Why we should stop worrying and start loving 'The Market': the Social Sciences' Response to Economics

PART I

By

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The claim that market exchange can provide an organizing principle for diverse spheres in social life – though aggressively promoted in recent neoliberal discussions – has a rather long history. To some commentators, market relations exemplify the competitive struggle between atom-like, rational individuals; to others market mechanisms work to secure social harmony between diverse private interests. In either case, a theory of markets always implies a larger theory of social integration and regulation.

Different approaches to the market have been bound up with competing aspirations – both theoretical and applied – aiming to explain and govern social interaction and conduct. The history of the social sciences has been marked by battles to set out distinct areas of inquiry – that of economics from that of sociology, for instance; or of sociology from psychology. In the division of labor that resulted, market analysis became the special task of economics, and came to focus on a specific version of order. Put simply, economic approaches to the market concentrate on how networks of exchange between buyers and sellers, mediated by agreements on *price*, provide an efficient model of allocation under conditions of scarcity. However, the market as a principle, or 'mechanism' of coordination is not confined to economics per se.

My aim in this essay is to account for the market, as a generalized topic of social theory. If within economics today 'the market' has had the same axiomatic status as 'power and class' within sociology, or 'culture and kinship' within anthropology, like these other categories it too has come under serious criticism. The point of my essay is not to rehearse the usual critiques of neoclassical economics, but to address accounts of the market in a more lateral way, in terms of what markets mean in relation to the generation and reproduction of modern societal order.

There is an important tension between the complex range of transactions that take place in actual market settings and a market ideal, which gets most of the attention of advocates and critics alike. Put bluntly, the market is both less good and less awful than is often claimed, because it is a vaguer notion than we might think. Modern approaches to markets have frequently turned upon an opposition between pro-and anti- market positions – neoliberal versus trade-unionist, capitalist versus socialist, populist versus conservative. Recent political and economic orthodoxies treat markets as self-evident, permanent and incontestable. Imagining alternatives can be difficult given the ubiquity and obviousness of an apparently endless market 'presence'. However, taking account of the variety of market histories, of the different ways in which markets have been instituted and analyzed, brings into question the inevitability of market 'imperatives', the specific forms in which markets currently operate, and the influence of the market mentality on political rhetoric and economic ideology.

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But first a brief introduction to the sections comprising this long essay. In section 1 I discuss market relations as a practical mode of exchange and with the marketplace as a social and cultural site. This cultural materialist conception of markets contrasts with a historical analysis of '*marketization*' the complex process of commodification and *monetization* through which diverse aspects of social life become assimilated into market arrangements. In section 2 I am interested in showing how the ideas of such thinkers as Smith, Walras, Hayek offer reflections on social questions even as they define a specialist field of economics. Modern economic theory has been characterized by market models in which both *market outcomes* and social order arise from rational decisions of individuals seeking to achieve their interests. This model of coordination and this account of agency have, however, been contested. Here I consider economic perspectives on market failure and disorder, as well as critiques of economic rationality as a paragon of social action. In section 3 I briefly review the different ways thinkers like Marx, Weber, Durkheim and Parsons criticized market society as promoting a dubious and reductive version of the individual, and of a normative social order. In section 4 [published in Part II, Quaderni di ricerca No. 16] I go over arguments in economic anthropology and sociology, which hold that market, behavior and relations are 'embedded' in a wider context of social interaction. I focus on attempts to connect markets to broader accounts of social relations and institutions. In section 5 I briefly examine perspectives on the link between markets and states. In section 6 I draw on cultural analysis to address a variety of connections between economy and culture that have animated social thought. These range from enduring concerns that market society debases or destroys cultural coherence and values, to more recent concerns with the cultural dimensions of market processes. Finally, in section 7 I engage with this cultural turn in which markets are increasingly viewed in terms of processes of semiotization and identity formation.

Section 1: the Market Phenomenon

The notion of a market-driven society marks a transition from an older order, literally an *ancien regime*, regulated by traditional rights and obligations rooted in ascribed status and a cosmological order (The Great Chain of Being), to one in which social order emerges from the independent actions of autonomous individuals. In this new order the individuals' sphere of action is circumscribed solely by their material means and the rationality with which they could deploy their power. Such a transition could be understood either as the liberation of reason, freedom and progress from the irrational constraints of tradition, or else as an erosion of communal life and the decline of all social values that might stand above the new *economic measure of market- prices*.

While one can consider market exchange as one among a range of types of exchange, a market society is characterized by the dominance of one mode. It can be registered in the contrast between markets as places and markets as disembedded processes. In fact, a complete categorization of society's modes of exchange (just like a categorization of the material culture that is exchanged) would give us a rather vivid map of a particular social order, of its social relations and networks, values and meanings, morals and priorities. A person's involvement in the full 'repertoire' of exchange types as Davis (1992) calls it, may also tell us something about what it means to have a 'good life' or be a 'whole person' in a particular society.

The different forms of exchange belong to quite different social relationships that they each play a role in reproducing or affirming: to do a favor for a friend is different from selling a service to a client, and a dispute over whether what I did was a favor or a service is always also a dispute over whether our relationship is friendship or commerce. Modes of exchange therefore are central to reproducing particular patterns of relationships, and coordinating social identities, functions, actions. In short, the exchange of goods, services, and information links people up in culturally specific ways.

Market behaviors and institutions are themselves quite various, rather than reducible to a single type. Furthermore, a wide range of other forms of exchange persist in today's societies (in households, public and non-profit bodies and social networks), which significantly mediate market relations. Be that as it may, the 'Market idea' plays a central role in the West's social imaginary. According to Carrier (1997) it is central to Western cosmology the way in which normative notions of social actors, activities and institutions are organized as latter-day social myths.

It is important to distinguish between market places and more abstract modern markets. Market-<u>places</u> are public events that are staged at a regular time and place, complete with buildings, rules and governing bodies: the marketplace is what happens under the market cross or in the covered market square every Saturday morning, say, in a town, or in the floor of a bourse or exchange, or on the school parking lot that hosts a flea market sale every weekend, or in the concrete architecture of a shopping mall. Marketplaces are found in an extremely wide range of societies.

By contrast with the rise of modern economy, the very notion of a market comes to be detached from particular places and people and takes on ever more abstract senses such as 'demand', '*options* for buying and selling', 'trade in a specified commodity'. Such formulations point to the market as a conceptual space, to the ways in which consumers, economists, or enterprises might map out the world of exchange in terms of their own *commercial* aims. In short, the modern market denotes a single, economic <u>form</u> of exchange that transcends any particular cultural setting. A marketplace on the other hand, is never simply a meeting of buyers and sellers. Being a public event it always has a specific cultural character, and involves a multitude of social actions and relations. Braudel (1982) notes that many kinds of legal contracts (e.g., marriage licenses) were negotiated on market days, thus providing a business opportunity for lawyers, letter writers and notaries. The marketplace as a congregation of a public also provides a place for political and religious communications (e.g., proselytizing, and rabble rousing) as well as flows of news and gossip that may be consequential in political, social or commercial terms. The sense that all goods of the world come to the market, as well as traders from far afield constitutes the market as both an exotic and a dangerous place.

As Braudel puts it (1981: 479): 'No town is without its market, and there can be no regional or national markets without towns. The town in other words generalizes the market into a wide-spread phenomenon.' Possession of a market charter gave the political ruler a very wide range of advantages, including the ability to provision a growing urban center, lucrative revenues (tolls, taxes, rents or fees on stalls) and an extension of regional power through the legal privileges that flowed from market ownership. Market places are never 'free-markets' but involve regulations, prohibitions and policing functions, which in European history provided an important basis for local law making and enforcing, for establishing local courts for monitoring. Yet at the same time that the marketplace bolstered forms of aristocratic freedom and privilege, it was also the forging ground for bourgeois civic freedoms: town based crafts, commercial and trade enterprises and *financial services* all involved freedoms of movement and interaction unimaginable in a feudal system.

