

Sebastian Teupe

## EVERYDAY TRANSACTIONS AND GREAT TRANSFORMATIONS

### Markets and Marketization from the Perspective of New Economic Sociology

Marketization is a broad term with a wide range of meanings. It encompasses measures of deregulation and privatization as well as the perceived increase of an ›economic‹ logic in social relationships. For historical purposes, the term should not be narrowly defined, and nor should the concept of marketization be used in an ahistorical manner detached from contemporary usage.<sup>1</sup> However, there are two questions which the historical analysis of marketization needs to address. First, what is the conceptual understanding of the market mechanism to which the term marketization is linked? Second, what is the relationship between marketization and economic theory?

An answer to these questions is crucial because in analyzing the phenomenon of marketization, historians are faced with a theoretical dilemma. Without the development of economic theory, marketization would not have been possible. But in order to account historically both for the complexity of markets and for their expansion, a genuine historians' view will have to free itself from economic theory's rather narrow understanding of markets and its emphasis on efficiency. At the same time, it must do so without losing sight of the theory's performative qualities, i.e. its ability not only to describe what markets are but also to actively shape them according to its own assumptions.

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1 For a general discussion of the use of social scientists' terms and concepts in contemporary history, see Rüdiger Graf/Kim Christian Priemel, *Zeitgeschichte in der Welt der Sozialwissenschaften. Legitimität und Originalität einer Disziplin*, in: *Vierteljahrshefte für Zeitgeschichte* 59 (2011), pp. 479-508.

While historians are generally critical of the market concept employed in economics, they have usually remained stuck in the critique instead of exploring viable theoretical alternatives. The rejection of economic theory has its merits but it has also led to a situation in which it has become even harder to understand why marketization took place. Historical studies that focus on the development of economic ideas are valuable contributions, but they are only a first step toward explaining the phenomenon of marketization because their relation to actual markets remains ambiguous.

In this article I argue for the use of new economic sociology as an alternative theoretical framework.<sup>2</sup> As the theory is too multifaceted to be discussed in all of its aspects here, I will not give a concise overview of its content. Rather, my aim is, first, to emphasize the historical importance of a more complex understanding of markets as it is reflected in the theory's central concept of embeddedness. Second, I will discuss what the concept of embeddedness could mean for historical research on marketization. Third, I will suggest how new economic sociology can help to solve the theoretical dilemma by integrating economic theory into the historical analysis.

## 1. The Concept of Embeddedness

›New‹ economic sociology takes up the tradition of the ›old‹ economic sociology related to the likes of Max Weber, Émile Durkheim and Georg Simmel because it tries to understand economic phenomena in their wider social context.<sup>3</sup> Over the last few decades, new economic sociologists have attempted to come up with an independent conceptualization of markets that is part of a larger project of understanding the material reproduction of modern societies. Markets are a specific means by which societies can coordinate the satisfaction of their material needs. But they are not the only coordination mechanism for doing so. In a handbook article, the sociologists Jens Beckert and Patrik Aspers distinguish markets from two other possibilities. The first is redistribution, which means that the allocation of goods is carried out according to the need of the members of a society. The second alternative is reciprocity. Here the exchange is embedded into social structures which guarantee that for any good or service delivered, something is received in return.<sup>4</sup>

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2 See also: Klaus Nathaus/David Gilgen, Analysing the Change of Markets, Fields and Market Societies. An Introduction, in: *Historical Social Research/Historische Sozialforschung* 36 (2011) issue 3: Change of Markets and Market Societies. Concepts and Case Studies, ed. by Klaus Nathaus and David Gilgen, pp. 7-16.

3 For a discussion of new economic sociology, see: Jens Beckert, What is Sociological about Economic Sociology? Uncertainty and the Embeddedness of Economic Action, in: *Theory and Society* 25 (1996), pp. 803-840.

4 Patrik Aspers/Jens Beckert, Märkte, in: Andrea Maurer (ed.), *Handbuch der Wirtschaftssoziologie*, Wiesbaden 2008, pp. 225-246.

The distinction between markets, redistribution and reciprocity is based on the work of Karl Polanyi, whose seminal book *The Great Transformation* was published in 1944.<sup>5</sup> The transformation Polanyi set out to describe was essentially similar to the phenomenon that lies behind the term marketization – the extension of the market mechanism into realms formerly coordinated in other ways. Polanyi was especially interested in the ›commodification‹ of land, labor and money, which he dated back to the nineteenth century. His work is still inspiring today. But it is also heavily criticized by historians. As Christiane Eisenberg has recently argued, Polanyi was empirically wrong. There had been markets for land and labor in England before, and there has never been a similar kind of ›Great Transformation‹ in Continental Europe.<sup>6</sup> There is no doubt that Polanyi had little detailed historical knowledge of the time he was writing about, and some sociologists can be rightfully criticized for using Polanyi somewhat carelessly as historical evidence.<sup>7</sup> But I would argue that with respect to Polanyi's heuristic value for the debate on marketization, the problem is not so much the historical detail. The problem, more fundamentally, is Polanyi's market concept.

