‘THINKING SOCIALLY’ ABOUT MARKETS

Damien Cahill and Joy Paton

For more than a century, the discipline of economics has been dominated by the neoclassical tradition of thought. This has bequeathed an understanding of markets as spheres of free exchange between autonomous, asocial individuals. Moreover, this understanding of markets is often reflected in mainstream public policy discourse. Yet the orthodox approach to understanding markets has proved inadequate for conceptualising the observed nature, practice and evolution of ‘actually existing markets’ (Chester 2010) in capitalist economies. As a result, it is contested on many fronts.

Useful alternative conceptions of markets and market activity can be found in the broad non-neoclassical modes of thinking about the economy. These include traditions within both heterodox economics and economic sociology. Indeed, it is the contention of this article that, despite some important differences, these approaches cohere around a ‘social ontology’ (Paton 2011) of markets. The shared conception of capitalist markets as socially constituted points to a clear methodological cleavage between the neoclassical and non-neoclassical approaches to market analysis.

Furthermore, an appreciation of the social character of markets prompts recognition of agency. The character of markets, and of the economy more broadly, can be shaped by the purposive activity of human agents, albeit, as Marx (1951) emphasised, not ‘under circumstances of their own choosing’. This holds open the possibility of developing practical alternatives to the individualised ‘market centric’ discourse and practices that have come to dominate policy making across the capitalist world during the last three decades.

Following a brief outline of the conceptual foundations of the neoclassical understanding of markets, the article moves to a discussion of heterodox economics and economic sociology. We survey a range of

different theoretical perspectives populating these two broad areas, exploring how they effectively understand ‘markets’ (whether explicitly or implicitly) as embedded in broader social institutions and processes. An interest in the social character of markets has also recently developed within neoclassical economics. We consider these developments before concluding with reflections on some of the policy implications of ‘thinking socially’ about ‘markets’.

Markets in the Economic Orthodoxy

In orthodox economic theory, markets are the centre of a competitive price system which, on the basis of certain assumptions, tends to an equilibrium where supply matches demand. The implication of the analysis is that markets are effectively ‘self-regulating’ which, in turn, has broader implications for understanding the relationship between markets and states. The conceptual foundations of this theory derive from the nineteenth century ‘marginalist revolution’ which reflected a paradigm shift in economic thought. It introduced a specific set of assumptions about human behaviour as well as an associated set of methods of inquiry which came to define what counted as ‘normal science’. Indeed, for the founders of marginalism it was a science that they wished to emulate in the study of economics (Barber 1967: 166-167). They admired the precision and certainty they believed had been attained in the physical sciences and sought to recalibrate the study of the economy along similar lines.

To this end the marginalists expunged from the discipline some of the key conceptual tools and methods that had traditionally been used in the study of economic processes. For example, historical analysis and the concept of ‘class’ had been features of the previously dominant approach of the classical political economists, including Adam Smith, David Ricardo and John Stuart Mill (Hunt 2002: 48-50). The decline of the classical school and its analytical preoccupations was reflected in a change of name from ‘political economy’ to ‘economics’. William Stanley Jevons, a pioneer of marginalism, encapsulated this shift in the preface to the second edition of his leading marginalist text, *Principles of Political Economy*:

> Among minor alterations, I may mention the substitution for the name political economy of the single convenient term *economics*.

> I cannot help thinking that it would be well to discard, as quickly as possible, the old troublesome double-worded name of our science (Jevons 1970: 48).

However, this was no 'minor alteration', but instead represented a significant shift in both the object and methods of analysis that had preceded it.

With the marginalist 'revolution' of the 1870's and the emergent neoclassical paradigm in the 1890's, greater currency was given to the indivualistic theory of competitive equilibrium. Formalising the approach to economic theory also correlated with a narrowing of its focus from long-term growth and distribution to price theory and market equilibrium. This effectively sidelined the social element in political economy, leading Polanyi (1947: 124) to suggest this was the point at which economic theory 'cut loose from all dependence on society'. As a consequence, the 'science' of economics was strangely remote from the structural changes associated with industrialisation and the turmoil of economic crises that beset the capitalist system during the second half of the nineteenth century (Jones 1994:24).