The merchant appears throughout literature as a trickster, a figure of comic or admirable guile. But also more dangerously he represents one who profits by famine and disaster, or one who brings along with his foreign goods the contagion of foreign ideas and customs, desires and luxuries, and fuels the corruption by cosmopolitanism. Remember that the upheaval of the carnival happened in the marketplace.

Importantly, traditional markets were regulated to ensure provision at *just prices* to the local population. Last but not least, a key aspect of marketplaces is the fact that they are public: all classes of people have access to them and might rub shoulders there. Of course, *different monetized resources* entail quite different kinds of participation in marketplaces. The apparent egalitarianism of the market is often belied by the hierarchical differentiation of shopping spaces: for instance, certain kinds of exchange might be legally restricted to certain classes of people; or there may be different marketplaces catering to different sectors of the population. Samuel Pepys's diary records that he spent much of his day moving between the Royal Exchange and the shops of Westminster, both of which provided him with luxury goods (stationary, fine clothing) as well as political and commercial 'intelligence'.

Braudel in *Civilization and Capitalism* (1977) makes a distinction between this 'public market' and what he calls the 'private market'. Braudel distinguishes the marketplace from the networks of trade, finance and information. These networks operate above, behind, and between marketplaces and are populated by quite different people and classes. These actors make up 'private markets' in the sense that they do not comprise a public assembled in full view of each other and in direct communication. Rather their connections, meetings and activities are largely hidden from those who operate at this level. According to Braudel they are the engine of modernization, the market level at which capital, energy resources and techniques gather to form the critical mass of modern capitalism.

Often the public/private market division takes a literal form in the great fairs of the 16th and 17th century *currency and credit markets* in Antwerp, Frankfurt or Besancon: while the public enjoys the visible spectacle of an international jamboree of things and entertainments, the international merchants meet behind closed doors to *settle payments and bills of exchange*, to make markets in currencies, or to *circulate funds* that might furnish voyages of discovery and trade, or might through Genoese financiers, pay off a king's creditors and sustain his military adventures.

The fairs themselves were in decline by the late 17th century. They give way to more sophisticated private institutions such as *banks and stock-markets* that from the 18th century onwards increasingly constitute, as Braudel puts it, an antimarket: they foster a range of activities which operate in parallel to the ancient nucleus of trade, and end up crushing it. In many ways this shift in the center of economic gravity from public to private market is a move of increasing abstraction, a move from the marketplace as concrete and embodied to the market as an abstract space of strategic calculation and commercial opportunity. Markets could now be defined abstractly as opportunities for buying and selling: to point to a market in cotton futures, or a niche market in Ferraris simply denotes the possibility of profitable transactions rather than referring to a specific event, locale or institution. In this sense of a market the most advanced enterprise is that of the financial capitalist, whose money-capital is ever fluid, and moves rapidly from opportunity to opportunity, loyal to no community or ruler. This is how economists tend to conceive of the market as do management and marketing specialists: a structure of supply and demand that can be quantified and mapped, a domain of calculation. To be clear: private markets remain grounded in very specific practices: the most abstract financial markets, like the old medieval fairs are carried in particular trading rooms with particular architectures and technologies and their own rituals for socializing.

Although the public market involves intensive regulation, it is nevertheless based on 'transparent exchanges' between a large number of buyers and sellers none of whom is able to dominate the market for long. The private market emerges as an escape from precisely the kinds of regulation that made public markets competitive and transparent: access to the private market is restricted, and membership comprises a limited number of large merchants and financiers, who operate behind the back of the public market by buying directly from producers at the point of production. One may ask oneself what happens to the marketplace if this sort of private market comes to dominate? It could be argued that the public market continues in the realm of consumption, shopping and retailing. At the same time this new realization of market experiences can also be viewed as a case of another kind of concrete abstraction: behind the department store or mall stand tall the private markets for finance and capital, the strategic calculations of the marketers and the mall developers, the networks of power-brokers.

Here it is important to remind ourselves that the basic image in much modern social thought is founded on a sharp opposition between traditional and modern society, often characterized by such binaries as status vs. contract, Gemeinschaft vs. Gesellschaft. In these conceptions premodern life is governed by values largely derived from outside the economic order, such as status, lineage, kinship or creed. This places the sources of social value not in the individual, but in communal forms that extend over time and generations. Though often romanticized in notions of organic community, they were also understood within Enlightenment thought as fundamentally irrational and oppressive. By contrast, emerging market spheres of action were seen as both rational and oriented to the individual. The market was therefore paradigmatic of new principles of action and order in which individuals acted independently in the pursuit of their self-defined desires and values, unrestricted by received ones or social obligations. They did so moreover by rationally calculating and allocating their resources or means. In the old order social relations were conceptualized as mostly fixed, but so too were the manner of holdings: the idea that land could be sold, that it was alienable and could be separated from the current possessor-, was anathema, a betrayal of the fixed order.

The transition to market society is revolutionary in that social obligations come to be mediated by contract. Parties to a market transaction are individuals who enter into a limited agreement of their own choosing. Indeed a contract entered into under duress is legally void. It involves stated obligations: once the terms of the contract are honored, the parties go their separate ways with no further obligation. Whereas status relations are reproduced through the meeting of obligations, contractual relations, at least in principle, are thereby ended. As an ordering principle market contracts are not only individual but also impersonal. The only social relation they affirm is the formal freedom of individuals rather than the place of those individuals within a cultural order. Whether these new principles were seen as progress or corruption, they were generally understood from at least the late 17th century onwards as inevitably corrosive of the old order. If anyone could buy or sell anything simply according to their own desire and means, then no status obligations could conceivably survive. Nor could the ideals underlying the old order (valor, honor, sin) resist the *values of price and money*. The 18th and 19th century were rife with fears and hopes about the leveling character of the market society. In marking the contrast between traditional and modern market society, modern social thought has foregrounded three key features that seem definitive of the emerging social order: the division of labor, commodification and *monetization*. I will discuss each of these in turn.

The notion of 'division of labor' points to two different developments. On the one hand, an increasing <u>social</u> division of labor means that in place of the production of numerous different goods by one unit—say a household that makes clothes, grows food, brews beer etc., there are numerous different units each specializing in one commodity. On the other hand an increasing <u>technical</u> division of labor means that the work process within the production unit-say the making of clothes is divided up in specialist, partial operations, each to be carried out by a single person. However the huge increases in output that come about by this technical division of labor mean that firms need to sell more goods and therefore seek new and larger markets. The classical case is so called Fordism in which the intensive rationalization of assembly line production is linked to the need for mass consumption markets and marketing.

Simmel and Hayek have both argued that in a modern society characterized by a complex division of labor, people see themselves as both more individual (marked by their specialist social functions), <u>and</u> more connected to each other. As Hirschman (1977) has argued many of these thinkers consequently understood the market as a vehicle for achieving a society of peaceful cooperation. Indeed quite a number of 19th century thinkers use organic or evolutionary concepts to analyze market society.

While the concept of division of labor stresses the market as a mechanism based on social and technological interdependence, market society has also been understood in terms of the systemic drive to profit and accumulation that is typical of capitalism. Although markets are compatible with basically non-capitalist economic systems, these tend to be marginal or irrelevant. For instance owing to low levels of division of labor, productivity and monetization, the vast majority of a population may only infrequently purchase from the market and then only luxuries or specific manufactured or raw materials (tools or seeds, for example).

Marketplaces throughout the third world especially are filled with (generally) women who lay out before them a few tomatoes, some plantain, a couple of potatoes which they market for *cash* or for goods they do not produce domestically. Production however is not oriented to the market (and is therefore not generally reckoned in *monetized* terms).

