms exist identifies a difficulty for those within the market optic, it is itself also thoroughly trapped within it. For Coase and followers, the firm is defined negatively in relation to the market, being distinguished and defined by the absence of the price mechanism, where the latter absence becomes a problem to be explained. The popularity of negative definitions of firms reveals the strength of normative and positive presumptions in favour of market coordination, a presumption which of course is also implicitly against state or collective control. There is also something else that is strange about emphasizing negative definitions of firms; it is rather like saying that the difference between cooking and eating is that cooking is defined by the absence of eating, and to understand cooking it is this absence that we must explain. True, the negative definition is accompanied by a positive one: firms coordinate by means of authority rather than the price mechanism. But this is not all that most firms do; what is distinctive is that, like cooks, they are coordinating production rather than exchange. And of course, without production for exchange, there would be little need for markets.

Indeed it is the fact of being involved in production that makes firms require non-market coordination; insofar as production is always of specific commodities - whether goods or services - whose use-value properties require specific inputs and production processes, where that specificity is in use-value, or engineering terms; e.g. involving getting the ingredients of the cake right, and the temperatures used in production right. Thus even though the goal of capitalist production is exchange-value, the firm's coordination and planning have to take strict account of use-value constraints. Whatever the prices of the inputs, the good to be sold cannot be successfully made unless these ratios and processes are correct. Of course, producers of commodities have to be responsive to the exchange-value of their inputs and outputs, and the sufficient conditions of successful business are set in exchange-value terms, but for producers of goods and services, the means to these ends have to satisfy use-value constraints.

The market optic has not only a presumption in favour of market coordination but a market individualist presumption. The fact that production is not generally carried out by individual producers, but by producers acting in concert therefore becomes an awkward one. (Coase reflected on both possibilities.) But provisioning requires production and as social beings we quite naturally cooperate in production; while examples of primitive communism have been widely recorded, instances of primitive individualism have not, for of course the latter would be too precarious to be sustainable. It is entirely unsurprising that throughout history, humans, as social animals, have cooperated in their productive activities. It is also entirely unsurprising that given the specific historical origins of capitalism in competition in early markets and expropriation of land, that a class of people unable to produce for themselves and hence obliged to produce under the direction of others arose. The existence of firms is not a puzzle. What would be deeply puzzling would be precisely a market economy of individual commodity producers instead of firms.

(It could be objected that it is naive to take the idea of markets producing things as anything more than a shorthand: no-one seriously imagines that exchanging things actually produces anything and it is obviously the whole 'market system' which is meant here, including producers - or rather, 'hierarchies'. However, the concept of 'the market' or 'market system' here is not merely an inclusive one which already encompasses production, for as we have seen, the market optic barely acknowledges production, reducing it to 'supply' or 'transactions', and has difficulty conceptualising anything that does not involve or approximate exchange. The shorthand would not be suspect if liberal economists took production seriously



and if the belief that exchange, or change in ownership, actually created anything new were not so common in actual economic behaviour. The illusion is particularly strong in the more liberalised capitalist economies, where it is evident in the pursuit and celebration of takeovers. In such cases we have markets without production - the buying and selling of existing commodities or property, including companies, without adding anything to the existing stock of goods and services. Treating this as equivalent to productive activity is a disastrous error, though it might facilitate - or inhibit - subsequent production, and might affect efficiency. The confusion is echoed further in the Thatcherite practice of encouraging share ownership - i.e. rentiers - as a way of encouraging entrepreneurship: whereas entrepreneurs are celebrated precisely for producing something which didn't already exist, rentiers can earn an income without producing anything. There are important arguments about the benefits of market exchange in terms of their effect on production and the efficient allocation of resources, but it remains the case that exchange itself produces nothing. There is a curious fetishisation of the power of markets here, which attributes to a mode of coordination, a power which is actually dependent on another sphere of the economy. It is the liberal celebrants of 'the market' who are fooled by their own shorthand.)

Further grounds for concern over the difference between inclusive and restricted analyses of markets relate to the ideological uses which can be made by slides between the two or attempts to pass off one as the other. For liberal economics, the market optic and the use of a restricted analysis of markets as if it were actually an inclusive analysis, marginalises social relations and presents capitalism in neutral guise, merely as a market economy, as if it were not significantly different from non-capitalist market economies of petty commodity production. In Marxism, matters are reversed, with the behaviour of market forces under capitalism being taken as condemning markets operating outside capitalism.