This period, remembered historically as the great era of *laissez-faire,* was also one of consolidation of 'large capital'. Its concentration was associated with the emergence of large scale industry and the political sanctioning of the 'limited proprietary' company form. Their corollary was a tempering of anarchic competition between firms and the growing dominance of hierarchical and bureaucratised workplaces (Screpanti and Zamagni 1993:145). Yet, in contrast to these 'stabilising' institutional developments, this was also a period of instability in the international economy. Serious economic crises and growing class conflict engendered reactionary responses to the 'self-regulating experiment' of *laissez-faire*, ultimately giving rise to 'economic nationalism' and protectionist trends (Polanyi 2001:3). In the face of these realities, it was left to those outside of the economics orthodoxy to develop arguments about what was the necessary and appropriate range of activities for the state to perform 'in a maturing industrial economy' (Taylor 1996: xiii).

The reorientation of analysis toward market exchange did reflect the growing importance of market activity to social and economic reproduction. Yet, in practice, it constitutes an analytical slide to 'markets' and away from the study of economy more broadly understood. This facilitated a focus on the individual, abstracted from

any social context. Gone were the concerns of the classical political economists with class and history, replaced instead with a treatment of ‘economy as a calculus of pleasure and pain’ (Jevons 1970: 44). This reflected an emergent methodological individualism whereby the individual became the exclusive unit of analysis (Arnsperger and Varoufakis 2006). This ‘individual’ was endowed with a set of unique (subjective) preferences that underpinned their engagement in the process of (voluntary) exchange within given budget constraints. From these analytical assumptions, the impact of price changes on both the supply and demand of a given commodity could be modelled. Consequently, markets have been inferred to be places where individuals act voluntarily on their unique preferences in order to maximise their pleasure.

However, it is necessary to ‘tease out’ the theoretical from the practical here. On the one hand, ‘the individual’ is not a real person, but an abstract category of analysis about which certain assumptions are made in order to generate a logically coherent model. This abstract model of market behaviour is quite distinct from any ‘real situation’ and should not, as suggested by Chicago School economist Frank Knight (1941), be used in the ‘real world’. Nevertheless, during the nineteenth century there were strong voices arguing for ‘real world’ policy to be made on the basis of such abstractions. This was a time when ‘the economy’ came to be understood as functioning according to its own immutable laws, invested by ‘Nature’ and, therefore, government would do well to leave it alone.

The sociologist Herbert Spencer, who was an ardent populariser of the ‘night-watchman state’ (Lassalle in Sawer 2003:87), provides a compelling example in the specific context of ‘labour markets’. His polemic, *The Man Versus The State* (1884), was written to counter the backlash against *laissez-faire* evident from the 1860s (Taylor 1996::vii). Spencer considered it inappropriate to assume that remediation of social distress was the responsibility of government and he sought to challenge the constraining legislation and ‘activist policies’ of the period (Taylor 1996:viii). Spencer (1992 [1884]) asserted such trends merely furthered ‘survival of the unfittest’ whereas regulation of the poor by the market system was a ‘natural’ mechanism for equilibrating resources and population (*c.f.* Polanyi 2001:120-121). A non-economist, he nevertheless argued that ‘the market’ should govern the poor and labour should be treated as a commodity finding its price without the

impediment of legal safeguards (Polanyi 2001:122). Although less explicitly crude, similar tendencies are reflected in arguments for labour market 'deregulation' and other discourses of contemporary policy making (Pusey 1991).

Several broader implications arise from this conflation of the abstract and concrete. First, any contact between social aggregates (such as state institutions) and an individual, whereby the social aggregate was able to affect that individual's behaviour, could be interpreted as an interference with the individual's preferences. Given that markets are interpreted simply as voluntary relationships between autonomous individuals, any instance of a social aggregate impinging on markets was necessarily an interference with the operation of that market. This is the conceptual origin of the popular discourse about the 'distorting' impacts of 'interference' from states or trade unions on the price-setting function of markets (see Jones 2003).