Capitalism on the other hand, is entirely oriented to production for the market with the purpose of making a *profit*. Interestingly, the term 'capitalism' had little visibility in Western thought till after Werner Sombart's Modern Capitalism (1902). Marx rarely used the word, Smith not at all. The word 'capital' on the other hand has a long and busy history since the 12th century, and the notion of capitalist as owner of capital since the 17th. Defined 'as the stock (including property and equipment) and/or money used for carrying on a business' (Oxford dictionary), capital comprises either goods converted into money or money converted into goods, both of which must be 'productive'. That is to say, capital is considered a sum of value which is not consumed, but which accumulates through cycles of production and exchange in order to engender even more economic value. 'Capital' must continually change form: for instance, from money into means of production, into stock of produced commodities and back again into (hopefully) more money realized through the purchase of those goods. Hence capital indicates a structural coupling of production and market-ing.

According to the mainstream view of Marx, the significant move here is not to capitalism simply as a preponderance of market activity, but rather to the entrepreneur's manipulation of 'capital' as productive wealth across a reproductive cycle that ineluctably includes markets.

The notion of a market-driven society implies that more things in general are exchanged through market processes and institutions. It is certainly significant that the word 'commodity' only acquired its contemporary meaning of an '*exchangeable good'* in the 18^{th} century. Before that it meant merely a useful good: that is it was defined by use rather than exchange value. This meaning is still retained in the use of 'commodity' to denote goods that are raw, generic or primary materials in production terms ('Commodity markets' contain things like coffee, grains, cotton). It is in the modern period that the word 'commodity' inextricably ties useful things to market exchange.

A perennial pressure of modern life is the always potential monetization of any object, event or action. *Anything could find a price*. If anything can be bought or sold then there is a constant movement from cultural or other social values to economic value. Whichever position is taken, market mediation has come to be seen as inexorable or irresistible, indeed as epitomizing the ubiquitous power of modern Western capitalism.

Significantly, marketization ie., the permeation of market exchange as a social principle, is associated with the spread of monetization. Of course, market exchange may also take the form of barter. Nonetheless, the extension of market relations as a mode of social order is associated with various facilities that *money instruments* provide and which have been institutionalized over the modern period. Laymen and experts alike see money as what money does, namely to act as a medium of exchange, as a store of value, as a unit of account and as a means of payment: In short, to function as a lubricant of exchange and as an independent expression of valuation and valorization. The relation between monetization and marketization remains highly complex, historically variable, and inadequately theorized or understood.

Typically, monetization is associated with two critical developments that are equally definitive of a market society: depersonalization, and the increase of calculation and quantification. The move from feudal personal *obligations* of labor and loyalty to *money-based payments such as taxes* represents a decisive move to an order based on private individuals entering into fixed and limited contracts. Monetary payment implies that an obligation (conceived as a limited contract) can be fulfilled and hence a relationship be terminated, whereas feudal obligations based on personal history are in perpetuity.

The impersonality of monetized exchanges is also tied to the notion of formal freedom and to commodification. This aspect of marketization means that people can buy whatever they have the *money to purchase*. The contrast is with the traditional constraints of sumptuary law (often grounded in religious prohibition) whereby the goods one was allowed to consume were restricted to those appropriate to one's status in the social order.

An other development that flows from monetization is that exchange is supposed to be governed entirely by rational calculation and quantification. The appearance of money-prices, ie., price as expressed in monetary form, purportedly, allows for the precise quantification of alternative courses of action (aka opportunity costs), so that one can assess both the costs of inputs and the magnitude of possible gains. One, in short, can compare the costs and benefits of one's options however dissimilar they might appear in qualitative terms.

To sum up so far and raise some questions: The advanced division of labor, processes of commodification and monetization shaped a novel social order, one that generated its own distinctive social issues at the level of both society and the individual. I can introduce the issues in the form of queries: What was the nature of the new social actor? How could social order emerge from a system based on independent individuals? How rational was this social order itself? What new forms of inequality and power were characteristic of a market society? What social values could survive the transition from the supposed fixity of traditional order to the fluidity and formal freedom of individual choices coordinated by money-prices?

In what follows I outline some of the basic positions that have come up in social thought in response to these questions.

Liberalism takes personal liberty as a normative foundation of social life and looks for mechanisms—like the market and representative democracy—that will ensure systematicity without compromising freedom. In the standard definition, liberalism is concerned with a political zero-sum game between citizen and state, in which the liberty of the former is to be defended against the interferences of the latter. The most famous argument along these lines is McPherson's (1962) 'possessive individualism'. From its inception in Hobbes' works in mid 17th century it generated a view of humanity and political society directly drawing on the experience of the successes of Newtonian natural philosophy and of an increasingly commercial society. Hobbes saw political rights as arising from the interests of isolated individuals. According to McPherson, the ' Hobbesian man' who is extrapolated from market society, is an 'automated machine' or 'Newtonian atom'; whose movements are governed by appetites and aversions and whose essence is characterized by the possession of certain <u>'powers'</u> (such as labor power, or political power) which can be <u>alienated</u> ie., sold on the market. The next step in this argument, that men require a sovereign power over them, which they establish contractually by surrendering some of their own power, assumes rational individuals who recognize their own best interest in proper regulation of the competitive market at work.

It is Locke who completed the picture by grounding man's rights in property, and basing man's property on his distinctive notion of labor. It is by combining labor with things that man gains ownership over them, and the property rights give an individual a stake in the social and political order. As all social contract theorists, Hobbes and Locke see political society rising from the commonality of interests among possessive individuals. Possessive individuals are those who have attributes they can freely alienate in a rational calculation of their longer term interests. They, for example, relinquish their sovereignty to a legislator or governor in the interests of order.

Smith departs from these earlier liberal thinkers and their presumption of 'a natural identity of interests', by arguing that it is the hidden hand of the market, which facilitates a natural meshing of interests, and 'spontaneously' creates social order.

The next step is taken by Bentham, whose work is the first and boldest attempt of explicitly equating the market economy with a new social psychology. In his account people choose their courses of action through a 'felicific calculus' in which they compare the relative quantities of pleasure or pain that might arise from that action. They can express such quantities in terms of 'utility' and this utility can itself be calculated in relation to market prices: how much utility will I obtain if I spend my $15 on the CD as opposed to the paperback book I can get for the same money?

On a societal level, exchange between individuals, in which one party hands over money and the other hands over goods, operates according to this kind of calculation made by each individual. Such exchanges are supposedly the trade-off between a pain and a pleasure, of the pain of parting with a useful of object and the pleasure of acquiring a more useful one. The same can be applied to any aspect of social order, and indeed social order can arise from the sum of such exchanges of pleasure and pain, though this may well require the intervention of a legislator rather than come about naturally. In Bentham's world the social good is simply represented by 'the greatest good for the greatest number'(ie., the greatest pleasure and least pain) for the population.

Despite the differences between Smith and Bentham each treats market society as both rational and natural given a particular view of human nature in which individuals are defined by their pursuit of things that satisfy their desires. This view of the world makes market behavior the model and mechanism for achieving order and ethical existence throughout society.

Methodological individualism refers to the cornerstone of liberal thought. It is the idea that the basic unit of social analysis is not 'society' but individuals, their desires and calculations. Just as the market, in this account, is merely the sum of all individual actions that occur (resulting in things like prices, transactions, quantities of supply and demand), so too all that goes by the name of 'society' or social structure can be similarly reduced to individual actions.