In the Marxist account, commodities are merely 'thrown' on the market, and the role of exchange is limited to realising the value of commodities and completing the circuit of capital. Allocational effects are of no interest. By contrast, the market optic focusses on the allocational effects and either ignores production and its social relations, or conceives of it as a sphere of transactions or exchanges, or else reduces it to 'supply' (which fails to distinguish between produced goods and unproduced goods such as land).

### **The market as ether: Imaginary, and latent markets.**

Concepts of imaginary, latent or implicit markets figure prominently in mainstream economics. It should be noted that these are not the same as abstract (i.e. one-sided, selective) concepts of real markets (in which commodities and property rights are traded) for whereas the latter already exist, imaginary markets are only a possibility. Hodgson (1988, p.81) notes how Arrow and Debreu assume "that a market exists for the exchange of every possible commodity on every possible date in every possible state of nature." This is an extraordinary usage for it means almost the opposite of what it says: namely that such a market hardly exists and can only be imagined. What this concept of market seems to involve is a representation of economies as consisting of a vast array of opportunity costs, where the goods whose use or non-use have these opportunity costs could be exchanged for money in markets. In this kind of view,

"The market is seen as an ether in which individual and subjective preferences relate to each other, leading to the physical exchange of goods and services." (Hodgson, 1988, p.177-8).

The ether is the latent or imaginary market, and again actual markets are seen as their natural consequence, unless somehow blocked.

Once everything is seen as having a price, notional or real, then it is tempting to look upon the range of resources and projects in society as one big market. A loaf of bread, a picture, a house, a field, a letter, a haircut, a motorway, a worker, a conversation - all these things and countless others might be thought of as having a price which someone might possibly be prepared to pay for them, though even under capitalism, some of them may never be offered for sale. In some economies few or no goods are exchanged in real markets at all, and as many have pointed out, including Marx, it is absurdly ahistorical (and often ethnocentric) to



project market concepts onto non-market economies, and therefore quite accurate to term this kind of economics 'bourgeois'.<sup>7</sup>

However, while Marxism's critique of this way of thinking is still powerful, it does not excuse its failure to note that even if there are no real markets, there is an array of opportunity costs regarding the use of resources, including labour power. That there are always opportunity costs is a non-trivial, transhistorical fact about all economies. In simple economies, and in many situations in advanced economies, opportunity costs are transparent enough to be estimated and be evaluated in real terms (i.e. in terms of use-values through practical judgement (O'Neill, 1994), without the aid of money and prices. The conception of an economy as an array of opportunity costs is a useful one, but since the existence of such an array is only contingently related to real markets, it is both absurd and tendentious to refer to it as 'the market'. Real markets are just one form in which those opportunity costs sometimes get reflected.

We could say that this concept of the market as ether refers to 'implicit markets', but this still tendentiously suggests that real markets are the normal form of economic organisation, and if absent, are held back by pre-modern conventions and practices, ill-defined property rights and state restrictions, and just waiting to be 'freed', whereupon economic benefits are supposed to follow. In this way, the conceptual slide from imaginary to actual markets is closely associated with negative judgements of non-market production and modes of coordination as causes of economic backwardness, and it has the effect of legitimizing policies for the development of actual markets. Thus commodity production is assumed by the World Bank to be superior to subsistence production and state regulation, despite the plentiful evidence that marketisation in developing countries offers no guarantees of development (Mackintosh, 1990; Sen, 1981). In liberal economics, 'the market' is privileged both normatively as the best form of economic organisation and positively as the key to how actual economies work, indeed the image of the former colours its vision of the latter. Economies which lack markets or only have few are judged negatively, not only because they lack mechanisms which allegedly bring benefits, but because they don't fit with mainstream economics' market optic. Further, 'the market' or 'markets' are given powers and authority of their own and treated as if they were unitary actors. In a sense markets do condense all the demands and offers made, not only in a single market but in others in which the same and other actors participate, and across which resources are allocated. Yet as we noted earlier, market prices are not merely neutral reflections of demand and supply but reflect the balances of power in many arenas. 'You cannot buck the market', a slogan beloved of Margaret Thatcher, was another way of saying that 'might is right', regardless of how the might was distributed.