Second, even a casual observation of the history of actually existing capitalist economies demonstrates that social institutions, especially the state, have been central to the development of markets (Chang 2002). This presents a problem for neoclassical theorists. One explanatory strategy is to imagine a 'state of nature' (Rutherford 1989: 302) in which markets came into being independently of social institutions. All subsequent state regulations then become 'interferences' with autonomous 'natural' market mechanisms. The problem here is that the model, by admission, fails to describe empirical economies. As Hahn (1981: 126) notes of general equilibrium theory: 'One can describe an economy with these properties. But this of course does not mean that any actual economy has been described'

A variation of this strategy is to accept that states are required to establish a 'minimum framework of rules' without which markets cannot operate. This is the strategy adopted by Milton Friedman (1982: 27), among others, who states that:

> In summary, the organization of economic activity through voluntary exchange presumes that we have provided, through government, for the maintenance of law and order to prevent coercion of one individual by another, the enforcement of contracts voluntarily entered into, the definition and the meaning of property rights, the interpretation and enforcement of such rights, and the provision of a monetary framework… The role of

> government…is to do something that the market cannot do for itself, namely, to determine, arbitrate and enforce the rules of the game.

This argument raises a problem for neoclassical theory in that the autonomy of the individual is immediately compromised. Indeed, the methodological foundations of the entire neoclassical system are compromised because social institutions are granted independent existence and causative powers. Furthermore, the chief ideological corollary of the neoclassical approach – that the capitalist system enables the satisfaction of freely chosen preferences – is undermined. One cannot begin with the proposition that individuals are the basic unit of analysis if it is simultaneously acknowledged that such individuals are at least to some extent socially conditioned. This accords causative powers to 'extra-individual' factors, and therefore conflicts with the methodological individualist foundations of the neoclassical paradigm. Thus, the existence of social institutions presents enormous problems for the neoclassical approach – one empirical, one methodological. Either empirical accuracy or methodological coherence must be sacrificed in order to account for these phenomena.

A Smorgasbord of the Social

The neoclassical understanding of the relationship between the 'social' and the 'economic' stands in stark contrast to what can usefully be conceived of as the two other major clusters of claimants upon knowledge about the economy: heterodox economics and economic sociology. Both of these broad approaches share a conception of markets as grounded in a matrix of social institutions. Indeed, markets themselves are often considered social institutions within heterodox traditions. Moreover, this conception, it will be argued, is central to alternative non-neoclassical approaches which can be understood as trying to grapple with the problem of how to reconcile semi-autonomous economic activity with the social foundations of economy.

Heterodox Economics

Heterodox economists disagree with the orthodox neoclassical approach to understanding markets and their role in the economy. It has often been

assumed that it is only such dissent that unites them. Indeed, there is much disagreement, and even antipathy, among heterodox economists. However, a closer look at the key arguments of heterodox economists suggests they are united by more than their opposition to the dominant neoclassical approach. Although not often explicitly articulated, heterodox approaches share an understanding of markets, and economy more broadly, as fundamentally socially grounded (Davis 2003: 117; Dow 2002). As a result, there is not an engagement with market analysis equivalent to that found in neoclassical theory. This is because these traditions share a rejection of the self-regulating implications of the abstract and idealist neoclassical modelling. Their intellectual efforts are generally geared to understanding the broader institutional, or social, context, its organisation, and impacts on pricing, distribution and, of course, production. It is in this sense that markets are 'contested' by heterodox theorists.

Much heterodox theory has been spawned, to various degrees, by the classical tradition that includes the critical approach of Marx which stands in sharp contrast to neoclassical economics. Yet Marxism is also sometimes portrayed as a tradition that views the economy as separate to, and determining of, society. Support for this interpretation is often derived from the 'Preface' Marx wrote in *A Contribution to the Critique of Political Economy* where he states that 'the mode of production of material life conditions the general process of social, political and intellectual life' (Marx 1970: 20-21). However, to interpret this statement as implying determinism reflects a rather limited and one-dimensional reading of Marx. It also neglects the dialectical relationship between economic processes and social institutions.

Indeed, for Marx, the 'economic structure of society' is constituted by 'relations of production' and these relations of production are fundamentally *social* in nature (Marx 1970: 20). They are durable and patterned, legally codified power relations. As Wright (2005: 9) explains: 'the people that participate in production have different kinds of rights and powers over the use of the inputs and over the results of their use'. These are 'social' because they concern 'the ways in which the activities of people are regulated and controlled, not simply the distribution of a range of valuable things' (Wright 2005: 10). It is particularly in his economic writings, such as *Capital*, that Marx makes clear the market structures of capitalism are *constituted* by these social relations (see for example Marx (1992: 121, 138, 196).