The classic argument against this position, largely deriving from Durkheim, is that even the most purely instrumental contract would not be honored unless the parties to it were legally, morally as well as self-interestedly committed to it. But this presupposes a view of society as a moral community, not just a congregation of atomistic individuals. Furthermore, methodological individualism, by starting from these atom-like actors, assumes that they are formally equal as social actors and therefore ignores real structural inequalities – inequalities that have nothing to do with the different desires, capacities or rationality of each individual. Differences of gender, race, class, ethnicity are not accidents of birth, or incidental to social order. Rather they are institutionalized in the social order itself, not least through different kinds of market power, and therefore constrain the opportunities and fate of individuals, whatever their particular capabilities.

In sum, with its focus on individuals and their desires as the basis for social order and explanation, the liberal-utilitarian tradition can see the market both as exemplary of human society and as a mechanism for increasing rationality, freedom and progress.

In a different reading of this state of affairs, the market displaces individuals, removes them from richer social and cultural relationships and reduces them to being opportunistic, or worse, to being the calculated means to other's economic ends. A key conceptualization of this critique can be summarized as 'alienation'. The assertion of collective social life over market coordination of atom-like individuals found in organicist traditions is more conventionally formulated within social theory in structuralist terms. The paradigm case is classical sociology, which starts from the assumption that social structures have some reality and determining function above and beyond the individual. By its lights, far from being the harmonious orchestration of individual intentions into social order, markets are but a part of the social order.

A society that centers on the market involves then new forms of power, inequality and oppression that are not incidental or even amenable to reform, but rather arise from the very structural conditions of such a society. Liberal traditions have assumed that individuals are not only rational but also have a clear knowledge of their own needs and of the goods that might satisfy them; this extends to the realm of political choice, in which it is assumed they know what is in their own best interest. Structuralist inspired critique has countered this by arguing that a market society produces forms of mystification, which prevent people from understanding themselves, their interests or the appropriate courses of action for achieving them.

Section 2: Markets and Economic Agency

In this section I turn to concerns with formal conceptions of the market, drawing critically on key perspectives of mainstream economic theory. My discussion is organized around two themes: first, the market as a means of allocation and coordination; and second, the market as a site of social action. This is in line with my larger interest in showing the utilization of the market concept as a generalized ordering principle.

I first consider arguments that markets are the most efficient basis of economic order. These begin with the founding story of modern economics, Adam Smith's and his account of market exchange as securing 'harmony' between atomized private interests. There are two main arguments here: the first as typified by neoclassical approaches, centers on the conditions under which markets 'clear' to produce an optimal allocation of resources. The second, developed by the Austrian school, argues for the dynamic nature of market processes and the critical role of competition and information.

Put simply, for economists, a market consists of buyers and sellers of a particular good or service. It comprises three core elements: *supply* (the goods that sellers bring to market); *demand* (the goods that buyers wish to and are able to purchase) and *price* (the *monetized value* at which goods are exchanged between buyers and sellers). These three formal components are interdependent. Supply does not simply refer to the quantity of goods available, but to the decisions of sellers in offering these goods for sale at given money-prices. Demand, in turn, is more obviously expressive of a kind of social action—the call of *prospective* buyers for particular types and quantities of goods at a given money-price. Price, thirdly, represents for mainstream economics the agreement between buyer and seller. Let me elaborate on this mainstream model a little further.

a) Markets are integrated systems of exchange. The market reduces to a central element: the exchange between buyer and seller.
b) Actors pursue private interests within the market.
c) Competing private interests are reconciled through *agreements on price.*
d) Markets are coordinated by money-price, which precedes them. In this basic model, the market is not an institution as such—it does not possess sui generis, formal stability, structuration, rules or conventions of conduct. Rather it represents an extended series of isolated exchanges, *mediated by the price mechanism. Price signals* work to coordinate a dispersed range of economic activities between a variety of individuals.
e) Market behavior is calculative. Measures of price function as the primary form of information that actors use to make their market decisions. The reliance on price produces particular kinds of calculative behavior on the part of market actors. Given conditions of scarcity, limited means must be deployed efficiently so as to realize one's ends in an optimal manner.

Apart from empirical questions concerning different market formats, the above archetypal market model, if taken as a stage for human action, opens to an extended set of pressing questions: do market exchanges produce general prosperity or systematic inequality? Does the market model offer a normative or an objective account of economic relations? What domains of exchange and which human decisions are included in a market model of calculation? How does an individual come to behave rationally in a market context?

Adam Smith's innovation was to construe problems of social order principally in market- economic terms: the basis of order, put simply, lay in economic transaction. Economic theories of the market originate in Smith's attempt to reconcile public good with individual interest – a problem that for Smith was moral and economic at the same time. His work in this sense responded to social questions even as it laid the foundations for a market-driven economy. His political economy involved a rethinking of the problem of social order that turned from political and legal structures towards questions of economy. Specifically, he was to find the sources of social solidarity in the same conditions that promoted the 'wealth of nations'. As a movement away from earlier liberal theories that were largely addressed to the political role of the state, Smith saw the civil sphere of exchange as the primary domain of social order.

Smith begins by positing production as the source of all wealth: the prosperity of nations, he argued, relied on the productivity of labor, not on the activities of merchants. Productivity was greatly enhanced by a division of labor, where each person produced that to which they were best suited, relying on the work of others to provide for the rest of their needs. It was Smith who coined the maxim that you should never make for yourself what you can buy for less: what economists came to call the principle of comparative advantage.

In Smith's vision of an expansive 'commercial society' the principle of exchange forms the basis of both economic and civil order. While his own account draws on a folksy pre-industrial tale of farmers and cobblers, his division of labor was to form the center-piece of both modern economic theory (as in Ricardo's argument for free trade on the principle of comparative advantage) <u>and</u> modern sociology (where a complex division of labor underpinned Durkheim's conception of organic solidarity). In advancing a claim for the mutual gains from trade, Smith drew on the 18th century physiocratic belief that a 'harmony of interests' ordered human affairs. While seemingly guided by self-interest, market behavior is in fact coordinated as if by an 'invisible hand' to bring general benefit to all. Smith's harmony of class interests existed not simply as a philosophical postulate, but was worked out in his theory of price. The *introduction of money- price, his 'great wheel of circulation' is* crucial to the economic conception of markets, and was a source of long and heated debate on the foundation of the discipline. In analyzing how prices are formed, Smith made a distinction between a commodity's value in use (its utility), and its *value in circulation (its purchasing power* with respect of other goods). This distinction was to occupy the very different projects of Marx and of the theorists of marginal utility. Smith himself focused on the second category, 'value in exchange or circulation', which he further divided into two elements—*natural price and market price*. In line with his larger materialist perspective, Smith based a good's natural price on its *cost* of production. *Price,* that is, stems from the cost of resources (of labor, of land, and capital) deployed in production: it therefore *equals the cost of wages+ rent+ profits.*

For Smith, in free competitive conditions the market price of a good tends toward the natural price. This key assumption in Smith's work, and the labor theory of value on which it was based, was the subject of intense debate throughout the 19th century and into the 20th. Its implications go beyond guaranteeing a 'fair' market exchange. A cost of production model – where price is based on the interplay of wages, rent and profit – is at the same time a model of economic distribution between the classes of labor, property, and capital respectively. This happy resolution to problems of market distribution was to come under severe criticism from Ricardo and then Marx who argued that the costs of production equation ignored the uneven way that wages, rents and profits are themselves set in markets – especially in markets that fail to price labor at its real productive value (see below). Smith's theory of 'natural price' in these critical accounts is no more than a quasi technical apology for class relations, securing an economic settlement between antagonistic class interests.