Polanyi saw markets and thus the modern market economy as essentially impersonal, dis-embedded and self-referential. Every human being and every social interaction needed to succumb to the logic of the market, which was indifferent to social relations and the people who offered their labor. Polanyi himself was very critical of the classical economists who, as he claimed, had intellectually paved the way for the ›Great Transformation‹. But he nonetheless adopted their conceptualization of markets. Empirically, the classical ideal of markets as a smooth balancing mechanism of supply and demand that was explained by the maximization of individual self-interest never manifested itself. While this ideal prevailed in economic theory in a refined and formalized version, markets in the real world took on many different forms. Unlike Adam Smith, Polanyi saw that markets were not the result of a natural human propensity to truck, barter and exchange. He also saw that societies found ways and means to contain some of the potentially destabilizing effects of markets. But because he constructed the market mechanism as dis-embedded from society, he did not consider the possibility that markets themselves were more diverse than economic theory suggested.

In contrast to Polanyi, new economic sociology sees markets as complex structures of exchange that are always embedded.<sup>8</sup> Markets are, as Beckert describes them, ›arenas of social action‹ that provide a social structure and an institutional order to make the exchange of goods possible in the first place. Some of the socially embedded institutions

5 Karl Polanyi, *The Great Transformation*, New York 1944.

6 Christiane Eisenberg, Embedding Markets in Temporal Structures: A Challenge to Economic Sociology and History, in: *Historical Social Research/Historische Sozialforschung* 36 (2011) issue 3 (fn. 2), pp. 55-78.

7 In a reply to Eisenberg, Beckert points out that sociologists are less interested in Polanyi's historical narrative than in his concepts, which may be used as heuristic devices. See: Jens Beckert, Postscript: Fields and Markets: Sociological and Historical Perspectives, in: *Historical Social Research/Historische Sozialforschung* 36 (2011) issue 3 (fn. 2), pp. 223-234, here p. 230.

8 Jens Beckert, The Great Transformation of Embeddedness. Karl Polanyi and the New Economic Sociology, in: Chris Hann/Keith Hart (eds), *Market and Society*, Cambridge 2009, pp. 38-55.

on which markets depend are laws, social norms and trust.<sup>9</sup> Two characteristic features that hold for all markets are competition and valuation. In contrast to simple forms of trade, markets need at least two parties on the same side who compete with respect to either supply or demand. It is during this process that a market price is established which is linked to the society's monetary system and thus serves as a generalized measure of value. But in contrast to the view of economic theory, neither the process of pricing nor that of valuation obeys a timeless logic. Rather, both are contingent on social and historical circumstances and thus subject to change.<sup>10</sup>

To pick an example from my own research on a typical consumer good in the second half of the twentieth century: as the history of the market for television sets in Western Germany and the United States shows, practices of exchange, strategies of pricing, and market relations were constantly changing according to the structure of the value chain and the relative bargaining power of the producers, wholesalers, retailers and consumers along this chain. Moderated by cycles of prestige and price elasticity of the product, the market was in constant flux and market actors continually revised their understanding of the right strategies and business conduct. By establishing new routines, they created a distinct but unstable market culture. They also shaped political regulations ›from the bottom up‹ as much as they were guided by them. This created a very dynamic social field of mutual impact in which relatively calm periods with stable coalitions, high profits, little rule-breaking, unambiguous laws, and trust were replaced by their opposites.<sup>11</sup>

In this dynamic, the market for television sets was not exceptional. Because different interests collide, markets are essentially conflict-laden. Suppliers usually try to set the price as high as possible while customers constantly try to get a bargain. But it is important to note that this is not the same as identifying market actors with *homines oeconomici*. In a famous article about the bazaar in Morocco, the anthropologist Clifford Geertz wrote: ›Under whatever skies, men prefer to buy cheap and sell dear.‹ But for

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9 Jens Beckert, Die soziale Ordnung von Märkten, in: Jens Beckert/Rainer Diaz-Bone/Heiner Ganßmann (eds), *Märkte als soziale Strukturen*, Frankfurt a.M. 2007, pp. 43-62, here pp. 44-45. In new economic sociology, markets are usually analyzed either as networks or as institutions. For a useful discussion, see: Aspers/Beckert, Märkte (fn. 4). The classic text for a ›network approach‹ is Harrison C. White, Where Do Markets Come From?, in: *American Journal of Sociology* 87 (1981), pp. 517-547. For an example of an ›institutional‹ approach, see: Neil Fligstein, *The Architecture of Markets. An Economic Sociology of Twenty-first Century Capitalist Societies*, Princeton 2001. For a historical view on the role of trust, see also: Hartmut Berghoff, Die Zähmung des entfesselten Prometheus? Die Generierung von Vertrauenskapital und die Konstruktion des Marktes im Industrialisierungs- und Globalisierungsprozess, in: Hartmut Berghoff/Jakob Vogel (eds), *Wirtschaftsgeschichte als Kulturgeschichte. Dimensionen eines Perspektivenwechsels*, Frankfurt a.M. 2004, pp. 143-168.