The concern with social relations is expanded by Feminist analyses that understand economic processes, including market exchange, as embedded in the social relations of gender. Here, 'gender' reflects the social significance accorded to biological sex distinctions between men and women (Barker 1999: 390; Connell 2002: 10). Contrary to the neutrality of the 'individual' or representative agent as portrayed in neoclassical theory, gender shapes market activities in capitalism. In practice, women, on average, compare poorly to men on all major economic indicators, including employment, wages and superannuation. They are also more often found living in poverty. The profit motive notwithstanding, markets evidently confer a premium on the male gender.

Similarly, some of the leading post-Keynesian economists, in attempting to define their field, have stated that the social basis of economic behaviour is a foundational principle (Arestis, Dunn and Sawyer 1999: 529-30). They share with other heterodox economists the basic proposition that '[i]ndividuals are viewed as social beings, under the influence of their environment, including their culture and social class' (Lavoie 2006: 8). Post-Keynesians recognise the 'fundamental uncertainty' (Lavoie 2006: 17-18) pervading economic decisions; and this leads them to understand that mechanisms are required to institutionalise trust between agents in order to diminish such uncertainty. Furthermore, they argue that contemporary capitalism is characterised by 'advanced credit and other monetary institutions' (Eichner 2003: 199), both public and private. These social institutions fundamentally shape the nature of the economy in ways that render neoclassical approaches problematic.

The institutional economics tradition is one of the most comprehensively 'social' approaches to political economy. It understands 'institutions' in their broadest sense as 'durable systems of established and embedded social rules that structure social interactions' (Hodgson 2004: 14). In this way institutions serve as mechanisms for social integration and they can, indeed must, take diverse forms. Foundationally, legal rules, such as those identified by Commons (2006), are crucial to codifying the private property rights that underpin commodity production and facilitate market exchange in capitalist societies. More obviously, institutions are present in the formally constituted organisations that are able to shape the conduct of other economic agents. For example, the large corporations identified by Chandler and Galbraith (1969), used their size and

organisational structure to '[take] the place of market mechanisms in coordinating the activities of the economy and allocating its resources' (Chandler 1977: 1). However, institutions can also be less tangible in character. They can refer to cultural norms, such as the social and economic pressures driving the 'conspicuous consumption' identified by Veblen (1899).

Contemporary variations of an institutional perspective can be found in the r*egulation*[1] and Social Structures of Accumulation (SSA) approaches. The *regulation* school is explicitly founded on a critique of the asocial, static, and ahistorical character of neoclassical economics. In contrast to the latter's focus on market exchange, the 'approach in terms of *regulation*' attempts to account for the long-run dynamics of capitalist economies and their regularised patterns of accumulation and contraction. As Aglietta (2000: 19) argues in the founding text of this research tradition, 'the regulation of capitalism must be interpreted as a social creation'. A focus upon key institutional forms which support capital accumulation is also a defining feature of the SSA project. It examines the periodical emergence of unique sets of supportive social structures which eventually disintegrate due to contradictions latent in the institutional arrangements themselves (Kotz, McDonough and Reich 1994).

It is unsurprising that an institutional approach opens up the opportunity for conceptualising markets as social institutions rather than as ephemeral acts of exchange. This is certainly the approach taken by Karl Polanyi who can be rightly claimed by the institutonalist tradition (Paton 2011). Polanyi (2011 [1944]) has gained recent attention from scholars across a variety of disciplines, including sociology and international relations, for his use of the idea of 'embeddedness' in *The Great Transformation*. When writing this book, according to Block (2004), Polanyi was in the process of developing a view of *all* economies, including market economies, as 'always embedded'. This is supported by a later essay, 'The economy as instituted process', in which Polanyi took a comparative historical perspective, arguing that '[t]he human economy…is embedded in institutions, economic and noneconomic' (Polanyi 1957: 250).

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1 As noted by Jessop (1997) the French word *regulation* is best translated as 'regularisation'.

Polanyi’s work represents one of the most important efforts at ‘thinking socially’ about the economic process in capitalism. This is the case in terms of both structure (organisation of the system of provisioning) and agency (the rights and responsibilities of economic agents). Polanyi described the societies of industrial capitalism as ‘market societies’ because their defining feature, he argued, was the commodification of productive forces (2001:71). Under capitalism, the production inputs of land, labour and money are treated like commodities, both analytically (through neoclassical theory) and in practice (through the creation of markets). Yet, Polanyi (2001: 75) argued, land, labour and money were ‘fictitious commodities’ because, unlike ‘genuine commodities’, they are ‘not produced for sale’.