The ideological notion of latent or implicit markets which only need freeing figures strongly in neoliberal rhetoric, and contrasts strikingly with the view, associated with Polanyi and others, that markets are social constructions whose birth is difficult and requires considerable regulation and involvement by the state and other institutions to achieve (Polanyi, 1944; Marquand, 1988). The experience of the post-communist countries weighs heavily in support of Polanyi. The liberal underestimation or denial of this institutional support is partly derived from the elision of the difference between potential or imaginary and the actual in its concept of 'the market.'

Through its fetishisation of markets, the market optic attributes to markets in the root sense powers which are contingently rather than necessarily associated with them, such as responsibility for competitiveness. While markets do indeed provide incentives and sanctions which encourage competitive behaviour, whether the latter occurs depends on other features, such as technological possibilities, spatial monopolies and organizational learning and strategy, which take us into the spheres of production and use/consumption.

Economic discourse - including radical political economy - is plagued by elisions among these different concepts of market. Uses of 'the market' in the singular are particularly slippery, referring either to a specific real market, or to the whole system of such markets throughout the economy, or sometimes to the allegedly latent 'market' discussed above. The second of these three uses - the system of real markets - has some logic in that markets are interdependent, such that changes in a particular market (e.g. the oil market or the mortgage



market) have effects which ripple through entire economies, indeed round the world. This notion of 'the market' in the singular, as a pervasive system of particular, interlinked markets, fits better with the perspective of the final consumer, having money and able to spend it on anything, than the seller who is stuck in a particular market with the particular commodities he or she has to sell (Offe and Heinze, 1992). The holder of money can roam across many markets, as if they were one big market<sup>8</sup>, indeed many retail markets have coalesced to such an extent that they offer thousands of products in a single location and institutional setting. Once again, while the many meanings of markets can cause considerable confusion, there are often contexts in which particular uses contain a useful insight. In developing a critique of the discourse of markets we have to recognise these insights as well as attack the conceptual elisions.<sup>9</sup>

## 2. Embeddedness, trust, networks and markets

'Embeddedness', 'trust' and 'networks' are perhaps the most distinctive terms in the new economic sociology. They identify dimensions of economic organization which most economists have chosen to ignore. Insofar as these dimensions are necessary conditions for economic activity rather than merely contingent associations, abstracting from them is likely to mislead. Moreover, the argument is not only that these dimensions are universal features of economic activity, but that in their more highly developed forms they can benefit economic performance, and that conversely where they are limited, performance suffers. This, as Ronald Dore argued in 1983, posed a fundamental challenge to the liberal individualist view of capitalism, which regarded the narrow pursuit of individual self-interest as sufficient for success and embeddedness and networks as frictions, or 'conspiracies against the public'. Dore argued that the success of Japanese capitalism, with its strongly embedded economic relations involving long-term commitments among firms and between large firms and their key workers demonstrated that the liberal model of capitalism was faulty. There was not one capitalism but several kinds, none of which was to be regarded as the norm, and the more embedded and regulated Rhenish and Japanese capitalisms were looking stronger than the Anglo-American neoliberal versions. This, of course, has been music to the ears of social democrats. Now, however, since the bursting of Japan's bubble economy in the early 90s, the alternative model is under threat from more liberalised economic pressures and may yet give way to the liberal model.

I wish to argue that while embeddedness, networks and trust are indeed important aspects of economic organization, theorizing about them has tended to idealise them somewhat. The focus on embeddedness can inadvertently produce an overly benign view of economic relations and processes, in that it shows that practices that were hitherto seen as governed purely by narrow self-interest, or 'the icy waters of egotistical calculation' as Marx put it, are actually embedded in relations of trust, in which there are shared norms and various forms of reciprocity. While this is true, Marx and the other theorists of self-interest, economic power and impersonal system mechanisms were not wrong either. Such embedding is often strongly adapted to the system pressures of market forces, and indeed may be cultivated to enhance the pursuit of self-interest. As authors such as McDowell (1997) and 2 et al (1996) point out, the social embedding of economic activity often involves relations of domination, some of them based on gender, class or race. The metaphor of embeddedness sounds soft and comforting, and possibly sends our critical faculties to sleep, but what it describes can, on occasion, be harsh and oppressive. Further, at the same time as it highlights apparently softer versions of capitalism, it has little or nothing to say about issues of distribution and inequality, and the literature on embeddedness and networks often amounts to merely a sophisticated form of boosterism.