While Smith understood the order established by market exchanges as an expansive 'system of natural liberty' as he put it, Ricardo was more narrowly concerned with the technical aspects of the market itself. In particular he sought to analyze the conditions for general equilibrium in markets, and stressed their self-regulating nature as economic systems <u>sui generis</u>. Accordingly, Ricardo saw threats to economic stability as coming from outside the market order, caused by such factors as war, natural catastrophes or political intervention. In Ricardo's political economy the concern with moral and social order that animated Adam Smith's work translates into a more formal concern with the intrinsic order of markets. With marginal utility theory following his lead, it establishes the market as the primary economic institution. This disciplinary shift led to focusing on market exchange as the main topic of economic inquiry. Furthermore, it saw the adoption of a mathematical approach to economic knowledge, notably in the analyses of how economic choices were made in market settings. In these respects, marginalist economics addresses problems of market order and market function as technical questions. It is from this viewpoint that modern economics can be defined as the study of choice under conditions of 'risk and uncertainty'. To mathematical economists market exchange is the sine qua non of economic activity providing the most rigorous answers to such basic economic questions like: what is produced, how is it produced and for whom is it produced?

In this way, markets provide the starting point and center of the economic system; the entire production and distribution process might be understood as a series of markets in labor, raw materials, land, finance capital, technology, goods and services. Market economies are coordinated through the decisions of many individuals and households as they interact in a range of markets. Marginalist accounts of the market center on the concept of 'general exchange equilibrium', a setup where supply matches demand perfectly. Such a state of affairs is also described by the notion of 'market clearance'. Actual market processes are then measured against this impossible ideal of 'perfect competition and general equilibrium'. The efficiency of the market as a mode of allocation is then treated as a purely rational-scientific problem rather than as a moral or political question.

The marginalist emphasis on individuals' calculation of their economic utility has clear affinities with the liberal philosophies of utilitarianism and hedonism I sketched in section 1. Within the constraints of scarcity (of goods, time, resources) the individual must make choices between available ends. Economics, then analyzes the kind of formal rationality that people use to allocate their scarce resources to maximize their desired ends. Such a definition proceeds on the following assumptions:

a) Individuals possess wants, which can be ranked in order of preference.
b) Conditions of scarcity apply such that there are limited resources with which to satisfy individual wants.
c) In this context of scarcity, individuals make choices in order to maximize their own benefit.

Economic choice is basically a calculative process. When I go to Starbuck's on my way to work with 5$ in my pocket, I can choose between a latte and a newspaper, or a double espresso. In making my choice the economist assumes, I calculate the utility of these goods in relation to *price*. Note that utility here is a neutral and a relative means of expressing the different kinds of satisfaction that I derive from these items. 'Utility' does not refer to the peculiar pleasure of one or two shots of caffeine, with or without reading the paper. Rather, it refers in a very abstract way to the capacity of each good to satisfy my private desires. It allows me to trade off between items that are in themselves not strictly comparable.

Whereas classical political economy had struggled to establish the relation between the material value of goods and the *prices they commanded in markets*, marginalist economics largely dispenses with this project. Value is not a material or objective factor, fixed by the costs of production and *reflected in a good's 'natural' price*. Rather it is a subjective or possibly an intersubjective outcome, relative to the different consumers of that good. The classical effort to *ground prices in pre-existing value*s was in this view an ill-conceived attempt to explain economic phenomena (prices) on the basis of a non-economic notion (value).

This shift towards price produces a particular kind of rationalist and calculative behavior on the part of market actors. Basically, the model of rational calculation is one based on how people ‘think at the margin’. Economic decisions that is, frequently involve trading off between marginal costs and benefits. You may think of economic choices as representing a kind of auction. Say, I go to a market to buy a used car. My first bid is 3k. As the bidding goes up I offer 4k, then 5k. When the price reaches 6,5k, however I am no longer prepared to bid further because the car is now over-priced in relation to the utility I expect from owning it. My key calculation takes places at the margin between 6,5k and 7k – at which point I exit the market.

Marginal utility tends to diminish as one consumes more of a good – the first piece of chocolate usually tastes better than the fifth. Be that as it may, the notion of thinking at the margin does not adequately explain choice in economic terms. The cost of a good or service to an individual is also determined by what they must give up in order to get it. This is the opportunity cost (aka, the marginal disutility) of acquiring the good. The calculation I make about the coffee involves weighing the benefits of a caffeine fix against its *money price* <u>and</u> its opportunity cost.

I might remark that the theory of utility can only explain the determination of prices given the demand for particular products (coffee, teas, mags, etc). It can not explain the demand for these products in themselves. Utility theory is not a theory of price formation based on ‘usefulness’. All that can certainly be known about my preferences is what is expressed or revealed through the act of choice. The utility of the good is relative to the preference of each individual consumer of that good. The economists' notion of utility is a highly stylized one, one that abstracts the diversity and contingency of human wants into a logic of maximization. Last but not least, treating economic value as coextensive with utility subjectively priced as neoclassicals do, is no improvement over the classicals’ objectivist approach to value, unless price *is* value. If so, this conceptual identity has to be proved not assumed!

In this context, economics encounters a common problem for the social sciences studying human agents. It has to do with the relation between experimental methodologies for studying human action, and normative versions of human motivation. Using calculations of price to order your preferences and allocate your resources was not merely an efficient way to act in markets; it was supposedly an expression of one’s properly rational human nature. Such a conception was held to operate independently of any specific social or historical context. People acted in markets in general, according to an individual calculus of pleasure and pain that drove them to maximize their subjective utilities.

According to the Neoclassical Equilibrium model, a fixed amount of goods and services is allocated among competing demands and price functions as a mechanism to bring these supply and demand factors into alignment. This mechanistic supply & demand model assumes that perfect information exists in market settings – that is, markets are transparent systems of exchange in respect of the range, price, quantity and quality of goods on offer. Austrian approaches conceive the market not in terms of such formal aspirations toward equilibrium, but in terms of dynamic and contingent processes of competition. Market processes are context dependent, unpredictable and, because information is imperfect, uncertain. Hayek asserted that economics should concern itself not with stationary models, but with an ‘explanation of the economic process as it proceeds through time’ as he put it. Neoclassical approaches, in contrast, tend to view time merely as another variable, one that prevents everything in the market from happening at once. Market exchanges here are momentary transactions, which themselves have no history or relation to the future.

In this connection Kirzner has argued that models of equilibrium are incoherent in marking the <u>end</u> (rather than the optimization) of the market process: perfect competition in fact means no competition at all, as there is no incentive for any actor to alter the situation. *Price is the crucial information signal* in the Neo-Austrians' account of the market. A price acts as a 'flag' or comment, a source of 'knowledge' about market processes. The Austrian economists greatly enhanced and socialized the analysis of markets by treating price explicitly as an information signal or system of shared meaning between market actors rather than as a neutral mechanism that brought supply and demand into alignment. With this move, markets can be seen as rich information networks, a kind of 'conversation' between buyers and sellers according to McCloskey (1986).

The Austrian interest in the dynamic and open nature of market processes however does not dispense with questions of the market as a mode of order. To the contrary: Austrian versions of the competitive market process suggest a complex, spontaneous order, but not one that can be easily controlled. Neither Neoclassical economists nor interfering planners can replicate the virtuous order of the market. The market nexus is the means by which diverse individuals are brought into relation with each other. *Hayek ultimately held there were no economic ends as such*; economic action always served ends that were non- economic in character because needs and desires are exogenous to the market setting. Economic activity, that is, involves allocating scarce means between competing ends that are in themselves non economic. Hayek returns to Smith's belief that the free pursuit of many individual interests produced spontaneous market order as *both* an economic *and* a social good. As with Smith's analogy of the hidden hand, Hayek suggests that market order is the product of many individual actions, but not of any 'intelligent design'.

Market failure puts into question two crucial principles of market efficiency: competition and information. However, the efficiency of the markets cannot be assumed. The standard model, may offer a version of abstract ideal order, but cannot in itself offer directives for governing an actually existing market-driven economy. In this sense, neoliberal claims for the restructuring of advanced capitalist societies cannot be sustained purely on the basis of neoclassical models of the market. Market failure can be broadly understood in terms of imperfect competition, inadequate information and so called externalities. They also point to the potential social inadequacy of market processes, with respect to the unintended consequences that accompany various economic activities.