The corollary of such a situation was the necessary creation and management of markets in land, labour and money; which simultaneously defines such markets as ‘social’ in a much thicker way than is implied in the process of ‘voluntary exchange’. Here the state plays a crucial role transforming the ‘resources’ of land, labour and money into exchangeable commodities. Furthermore, as Block (2001: xxvi) suggests, ‘the role of managing fictitious commodities places the state inside three of the most important markets’ making it difficult to sustain the view ‘that the state is ‘outside’ of the economy’. Because markets in these fictitious commodities require non-market institutions to bring them into being and sustain their (managed) existence, any notion of ‘self regulation’ is obsolete. Indeed, the fictitious commodities are the ‘Achilles heel’ in the logic of self regulation derived from neoclassical theory (Paton 2010:78).

This institutional ensemble stabilises and regularises the capitalist economic process, but it is also subject to contestation. As Peck (1996: 42) observes, there is ‘regulatory necessity, but institutional indeterminacy’. Therein lay the opportunity (and constraint) for contestation over ‘the rules of the game’ (Friedman 1982:27). Because the commodification of production inputs undermined the functionality of the market system in the nineteenth century, Polanyi (2001: 80) argued that ‘society protected itself’. It did so by partially decommodifying land, labour and money through legislation and the construction of specific institutions. Capitalist economies are therefore embedded in protective, as well as constitutive, institutions and regulations. These partially liberate land, labour and money from the full effects of commodification, but they also maintain their status as

commodities to enable a functioning market system. It is this duality of commodification and decommodification, rather than the dynamic of more or less government, that is the appropriate frame for understanding the shifting relationships between states and markets.

Economic Sociology

The social character of markets is also a central concern of economic sociology. This sub-discipline has recently experienced a revival, producing several innovative new conceptual currents. Such currents continue a longer sociological tradition of understanding economic processes as socially embedded. The great classical sociological thinkers – Marx, Durkheim, Weber – were grappling with the dramatic transformations associated with an industrialising capitalism, including new institutional forms and the changing place of individuals in relation to social organisation as well as each other. In recent decades, the centre of gravity has shifted to the 'new economic sociology' pioneered by Mark Granovetter.

In his paper 'Economic Action and Social Structure: The Problem of Embeddedness', Granovetter (1985: 481) put forward a critique of neoclassical economic theory which, he argues, has an unhelpful 'under socialised' conception of markets. His critical gaze fell on the isolated and skeletal 'rational economic man' undertaking voluntary exchange in purportedly self-regulating markets. However, Granovetter also took issue with Polanyi who he understood as overstating the autonomy of market activity in capitalism thereby perpetuating its theorisation as 'under-embedded'. To resolve this dilemma of autonomy and structure, Granovetter utilised network theory to explain the embeddedness of 'economic behaviour' in social relations at the micro level where market agents are dependent upon their personal networks (Granovetter 1985: 487). His version of embeddedness emerges from the dependency of market transactions on 'social networks' (both direct and indirect associations) which encourage trust and censor wrongful conduct.

However, in Granovetter's study, market exchange is taken to constitute 'economic behaviour' (Granovetter 1985) and this is not fully congruent with Polanyi's analysis. Although the idea of 'embeddedness' can be useful at different levels of analysis, Polanyi's use was always indicative of a systemic approach (Barber 1995; Krippner and Alvarez 2007: 228).

He (1957: 248) renders market exchange one (possible) element in a larger process of production and reproduction. In capitalism, the market system plays a key role in this, but in doing so, it is not independent of other non-market institutions such as the state and household (Paton 2010: 82-83). Yet, by emphasising the individual in the sphere of exchange as the object of analysis (albeit an individual in relation with others) the ‘network’ tradition is at risk of rejecting the ‘structural and systemic…as legitimate objects of study’ (Fine 2005: 91).