The comforting view of embedding is reinforced by the enthusiasm of cultural political economy for networks. As Ash Amin and Jerzy Hausner (1997) note:

"There is a creeping tendency in the socio-economics literature to privilege the qualities of networks over those of markets and hierarchies. Relations within and across networks are seen to be somehow more reciprocal and more egalitarian, because they rely on interaction. Nothing could be further from the truth. Not all networks are non-hierarchical, mutually beneficial or discursive . . ." (p.13)<sup>10</sup>.



Further, it is not only that strongly embedded economic systems are not necessarily benign, but that they may also prove to be less robust than commonly supposed. The embedded character of economies refers to their incorporation into the subjective and informal relations of the lifeworld. But modern economies have also developed 'systems', in Habermas's sense - particularly markets and bureaucracies - which have mechanisms which go beyond those of the lifeworld and which produce unintended effects which operate 'behind actors backs' (Habermas, 1987). A strongly embedded capitalist economy may involve more negotiation and collaboration than a minimally embedded one, but the former is no less affected than the latter by 'blind' market forces. When a system crisis strikes - like that experienced recently in East Asia - the local forms of embedding may provide some resistance, but they also form some of the conduits along which market pressures - such as those that follow from a collapse of the currency - flow. Sometimes the pressures may sweep the networks away.

Furthermore, stable forms of embedding, including networks and regulations, are not necessarily the product of a free consensus. They may represent an uneasy compromise between interests which would interact differently, given the chance. Consequently, agents such as companies may sometimes use a crisis as an opportunity to escape onerous conventions and commitments - most typically with reference to organized labour - which arose in the context of the balance of power obtaining in more prosperous times. In other words, we need to remember the dialectic of regime of accumulation and mode of regulation, or forces and relations of production. As may turn out to be the case in Japan or Europe, forms of embedding of economic relations which hitherto worked successfully may not survive severe system crises.

Thus networks do not necessarily fuse the self-interest of different actors into a harmonious and egalitarian whole but may be characterised by inequalities of power, strategic coalitions, dissembling and opportunistic collaboration. However good the networking, however strong the reliance on information and trust, economic survival for capitalist firms depends on costs and cash, though extraordinarily, this literature says remarkably little about these: the bottom line remains the bottom line.

We can amplify these points in relation to trust. Recent social and political economic theory has been very taken with the role of trust in economic relations, often in reaction against neo-liberal exaggerations of the sufficiency of self-interest and contract in producing successful economic performance (e.g. Fox, 1974; Fukuyama, 1995; Luhmann, 1979; Baier, 1994; Misztal, 1996; Sztompa, 1999). While mainstream economic theory's emphasis on self-interest has led it to ignore or overlook the role of trust in economic relationships, the significance of trust can also be overestimated, especially where markets and competitive economic behaviour are concerned.

Trust differs from mere confidence or expectations of consistency in that it involves social relations and has a moral dimension<sup>11</sup>. Trust is relational; it is always dependent on trustworthiness, and the latter involves a sense of moral obligation. In most of the literature trustworthiness is mentioned only rarely or in passing, as if trust were only dependent on a unilateral act of will by people in the role of trustors. But the relational character of trust is one of the features which distinguishes it from mere confidence or expectations. I expect my computer to continue working, but it doesn't do so because it knows it ought to behave properly. It is simply reliable. However, I trust the service engineer to make every effort to repair it not only because s/he is competent to do so but because s/he has a sense of obligation towards me as a customer, or at least as a person, who, other things being equal, should be treated properly. It would only be a slight exaggeration to say that trust is the dependent variable, and trustworthiness or probity the independent variable. Hence the overwhelming emphasis on the former rather than the latter is peculiar, especially as trust relations can be initiated by the trustee ("trust me").<sup>12</sup>

Exaggerating the importance of trust produces analyses which are idealist in both senses of the term - i.e. attributing to ideas powers which often have more to do with material circumstances, and exaggerating the role of moral influences on economic behaviour relative to power and interest. Here we note two cautions - derived from Durkheim and Marx - against idealist accounts.