Critics of market failure, such as Stieglitz agree that competition, information and decentralization are key to economic success; however, while standard models of market efficiency <u>presuppose</u> these factors, markets themselves do not <u>create</u> them. Governments, consequently have a chief role to play in securing competitive and efficient markets, preventing cartels and monopolies, promoting consumer information, and so on. Such government interventions suggest that economic order is as much a legal and political artifact, as it is an effect of market forces.

Also, although the individualist focus of economic theory is sympathetic to a Weberian approach to sociology, its '<u>undersocialized'</u> view of the human agent constitutes one of the central contentions between economic models and disciplines such as anthropology and sociology with their '<u>oversocialized'</u> conception of the individual. Economic theory furthermore, drops the ethical and empirical problems found in ideas of social contract, particularly concerning the relation between individual interests and a general good. Rather, the use of premature or gratuitous mathematization, formalizes away what had been an essentially ethical and political set of questions about the nature of individual behavior and how this fits into a collective order.

As **Amartya Sen** (1977) has noted, between the individual and the collective lies a multitude of corporate and institutional interests—of the family, the firm, the interest group, the neighborhood, the community, the economic class—which ultimately are irreducible to a model of individual advantage. Sen's account seeks both to reveal the anachronistic behaviorism of Neoclassical models and to restore an ethical component to the understanding of individual rationality. He points to the circular nature of economic reasoning from preferences to choices. In analyses of economic decision making, preferences explain behavior, which in turn is understood as an expression of individual preference. The reasoning goes like this: if someone buys a tomato, the economist accounts for this by saying: "she wanted a tomato". But how do they know she wanted a tomato? 'Because she bought one'. Such a tautological argument, for one thing offers only a weak causal explanation of social action. More importantly, Sen wants to disrupt the easy linkage of individual interests to individual choices. Subjective interests can not be simply read off from objective behavior. An individual's choices might be also seen as an expression of commitment – to a cause, set of principles, to another person or group – which is not identical to their private interest. When Sen uses a concept like 'commitment' one might just as easily think of solidarity, conviction, or love.

For Sen the kinds of choice made in a context of collective interests such as those of family, friendship or community are based on a 'rationality' of commitment, care, love, comradeship, etc., They are expressive of 'ethical preferences', which are distinguished from the narrowly subjective preferences of economic models. This is a simple point: one's choices do not always stem from one's subjective wants. People are able to and do take others into account when making decisions, and these decisions are at least partly governed by social rules, structures and conventions. Moral reasoning, as well as norms and incentives, provide motivations for action just as individual interests do. In response to the formal rationality of economic models – where the economic actor appears as a kind of 'rational fool' in single minded pursuit of his or her private utility – Sen argues that individual rationality is based on differential calculations of utility t<u>ogether</u> with forms of moral reflection.

It is not simply that individuals sublimate their subjective preferences, in favor of an ethical alternative – putting what you should do before what you want – but that love, faith, duty, solidarity and honor may be pursued as utilities in their own right, as may such impulses as envy, guilt and revenge. Perceptions of utility, that is, are formed and organized within larger systems of meaning and social order.

This critical perception of utility, ironically, feeds back into an expanded neoclassical analysis of rational choice! **Gary Becker's** (1976) *The Economic Approach to Human Behavior* applies an economic model of choice to a diverse range of social phenomena, from drug taking and racism to love and marriage. His central thesis is simple: people's decisions in diverse social spheres can be analyzed using economic models of rational choice. Individual behavior – in families, at work, in love – can be read as efforts to maximize different forms of utility. Such behavior is organized within markets that are both explicit, as in the labor market and implicit as in the 'market' in potential marital partners. Individual utilities do not have to be rational to fit with Becker's model (they could be esthetic, cognitive, or eccentric in any kind of way), but the choices people make in pursuit of these ends play out in rational terms of <u>maximization</u>.

Becker advances a large claim for the analytic value of this economic model of choice outside of 'real' market contexts. The analysis of rational choice is not confined to obviously economic issues and Becker himself sees his analysis as relevant to both market and non-market societies. In other words he believes that rational choice models are especially well suited to economic choices in market settings, but are not limited to these settings. Alas, if all action is assumed to be maximizing, then the assumption of maximization is itself non-falsifiable. The hypothesis falls into the trap of *si omni nullia*, that is as a theory of everything it ends up accounting for very little. It becomes difficult to think of an example that could not be read as maximizing.

Can a stable social order really emerge from the rational, self-serving actions of private individuals alone? And to the extent that it can, in what sense is it really 'rational'? For most social theorists especially of the classical tradition, the reality of the market society was quite different from the normative models'. Both society and even markets require social values and commitments that go beyond individual calculation of self-interest if they are to hold together. To the extent that these are lacking, market society appears to be brutal, crisis ridden and irrational.

Take **Marx** (1976): Where liberal and economic thought envisages a natural harmonization of conflicting interests through market mechanisms, Marx sees systemic and ineradicable contradictions between social interests. These systemic contradictions not only make capitalism technically crisis prone, but also mark it as a fundamentally immoral and exploitative social order. Marx constantly warns his readers <u>not</u> to study the market in itself. He treats the market as a sphere of mystification and irrationality. This is because neither the structure of the market nor the quantities of supply and demand circulating within it are explicable in terms of the individual preferences, decisions or behaviors that show up in the market itself. Value created in production is distributed according to capitalist relations of production in which the determining feature is whether one is <u>an owner</u> of means of production and therefore has a share in profit rather than wages.

This division between profits and wages is not a simple matter of contest or competition, nor can it be overcome by cooperation. Rather it is a structural feature of capitalism. Indeed it constitutes a structural tension that results in fundamentally opposed or irreconcilable interests: whereas workers further their interests by using their limited powers to increase their wages, the survival of capitalist enterprises depends upon *increasing the gap between wages and total value produced*. Marx uses the term 'rate of exploitation' in a technical sense to measure this discrepancy. This is not because capitalists are greedy (though some undoubtedly are), but because a decline in their rate of profit makes their businesses unattractive as investments, ie., capital is drawn to sectors with higher rates of return, or requires them to sell their goods and services at uncompetitive prices. Moreover markets are driven by forces outside themselves in another sense, one that is *reflected in the very form of the commodity as it appears in the market.* A commodity is both a use value (a particular object with specific properties that might satisfy needs or wants) and an exchange value (something that can be valued in terms of *an abstract monetary price in exchange).*

Marx extends the central concerns of classical political economy with the derivation of income from different forms of ownership, the division between profit, rent and wages and the distribution of wealth via social classes as opposed to individual choices. Marx is also therefore concerned with social structures as objective and determining realities, and not as reducible to individual acts. Finally, this means Marx is concerned with how these objective determinants operate regardless of the psychology of either workers or capitalists – 'behind their backs' – and therefore may produce a gap between the appearance and the reality of market society. This misrecognition and consequent fetishism is called to account for ideology and for the <u>incapacity</u> of modern social subjects – <u>contra</u> liberalism – even to perceive their social interests clearly, let alone pursue them rationally. From a Marxian point of view market based analyses of inequality (such as Weber's later account of the relation between life chances and market position) can only grasp the fragmented appearance of multitudinous market positions, thus missing the fundamental class structural tension derived from two clear opposing positions within the relations of production.