Often positioning itself in opposition to the ‘embeddedness’ approach of economic sociology is the growing field of ‘performativity’ studies (McKenzie, Muniesa and Siu 2007; MacKenzie 2006; Callon 1998). The performativity research project refocuses attention on economic knowledge itself, claiming that its role in creating markets – as opposed to simply describing them – has been largely ignored by sociologists and economists alike. Performativity is understood as the process whereby markets are shaped so that they more closely resemble the ways they are described by economic knowledge. This approach is particularly relevant in an era where *financial* markets have come to dominate both the volume and character of global economic activity. Donald Mackenzie (2006), for example, has drawn attention to the emergence of new economic theories of finance and how these impacted on the creation and function of new markets, such as in derivatives.

In the performativity approach, economics is said to be ‘performed’ or enacted, rather than simply written, discussed and used as a tool of analysis. Callon (1998: 30) therefore argues that the focus on the social embeddedness of markets is misplaced, because ‘the economy is embedded not in society but in economics’. Nonetheless, despite such self-positioning, the performativity agenda is actually much closer to the social embeddedness approach than is imagined by Callon and its other adherents. To argue that the economy is embedded in economics is in fact to claim that the economy is socially embedded, for what is economics but a socially constructed discourse about human society? However, the focus of performativity is very much on individuals, technologies and markets and thus, like Granovetter’s new economic sociology, it too struggles to come to terms with the social structural characteristics of capitalist economies.

A different approach is taken by Bourdieu (2005) who broadens the sociological discussion beyond isolated individuals in his

conceptualisation of ‘fields’ and ‘habitus’. These categories suggest that particular social fields – education, politics, or the market economy, for example – are structured by, and give rise to, particular social relations and norms of behaviour which shape people’s goals and their strategies for achieving them. By bringing ‘structure’ back into the sociological perspective, Bourdieu goes further than the network or performativity approaches, providing another potential route to a ‘social’ conception of markets. More recently, Beckert (2011) has examined the various sociological approaches to theorising price formation in an attempt to ‘join up’ these perspectives into a more coherent framework. This too points towards a sociological conception of the economy as a whole, rather than a sociological conception of individual behaviour.

Counter-Developments within the Orthodoxy?

In recent decades several influential attempts have been made to account more thoroughly for ‘the social’ than had traditionally been the case in the neoclassical tradition. Indeed, in response to ‘real world’ economic events, especially the failure of market ‘shock therapy’ in Russia, high profile economists began to rethink their market analyses, reorienting their focus toward institutions (such as Jeffrey Sachs – see Sachs 2008). Nonetheless, there remains considerable doubt as to whether these have fully broken from the methodological underpinnings of the neoclassical paradigm.

A noticeable trend within orthodox economic research during the last several decades is a new concern to move beyond narrow neoclassical conceptions of ‘the social’. One of the best known and most far-reaching of these currents is the ‘economic approach to human behaviour’ pioneered by Gary Becker. Becker (1976) argued that the discipline of economics had historically imposed an artificial distinction between the economic and the social, quarantining itself from study of the latter. However, argued Becker, surely if economics is to be consistent then it should not presume that individuals behave differently in market situations compared to non-market situations.

Moreover, Becker (1976: 5) argued that ‘what distinguishes economics as a discipline from other disciplines in the social sciences is not its subject matter but its approach’. Becker situated his argument in the definition of economics as provided by Robbins – the study of the

allocation of scarce resources among alternative uses – rather than those of Smith or Marshall which reflected an emphasis on the mode of material provisioning (see Nelson 1993). Thus, Becker proposed that the neoclassical model of the individual in markets be extended to understand individual behaviour in non-market situations as well. The ontological question of the relationship between the economic and the social was effectively by-passed through a prioritisation of method over subject, with the neoclassical method to be ‘used relentlessly and unflinchingly’ (Becker 1976: 5) to analyse areas previously considered outside of the domain of economic analysis.

While Becker attempted to analyse ‘the social’ by moving economics onto a purely methodological terrain, others tried to account for observed anomalies in the neoclassical paradigm pertaining to the relationship between ‘the economic’ and ‘the social’. New research programs along these lines, including New Institutional Economics and Behavioural Economics, have burgeoned in recent years. Nonetheless, although some leading practitioners within these approaches have essentially postulated the dependence of economic phenomena upon social processes, this has yet to be reconciled with the ongoing commitment of these research programs to methodological individualism. Thus tensions and contradictions remain with respect to the neoclassical understanding of the social.