While Durkheim famously demonstrated the moral presuppositions of contractual relationships, he rightly treated these as conditions or material causes rather than as efficient causes, and he acknowledged that contractual relationships arise because the parties to them need each other (1933, p.160). Cooperation occurs among firms in similar or related lines of business not simply because they trust one another but because they recognise that it is sometimes in their self-interest to do so. For example, among competing suppliers, there may be times when orders outstrip the capabilities of any single supplier and so they suppliers must either cooperate and share the order or risk losing out altogether. At another time, those same firms may compete directly for the same business. A certain amount of competition among such firms for business is tolerated, provided it is not deemed to be unfair. Especially among small businesses there may be more or less tacit agreements to take turns in getting contracts (See Whitaker, 1994, for analyses of examples of such behaviour in Japanese industrial districts).

The more firms need each other the more they are likely to develop trust relations beyond a base level of generalised probity to a level where they put considerable trust in each other. Though 'high trust relations' may result, they have an instrumental rationale. They also have a material basis as they do not arise independently of series of acts and investments that tie the fortunes of the parties together through complementary asset specificities and mutual lock-in. Such long-term relations between firms may even include, at least on a small scale, elements of gift relationships, insofar as each party takes turns to invest time and money in the relationship. However, such practices are always instrumental - directed to economic goals rather than to the relationship itself - and subject to the discipline of the bottom line. The threat of exit may even be used to develop a long-term relationship.

It is therefore probably an exaggeration to argue, as Granovetter does, that members of industrial groups see themselves as belonging to a particular moral community (Granovetter, 1998); rather they recognise the overlaps in their self-interest, reinforced as they usually are by various forms of interlocking of shareholding and directorships.<sup>13</sup> Even where industrial groups originate from kinship networks, as many do, these are likely to be characterized by power asymmetries as well as a sense of moral obligation.

Marx's comments on trust and economic behaviour in market economies (in the Notes on James Mill's Elements of Political Economy) are generally compatible with these remarks, though he does make the following typically caustic comment:

" . . . the basis of trust in economics is mistrust." Marx (1844; 1975, p. 265).

This is provocative of course, but not so different from the tendency to assume universal malfeasance on the part of actors in some of the more Hobbesian contemporary mainstream economic literature, except that Marx saw mistrust as context-dependent and historically-specific rather than a transhistorical feature of the human condition. What Marx had in mind here in particular were credit relations. In simple market exchange involving straightforward one-off transactions, obligations among people are settled the instant the transaction is done, and it is the value of the money (and the goods) rather than the people that have to be trusted to last into the future. While market actors have the option of exit according to their self-interest, in non-market economies, reciprocity is the norm and individuals have to trust one another and/or find ways of making them reciprocate. Reciprocity and gift relations are extended in time; as the alternating obligations between actors stretch into the future, so they have to trust one another to act responsibly in the future. (This implies that trust is backed up by implied resort to sanctions in the event of malfeasance.) Of course, not all commodity exchanges in capitalism are simple. Since credit relations extend over time, collateral or the assurances of others with appropriate capital are needed. When we trust someone, by definition we don't have to calculate the risks of them defaulting, but where credit relations are concerned, such calculations are standard and a condition of credit being extended. The debtor is mistrusted unless she has money or collateral. For example, legal requirements regarding banks' cash reserves are based on mistrust, but are intended to ensure the trustworthiness of the banking system.

Combining the insights of Durkheim and Marx, we need to avoid both the extremes of assuming a universal propensity for malfeasance and of underestimating the extent to which



trust (and trustworthiness) is limited by self-interest and opportunism. Aside from trust, dissembling and wheeling and dealing, are common in both markets and networks; within certain limits, they are expected and excused. In a market situation, by definition, trust does not extend to trusting customers or suppliers never to use the option of exit. It is generally understood that any mutual commitments are always conditional upon being able to maintain quality, profitability and competitiveness. In view of the general recognition of the need to economise and remain profitable, a certain level of dissembling is expected and excused (e.g. buyer A dissembles to keep the goodwill of supplier B while secretly negotiating with C to buy from them instead). Networks too, allow for exit, and need be underpinned by no assumptions of loyalty beyond what self-interest requires.