Markets are based on the formal assumption of equality and freedom – although individuals enter the market in possession of different types and quantities of means, they have equal rights and freedoms to enter into contracts with each other. 'Equality before the law' means that any legal contract voluntarily entered into, is binding and must be enforced regardless of the social status of those who enter it. Moreover, if the sources of market inequalities are assumed to be 'accidents' of individual ability, nature or chance, rather than structural disadvantages, then *income inequality* is justifiable, so long as people are granted the legal or formal equality that allows them to realize whatever individual capacities they happen to have. This, as I will show below, was the basis of Durkheim's meritocratic prescription for a renewed moral legitimacy within the modern order: individual differences must be socially accepted as justified *only if they are based on differences of ability rather than opportunity.*

Marx regards formal market freedom and equality as 'bourgeois' in that they can be enjoyed and used only by those who have *economic power* (the bourgeoisie), and therefore help to maintain their sectoral interests. At the same time they are presented to the rest of society as universal values – a claim that could be given substance only once market relations are no longer based on class, itself an impossibility within a Marxist framework. The market for Marx is therefore a place of mystification. It obscures the structural contradictions that are constitutive of capitalism. And yet it is also in the marketplace that capitalist societies register their contradictions in the form of *economic crises*. Because markets <u>mediate</u> between production and consumption, their coordination over space and time is always fragile and contingent, if not actually accidental. As it involves production of commodities <u>for</u> the market, the limits of capitalist production are determined by what the market will absorb, by what people can and will buy. However, these quantities are determined not <u>by</u> the market but by the social relations of production, which determine both the content and scale of need in a given historical society.

For Marx, in capitalism there is a disjuncture between the rationality of the actor and of the system. Technical rationality at the level of individual social action (all of that efficient, methodical calculating pursuit of self-interest) may be revealed as entirely and dangerously irrational at a collective level. Smith's point was that the imposition of any rationality onto the actor would disrupt the natural harmonization of interests that emerges from their local rational actions; Marx's point is that the 'irrational' or 'pathological' social conditions within which they pursue that self-interest, however rationally, will certainly yield irrational results. Marx is very much like Freud: an analyst not of the psyche but of society. Both men diagnose something important about the human condition. Alas, their prescriptions for curing it turn out often to be worse than the disease! Above all Marx associates the 'healthy' authentic individual with humanity's 'species-being': that is to say, people's fundamental nature as human beings. This he defines in terms of praxis or creative labor, through which people are able to transform the object world around them in relation to their projects, intellectual capacities, and affordances (forces of production). Under capitalist relations of production humans are <u>alienated</u> from themselves and their fellows through the reduction of praxis to labor as *an abstract quantity of' labor power', sold in the market (literally 'alienated') as a commodity.* Workers' laboring is subsumed within a division of labor in which they carry out specialist tasks; they therefore cannot identify the final outcome as the effect of their own praxis. They are moreover alienated from their co-workers who they experience as isolated individuals. In the end, they confront the product of their labor only in the marketplace, as something that appears as if from nowhere, as a *price* they did not set and cannot afford, and under the aspect of consumption, a social moment separated from production by the mediation of markets.

If this was not bad enough, Marx also understands the debasement of the individual within market society in terms of needs and consumption. His utopist notion of praxis is a question not simply of work, but of a complex interplay between desires and creative transformation. As humankind expands its power to create new use-values, its needs expand too. For instance, in forging new modes of communication like the Internet, people perceive needs for new kinds of sociality, pleasures, knowledge and political powers. They become more complex, and in Marx's phrase 'rich in needs'.

Alas, under capitalist social relations, mediated by markets this dialectic is deformed. In an early rendering of consumer culture, Marx argues that from the point of view of realizing exchange value, needs are seen not as enabling constraints for cultivating rich individuality, but rather as the basis for another kind of exploitation: capitalists pander to the basest and most exorbitant tastes of increasingly jaded consumers in order to create opportunities for *monetized profit*. Need in a market society is not a need for particular use-values that are specified in terms of the psycho-developmental growth trajectory of actually existing individuals. Rather under market conditions, the only real and prevalent 'need' is for the '*King of commodities' – money, which has become an end in itself.* I would take issue with most current Marxian accounts, which continue to conflate money with a commodity. But this issue has to await treatment in another article.

Weber (1947 & 1958) in turn criticizes another side of the market mentality. For him the market is but one example – albeit a key one – of the dominance of one narrow form of rationality over all others within the modern world. Market rationality is part of a process of social rationalization, which leaves the individual with less and less meaning and freedom. Weber's position is all the more remarkable given that it is based on a methodological individualism that he largely shares with the liberal and Neo-classical economics traditions. According to him, in market exchange, the pursuit of interests is conducted without hindrance from tradition, taboo, status and other substantive obligations, all of which appear 'irrational' from the point of view of choosing the most efficient means to achieve a given end.

I will disaggregate Weber's analysis of instrumental rationality into several features that are market pertinent.

a) Monetization is bound up with quantification. Money prices are not 'mere tokens' of utility, but rather 'the product of conflicts of interest and compromises'.
b) Rationalization depends on control over the production process within both business and bureaucratic enterprises. Control means the subordination of all elements of a process, including labor, to planning thus increasing the <u>calculability</u> of all input and output costs.
c) A precondition of calculability is a stable and therefore predictable social environment. This condition is met in great measure by the evolution of 'legal formalism' in which legal constructs such as contract and property rights are given a clear and enforceable definition, that is through bureaucracy, and are implemented impersonally. The upshot: free markets require both formal, state supported, structures and informal practices, which structure and enforce market transactions.

Weber's rationalized modernity <u>works</u>; indeed it works too well, exercising its influence over the organizational and *commercial* life of individuals. The undisputed givenness of <u>price</u> <u>calculation</u> has become the basis of modern social order generating profound moral quandaries for its members. The impersonality and calculability of means-ends rationality that underwrites market exchange is now the basis for rationalizing all key sectors of modern life, and is also associated with modern progress in science, policy and even esthetics.

Be that as it may, a confusion of ends and means reigns: efficient calculation and choice maximization are no longer simply ways of doing things, but rather become the proper aspiration of society. For instance, modern economic debate is dominated by the 'cult of GNP' in which economic growth is treated as an end in itself, abandoning all discussion of <u>what</u> is produced, wanted or why. Similarly, neoliberalism treats marketization as promoting efficiency for its own sake.

Second, Weber introduces a 'formal vs. substantive' split which he links to a technocratic modality within the division of labor whereby individuals allow themselves to be efficiently integrated within processes whose ends or consequences (e.g., nuclear proliferation, pollution) they do not question. Figures like Marcuse (1961) the Heideggerian Marxist have argued that the distinction formal/substantive is misleading in the sense that the so called formal criteria of efficiency or calculability are themselves substantive values that are chosen and command belief just like any other value. They have no greater objectivity or facticity than values such as honor, charity, fairness or any others that Weber treats as substantive yet are arbitrary. By focusing on the ever increasing formal rationality of modern capitalism Weber ignores its substantial irrationality: that it fails to deliver on the substantive claims that lie at its core.

As it stands the market is a strategic site for the making and the undoing of modern individuals. It presumes the separation and independence of subjects who calculate courses of action in relation to their apparently private whims and ambitions and then enter contracts to realize them. At the same time, their very ability to do so arises from social conditions that destabilize broader, long-term commitments that could engender actual autonomy and socialized individuality. Nowhere are these thorny issues more clearly brought out than in the tortuous last pages of Weber's classic: *The Protestant ethic and the spirit of Capitalism*.

Here a short side detour through the work of Georg Simmel becomes relevant. **Simmel** (1950) takes up many of the Weberian themes – rationalization, formalization, monetization as evidence of a cognitivist turn in contemporary life, and the neglect of embodied individuality through the impact of ossified societal processes. He placed these themes even more explicitly within an analysis of market society, especially through his focus on *money as a socially transformative mediating force*. This emphasis can be placed within his overall sociological method. Simmel defines forms of sociation or interaction, as his primary figures of analysis, rather than either individuals or social structures.