New Institutional Economics, for example, arose from the anomaly perceived by Coase (1937) that firms – one of the major economic agents – were organised hierarchically rather than according to the voluntaristic principles that neoclassical economics presumed were characteristic of markets. This apparent anomaly was reconciled with the neoclassical approach by understanding firms as rational responses by self-interested utility maximising individuals to the problem posed by transaction costs. Thus the methodological individualist framework was retained but used to explain the existence of institutions whose internal allocation mechanisms differed from those of markets. The development of New Institutional Economics and its focus upon transaction costs has enabled the neoclassical paradigm to incorporate social institutions, including firms, states and contracts, into its purview whilst retaining its core methodological principles. In one sense, therefore, it has gone some way in meeting the challenge posed by the social ontology of heterodox traditions.

Nonetheless, as others have pointed out (see Rutherford 1989), there is an unreconciled contradiction within the New Institutional Economics approach. On the one hand, institutions are only recognised as worthy objects of study if they are able to exert some kind of influence over economic agents. Yet, if it is admitted that institutions do exert such influence, then the coherence between this ontology and the methodological foundations of the paradigm are threatened. For, if the preferences of individual agents are in any way shaped by, or dependent upon, the presence of institutions, then something other than or in addition to individuals must necessarily form the starting point of analysis.

This breaks one of the axiomatic principles of methodological individualism: 'the collective has no existence in reality but in the actions of individuals... [t]he only way to a cognition of collectives is the analysis of the conduct of its members' (von Mises 1978: 81). One way this problem has been dealt with by New Institutional Economists is to assume that, for the purposes of analysis, the institutional environment is 'taken as given' (Williamson 2000: 596). So, while there is recognition that economic agents are 'embedded' in 'norms, customs, mores, traditions etc' (Williamson 2000: 596), it is simultaneously assumed that such embeddedness does not matter for an understanding of economic behaviour.

Similar issues are evident with respect to behavioural economics. This is an approach that is sometimes seen as a challenge to neoclassical orthodoxy because it seeks to explain human behaviour that deviates from that predicted by the neoclassical model of the rational self-interested individual. Behavioural economics proceeds from the perception of anomalies between observed behaviour and the predictions of the neoclassical paradigm. Behavioural economists endeavour to accommodate the actual behaviour of individuals in a more realistic fashion than is possible with the assumption of self-interested utility maximising behaviour as reflected in the model of 'rational economic man' (Kahneman and Tversky 2000).

On the one hand, much work in behavioural economics clearly recognises that individual economic behaviour is dependent upon social factors such as social norms and heuristics which structure and guide individual preferences. This points to movement within the economic mainstream towards the heterodox and sociological position that

economic activity is socially embedded. On the other hand, though, the basic unit of analysis employed by most behavioural economists remains the individual, albeit one acknowledged as existing in a social context. While this might be a 'weak' version of methodological individualism (Udehn 2007), it does nonetheless suggest that the implications of this research agenda have yet to be fully reconciled with the methodology of orthodox economics.

Conclusion: the Policy Implications of Thinking Socially

Recognition of the social character of markets undermines the key neoclassical assumption that markets are natural, autonomous spheres of voluntary exchange. It destroys the notion that markets and states are separate and antithetical social spheres, as well as the assumption that when governments regulate economic processes, they 'intervene' in markets. This provides the context for consideration of normative implications. If markets are socially constituted, then people, acting through states and other institutions, are able to shape the nature of markets, and indeed of production and distribution more broadly. However, such a perspective must also recognise that the current structure of the economy is path dependent, institutionally bound, and locks in certain interests and behavioural norms. All of these pose limitations upon what changes are possible to the scope and operation of markets at any given point.

Furthermore, the same is true of the ideological domain where the current faith in market analysis belies the practical limitations of neoclassical theory that are acknowledged by some of its most important theoreticians. The problematic relationship between economic theory and public policy stems, not necessarily from the mathematical preoccupations of these theorists, but from the 'mis-placed concreteness' (Daly 1980) attributed to their models by policy makers, teachers and other advocates of 'free-markets'. In this way, the social character of markets disappears into the ether of abstraction, while a weak tool for policy-making is given much greater prominence than is deserved. In one way or another, the perspectives explored here all reflect, to paraphrase Polanyi, efforts to 're-instate the dependence of economic theorising on society'.

Damien Cahill and Joy Paton are both in the Department of Political Economy at the University of Sydney.

damien.cahill@sydney.edu.au

joy.paton@sydney.edu.au

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