Further, what appears to indicate trust and trustworthiness may in fact be largely a consequence of domination or lack of alternatives, or simple mutual dependency. As Annette Baier points out, trust can be part of relations of domination instead of relations among equals, for the dominant trust the subaltern to behave as their status befits them (Baier, 1994)<sup>14</sup>. This is a common situation in both inter-firm and employment relations. Similarly, where certain economic relations are concentrated within particular ethnic groups, this may itself be a product of domination within the group or within-group asset specificities rather than simply trust (Sanghera, 1998).

Trust or lack of trust may sometimes be mistakenly invoked to explain situations which have more to do with material circumstances. As philosophers note, ought implies can. Someone may fail to engage in an economic relationship not because they lack trust or are themselves untrustworthy, but because they lack the material resources to do so. Thus, lack of success in developing markets, as is being experienced in some post-communist countries, may have less to do with lack of trust than a lack of material preconditions for the development of firms and markets.<sup>15</sup>

Idealist accounts of trust in economic life need also to be tempered by reference to the way in which high-trust and low-trust relations have different institutional supports. Long-term, high-trust relationships tend to be associated not merely with certain cultural traditions such as forms of kinship relations (pace Granovetter, 1998, for example), but are backed up with institutional, legal and financial circumstances which influence the time-scale over which rates of profit matter and the degree to which firms are exposed to short-term pressures, and the scope for voice relative to exit. Moreover, while culture influences economic behaviour it is itself subject to economic influences, and of course not just any cultural influences can survive in a capitalist context. For example, while Japanese 'company familism' corresponds to certain traditional cultural forms favouring 'groupism', many observers argue that it was cultivated instrumentally as way of controlling labour in the fifties onwards, following earlier industrial unrest and high rates of labour turnover (Cusumano, 1985; Eccleston, 1989; Ichiyo, 1984; Sugimoto, 1997). Moreover, the vertically-disintegrated keiretsu groups owe their success in large part to their ability to take advantage of the wage gradient between large and small firms, thereby lowering costs below those of their more vertically-integrated foreign competitors, and to the way in which they allow large firms to dominate suppliers without being tied to them by ownership (Williams et al, 1996). Again, this is not to deny cultural differences and their influence over economic behaviour, but rather to argue that equally they are not themselves immune to capitalist instrumental influences.

### **3. Markets and knowledge**

N.B. This section - more than the others - is very much work-in-progress

Both neoclassical and Marxist economics have absurdly simplified views of exchange, epitomised in the Marxist description of products being 'thrown on the market', as if the market necessarily was already in existence and that buyers would pick up whatever was thrown in, as long as the price was right. This renders the difficulty of constructing markets (and also setting up 'non-market exchanges', as Hodgson calls them) incomprehensible (Hodgson, 1988). The fact that many (non-retail) firms have more employees involved in marketing and sales than in production becomes a mystery. Such armies of exchange workers are needed because of the difficulty of getting buyers - individual or institutional - to buy something new, and of servicing their purchases. Both neoclassicalists and marxists tend to



assume 'the market' is always already there, as an ether. All that is needed is that the price and goods are acceptable and exchange will take place. However, cheap commodities may indeed batter down walls (as Marx and Engels said), but only after an advanced guard of marketing people and others have found or opened up some cracks in them or bought off the guards. Markets are socially constructed and have to be reproduced by labour, including the labour of setting prices (Abolafia, 1996), though many of the consequences of their and others' actions are unintended and react back upon them to influence subsequent decisions.

Imagine a three dimensional input-output matrix of an economy, where the third dimension represents spatial location, so that each cell represents flows between sectors by region. There are likely to be empty cells in this matrix, indicating industries which do not exchange products: thus the insurance industry does not purchase agricultural goods. While there will be some cells which indicate cases where there is no need for inter-industry exchanges to take place or where transport and communication costs are too high, there may be other empty cells representing cases where, in terms of material interdependences, exchanges seem possible yet do not in fact happen because institutional preconditions are not met. From a neoclassical point of view, assuming perfect information all over the 3-D matrix, regardless of specialism or location, embeddedness will be seen negatively as a 'friction' limiting exchange. However, real market economies are quite different. Information is not already perfectly and universally available. Rather, information, knowledge, know-how and know-who or social capital have first to be developed within the matrix and across geographical space. This takes place unevenly because information, knowledge and know-how are situated, and in varying degrees embedded in particular practices and institutions.<sup>16</sup> While information and knowledge can diffuse from particular cells to others, this itself is a social process which operates partly through the work involved in and presupposed by exchange, and through the social embedding of such economic relationships. On this view, networks and embeddedness take on a more positive light, as their role in enabling the exchange of information necessary for the construction of markets becomes clear. This is not to deny that networks are ever exclusive or sclerotic, but without some networks for developing, discovering and communicating information and knowledge, little exchange will take place.