Exchange as a form of sociation is 'one of the functions that creates an inner bond between peoples'. Such an orientation places him firmly in the classical sociological camp which is concerned with the ethical individual, as opposed to the utilitarian concern with the 'atomistic' one. Moreover, for Simmel exchange processes like all forms of sociation, are not ephemeral artifacts of social interactions (as is often the case in face to face communication), but are objectified in social structures and material things that then take on a life of their own, separate from particular interactions. Hence Simmel is concerned with processes of reification, a term which he bequeaths to Lucacs, Adorno, Benjamin and many others, and which he, unlike them, construes as '*the tragedy of culture'*, rather than as a direct consequence of perverted capitalist market relations. To him *'money is the reification of exchange relations among people, the expression of pure functionality'. Historically, the 'money medium' becomes increasingly abstract, a pure form which is not tied to particular goods or to a particular substance (gold) but is utterly without substantive value of its own, yet can express the value of everything else*. Money thus permits the objectification of subjective values in a universalistic form.

Emile Durkheim (1984) was a most aggressive opponent of economistic utilitarianism, yet he did not offer an alternative to it but rather, true to his credo of explaining social experience by way of social facts, he produced an account of the modern individual as him/herself a social product. Specifically, the modern individual was the product of society as a moral order, not as an economic system. If the modern individual emerges from utilitarian society as atomized and asocial, this is not because individuals are naturally so, but because they have been produced – societally – in a pathological manner that should be rectified. As he famously put it: there is an irreducible 'non-contractual element in contract', the background assumption of a moral authority that renders the contract binding. This non-contractual element normally takes the form of a juridical regulation and state authority, but even these are to some extent merely sedimented evidence of deeper moral bonds that are themselves necessary to legitimate any official institutional sanctions. In a complete reversal of liberal-utilitarian principles, this moral order is regarded by Durkheim as the logical and historical basis of exchange rather than a consequence of markets or its overcoming by markets.

Durkheim's most influential arguments revolve around the division of labor. This is the modern development from which Enlightenment intellectuals derived the notion of sociality as based on isolated individuals who enter into binding contracts based on self-interest. Durkheim first describes so called 'mechanical solidarity' which presumes the similarity of members and is characterized by an overbearing <u>conscience collective</u>. He contrasts it with the modern division of labor emerging from a process of distinguishing among different functions commonly held till then to be generic; he called this 'organic solidarity'. *Modern order arises from a process of leveraging a collective's distinctive capabilities, not of aggregating individuals.*

Additionally, Durkheim presupposes the temporal binding of a social order, so exchange is not to be understood in terms of the simultaneous and instantaneous transactions that clear neoclassical markets. Rather, it should attend to the enduring interconnections of organic solidarity that characterize the division of labor. In the end, Durkheim hopes that an appropriate ethical stance will govern a society forged on organic solidarity. However, he does not argue that the division of labor automatically produces new forms of solidarity: indeed he explains the crisis torn society in which he lived precisely as a crisis of solidarity. For a modern individual facing the world, the moral basis of solidarity must still be expressed in terms of individual actions, if it is to have any binding force at all, and especially in terms <u>of obligations</u> of persons to one another.

Durkheim looks to an 'emergent cult of the individual' to foster certain values that are inherent within the division of labor. These are, above all, an appreciation of mutual interdependence, coupled with respect for other individuals and concern for their well being. Again, these values are put forward by Durkheim not as basic rights or as attributes of the self-interested person, but rather as social norms or guidelines that fill the functions vacated by the old conscience collective. From this perspective, morality and self-interest are not mutually exclusive. Morality need not be an abdication of the self but can express selfhood through responsibility.

Carrying on this line of thought, **Amitai Etzioni** (1988) argues, like Amartya Sen, that individuals cannot be reduced to the monotone utility of self-centered pleasure; they seek morality itself as a utility. Indeed Etzioni argues that society should be seen neither as reducible to individual actions nor as an end in itself. He proposes 'I & We' thinking in which individuals embedded in responsive communities, pursue goals they acquire from their communities. Interestingly, 'communitarianism' has garnered support from both rightwingers, as well as from lefties seeking to construct a post-Marxist Left capable of embracing market forces, while repairing the anomic results of neoliberal marketization. These days proponents of all persuasions seek sources of moral order in abstract or traditional concepts: family and togetherness, religion, innate moral sense and the like. Unfortunately, these notions feel rather dated or empty: too often they refer not to actual entities or states, but rather to nostalgic fantasies of where communitarians think we used to find our moral bearings. Moreover, much like Durkheim's stress on corporatism, communitarianism is rife with the rhetoric of co-operation and volunteerism, which studiously ignores the sectoral and class interests that remain endemic to market-driven societies.

Durkheim claims that market society cannot look to past (e.g., religious) sources of solidarity as a basis of modern stability. However, others such as Schumpeter, have argued quite the opposite: a market society actually depends on traditional culture and morality to ensure preconditions essential for the functioning of the market such as discipline, acknowledgement of obligations and honoring of contracts, a work ethic and so on. The difference is that the effects of market inspired self-interest and entrepreneurial 'creative destruction' corrode precisely these necessary ethical resources. Consumer culture is symptomatic of the resulting contradiction. It directly undermines the work ethic, the collective values, and socialization processes on which it depends. The same kind of argument is voiced, less apocalyptically, in current concerns with 'reflexive modernization'. Here the argument is that modernity does indeed promote a radical individualism in which everyone is required to construct, monitor and uphold a personal identity. The market acts as a destabilizing force in this world, since it intensifies the pluralization and instability of life-worlds, while at the same time providing vast new resources for producing subjectivity and new modes of stabilizing it for instance, through the notion of lifestyle.

Be that as it may, **Talcott Parsons** (1956) asks: How then could a society hold together assuming that it comprises a multitude of individual subjects pursuing their 'lifestyle' under conditions, pace Weber, of irresolvable value conflicts? Briefly, he pursues this big question, bequeathed by liberal utilitarianism and free market advocates, as follows. His answer largely rests on a notion of culture, construed as a kind of social glue. Specifically, he claims that the economy is always already embedded within a social order, albeit in a manner different from the one Karl Polanyi suggested (see below). Like Hayek, Parsons argues that no social institutions or formations can ever be purely economic; rather the economic approximates to one of four social functions that, according to his systems-theoretic view, all societal systems carry out, namely, (A)daptation. His other key functions are Goal attainment, Integration, and Latent pattern maintenance. Market institutions must deal with issues of '(L)atent pattern maintenance' (socialization) of (G)oal attainment (political direction and regulation), and of (I)ntegration (establishing normative frameworks).

Hence Parsons' social theory places market exchange within the context of the maintenance of social order through systemic integration, while at the same time conceptualizing it as inherently political, and normative, as well as 'rational' in the Neoclassical mould which he does not question. This as Godelier argues, renders Parsons' work an apology for the market as the world's most rational system. Furthermore, in Parsons' account the economy relates to other subsystems largely as externalities: economic institutions and processes constitute constraints for other bodies of theoretical and empirical investigation, and vice versa. For instance, Parsons' agenda included investigations into interaction between subsystems (e.g., earning money to buy consumer goods represents interaction between subsystem L, in the form of the family, and subsystem A, namely the economy. Despite his neologisms, that bewildered many an economist, for Parsons the non-economic still appears as exogenous to rational economic actors, much as in any mainstream Neoclassical account!

Despite his affinities with the Neoclassicals, Parsons like Durkheim, views market rationality, particularly in its utilitarian guise, as limited and productive of anomic individuals and social disintegration. Yet, both also see distinct and cheerful possibilities of social reintegration , coming from a'cultural factor' that will re-socialize stray economic actors. Both do this by providing 'organic' and functionalist accounts of society that are to be adopted by human actors who could recognize themselves in terms of complementary and mutually supporting roles.

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