In part, this is close to a Hayekian view of the division of knowledge in an economy, and owes something to his insights into the 'epistemological' implications of a catallaxy. But Hayek himself fails to follow through on these insights and consider the work presupposed by exchange. For him, 'the miracle of the market' stems from the supposed sufficiency of price information for enabling exchange (Hayek, 1988).

Thus, competitive success is of course not merely a matter of the efficiency of production; the efficiency and effectiveness of this marketing and sales work is also vital. Competition takes place not only within already existing markets (as institutions of regularised commodity exchange) but in the business of constructing such markets, and through outsiders getting access to markets where they are not known and accepted and becoming insiders. At the same time the networks and embedding of these economic relations do not necessarily always take the form of pre-existing social and cultural embedding. They too can be constructed - and constructed so as to be maximally functional to those concerned.

As we have seen, from the point of view of suppliers, burdened with specific products needing to be sold, the view of markets as ubiquitous, open and offering numerous possibilities for exit and substitution is inappropriate (Offe, 1987). As a worker employed in marketing, perhaps responsible for managing the account of just one major industrial customer, or on the other side as a buyer for that company, the market is something far more restricted; it is also more obviously socially embedded, since negotiating and reproducing that embedding is part of my job. For example, notwithstanding the vast numbers of products available in supermarkets (<40,000), not all producers are allowed to sell through them, as shelf space and numbers of competing brands are limited, competition being highly structured and circumscribed according to the supermarkets' self-interest. In turn, competition among supermarkets within the larger retail market is structured through competition for urban sites, and through competition via the organization of supply chains. 'Derived demand' and lock-in mean that real product markets are interdependent and nested not only at the level of competing for exchange-value, but through use-value and institutional constraints.



Competitive strategies relating to new products may therefore not be merely limited to the level of the products themselves but operate at the level of wider 'value-networks' on which such products are likely to impact and depend (Rosenbloom and Christensen, 1998), including regulatory frameworks, so that what is involved is more in the nature of a war of position, though only large organizations capable of very long term planning may be capable of engaging in this.

To return to our input-output matrix, insofar as competition involves the use-value aspects of commodities, along with the knowledge and social relations required for their development, production and distribution, it is always specific and situated, occupying particular zones of the matrix. The 'field' of competition may go beyond individual products to wider 'value networks' in which they are located, but they are still tied to particular technologies, institutions and practices. Existing economic relations of these kinds form the conduits through which market forces (or cost pressures) flow. However, capitalist competition also of course involves exchange-value, and as theorists such as Marx and Simmel have argued, money is of its very nature unspecific, 'colourless' and promiscuous, liberated from such constraints. Except where it takes the form of credit, and is tied to particular material collateral and to networks of social capital, it is relatively unrestricted in where it can go in the matrix. Economic competition therefore involves a continuous tension between the restricted mobility of use-values (especially fixed capital and labour) and of knowledge (particularly in the form of know-how), and the hyper-mobility of money and cost-pressures. When this tension is resolved, in favour of exchange-value, as it periodically must in capitalism, then the disembedding effects of economic and development noted by Polanyi become all the stronger.

#### 4. Conclusion

'Disciplinary imperialism' drives sociologists to emphasize culture, embedding, trust and voice at the expense of choice, self-interest and exit, and it drives economist to do the opposite. To do justice to the range of influences present in economic life we need to refuse the temptations of disciplinary imperialism and to adopt instead a post-disciplinary standpoint where explanations are evaluated on their own merits, not according to whether they advance the ambitions and preoccupations of one's favoured discipline.

Although the above critique is very much an academic one in its concern for the adequacy of explanations, it is certainly not without social and political significance. The market optic and its positive and normative presumption in favour of markets both mystifies and promotes unfettered capitalist dynamics and social relations. These issues are especially significant given the prevalence of neoliberal dogmatism and fatalism, which are driving a particular model of economic development liable to increase insecurity by strengthening disembedding effects, while passing it off as the only workable model. At the same time, while recent literature in economic sociology and institutional and evolutionary economics have noted how more strongly embedded and regulated forms of capitalism moderate these effects, we must avoid an overly benign view of embedding which allows us to overlook the persistence of forces creating inequality and insecurity.

#### Endnotes

1. This section is a development of earlier work in Sayer, 1995, chapter 4, which comes to similar conclusions to those of Boyer in his 1996 essay on markets.
2. These are 'the market', denoting exchange of goods and services, including labour power, for money, and private ownership, secondly abstract models of markets constructed by economists, and thirdly different ways of buying or selling, i.e. the concrete or real markets studied mostly by anthropologists and geographers.
3. Since in practice there is usually a possibility of the buyer choosing to exit and 'go to the market', there is a continuum between non-market or non-competitive exchanges and market exchanges.
4. Devine (1988) suggests a distinction between markets and market forces, corresponding to our restricted and inclusive concepts.



5. Thus even Teece and Pisano, who are critical of neoclassical economics' silence on firms, write "While the price system supposedly coordinates the economy, managers coordinate or integrate inside the firm." (1998, p.198), which implies that the economy is just the market, and firms are somehow outside the economy! This is not to deny that some parts of their writing do indeed escape from the market optic, but their deference to Coase prevents the escape from being complete.
6. To be sure, when they do construct them, by persuading others to buy their products and setting up the means of regularised exchange for them to do so, they create something which goes beyond their control. This is firstly because other firms also help to construct them, usually in competition and hence often in ways which challenge the first firm's interests, and secondly since the new market becomes linked to others between which money can be switched and substitutions of products made. The market is not necessarily already 'out there'.
7. The exchange model of social action is also congenial to those who want to make individual 'choice' the organising principle of economic behaviour, rather than production or social organisation. For example, J.Buchanan defines the market as an institutional process "...within which individuals interact, one with another, in pursuit of their separate individual objectives, whatever these may be". (cited in Brown and Harrison, 1978, p.87). Insofar as this need not involve the exchange of money for commodities and the exchange of property rights, the 'market' here is imaginary and metaphorical.
8. However, buyers employed by firms generally have a far more constraints on what they buy, being limited by the use-value requirements of their firm's line of business.
9. These senses of 'market' do not exhaust the range of uses. Others include 'the market' as referring to actual and potential demand for a particular product, as in 'the market for mobile phones is vast'. Another is the restriction of the term 'the market(s)' to refer specifically to certain capital markets and markets in other financial products, rather than just any market.
10. See Amin and Thrift (1995) for further reflections on the political implications of networks.
11. As Maclagan points out, while trust may primarily appear to be related to moral behaviour rather than competence, sometimes lack of competence may be seen as morally reprehensible (Maclagan, 1998, p.57).
12. It is an exaggeration to the extent that it overlooks the fact that the act of placing trust in others encourages the behaviour on which it depends, and vice versa. Mistrusting others who in fact are trustworthy is insulting - a refusal of recognition of their integrity and potential. It can therefore be argued that from a moral point of view, we have not only a responsibility to be trustworthy, but to respect others' moral qualities by trusting them (Fox, 1974).
13. Granovetter draws a parallel between industrial groups and the concept of 'moral economy', but the former are primarily about interlocked self-interest, not obligations according to what is morally right or wrong. All economies are in some respects moral economies, but this is not one of those respects.
14. As Baier also points out, while the concept of trust has an aura of goodness and reciprocity about, in practice it is possible for trust to be placed in individuals and institutions which do not deserve it (Baier, 1994). Also, production in a sector may become more efficient when it moves from a position of rough equality among producers to one of domination of the many by the few through the organization of supply chains. The replacement of trust by domination may improve rather than damage economic performance.
15. I am grateful to Ivaylo Vassilev for discussions on this point. Ironically, some of the most successful business people may be the least trustworthy members of such societies, Also, insofar as trust is a problem, the post-communist may be suffering less from a lack of trust in market situations, than from a lack of trust in the state, for example in its ability



to collect and use taxes efficiently and without corruption (Rothstein, no date). Again it is trustworthiness that is the problem.

16. Ideally, to discover just how uneven and differentiated this geography of information and know-how is we would have to have an input-output matrix large enough to cover specific firms, maybe even specific products and locations.

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