10 Jens Beckert, Where Do Prices Come From? Sociological Approaches to Price Formation, MPIfG Discussion Paper 11/3, Cologne 2011; Patrik Aspers, Markets, Evaluations and Rankings, in: *Historical Social Research/Historische Sozialforschung* 36 (2011) issue 3 (fn. 2), pp. 19-33.

11 For an elaborated discussion, see: Sebastian Teupe, Die Gesetze des Marktes. Preispolitik, Wettbewerb und der Handel mit Fernsehgeräten in der Bundesrepublik Deutschland und den Vereinigten Staaten von Amerika, 1945–1985, Ph.D. thesis, University of Bielefeld 2015.



Citizens of the German Democratic Republic purchasing a television set in 1964 thanks to installment credits. Partial payments were only one of many factors that determined who had access to consumer markets and under what conditions. Several characteristics of the market for television sets in the GDR could be found in many other societies as well, like the problem of financing for individual households or overcoming consumer mistrust. But the problems were not necessarily solved in the same ways or by the same institutions. Other market practices, like pricing and competition, worked in idiosyncratic ways and could change over time. New economic sociology makes it possible to look for the ways in which markets are embedded in historical societies, thus questioning the economic ideal of an ahistorical and efficient market mechanism. This is crucial for understanding marketization as a historical process with a complex background and undetermined effects.

(Bundesarchiv/Federal Archives, Picture 183-O1014-0016-001, Allgemeiner Deutscher Nachrichtendienst – Zentralbild, Photo: Joachim Spremberg)

him this ›truth‹ was merely a subsidiary aspect of the argument that market exchange at the Moroccan bazaar was a ›distinctive system of social relationships‹.<sup>12</sup> Like the market for television sets, this system had developed historically and it was much more instrumental in shaping market outcomes than a one-sided focus on individual interests could ever explain. A historical analysis of markets needs to pay careful attention to this distinctiveness and the resulting historical contingency of different markets.

## 2. Marketization in the Light of Embedded Markets

This view of the social embeddedness of markets has profound implications for the analysis of marketization as well. Marketization can be understood as the extension of the market mechanism. But from the viewpoint of new economic sociology, this means neither that the coordination mechanism of material exchange is now dis-embedded from society nor that its impact is easily predictable. Consider, for example, land reform in China during the 1970s. Prior to this, Chinese farmers delivered their shares of crops according to a central plan and were told what to grow. After the land reform, Chinese farmers were able to sell at least some of their crops on the market and could decide what to grow. Many economists, as well as sociologists, viewed the transition favorably because they argued that marketization would increase the bargaining power of farmers.<sup>13</sup>

This view was flawed because it failed to take into account the question of the social structure of buyers and sellers and the specific value chain along which crops could be traded. Also, the generalization was mistaken because marketization could be carried out in very different ways. If, for example, not agricultural produce became the salable commodity, but rather the land, the farmers in this social setting tended to lose bargaining power. One sociologist concluded: ›General claims about the impact of markets should be viewed skeptically, for the impact of markets works through the allocation of assets, the characteristics of emerging markets, and the political processes by which market economies are established.‹<sup>14</sup> An embedded view of markets thus helps to abstain from all too easy and ahistorical generalization about the social implications of marketization.

The term marketization, however, encompasses even more than the transformation of a command economy into a market economy or the privatization and deregulation of different industries. It also refers to a perceived increase of an ›economic‹ logic

12 Clifford Geertz, *The Bazaar Economy. Information and Search in Peasant Marketing*, in: *American Economic Review* 68 (1978) issue 2, pp. 28-32.

13 Victor Nee, *The Emergence of a Market Society. Changing Mechanisms of Stratification in China*, in: *American Journal of Sociology* 101 (1996), pp. 908-949.

14 Andrew G. Walder, *Markets and Inequality in Transitional Economies. Toward Testable Theories*, in: *American Journal of Sociology* 101 (1996), pp. 1060-1073, here p. 1060.

in social practices and relationships. Drawing the line between the ›economic‹ and the ›non-economic‹ is difficult because many practices and relations remain the same on the surface while their underlying logics change. To track the process of marketization in the sense of an economization, it is therefore important to find a reliable yardstick. According to Aspers, markets can provide this yardstick because they make it possible to distinguish between different meanings of the same kind of practice. The example he uses to illustrate the difference between an ›economic‹ and a ›non-economic‹ practice is that of repairing a car: ›The man who repairs his car because he cannot afford to let a professional do this is involved in an economic activity, but the person who does it because he likes to repair cars is not.‹<sup>15</sup>

The difference according to Aspers lies in the fact that in the first case markets provide the necessary tool to make this judgment while in the second case they simply play no role at all. The question of whether one can afford to have a professional do the job is directly linked to the market price of that service relative to individual income. Any activity can thus be seen as economic as long as actors make their decisions with an orientation *to* the market although they do not need to be actively involved *in* it. A characteristic feature of marketization would thus be an increased awareness of the opportunity cost of an activity in relation to its market price. Some people might start choosing not to repair their cars even though they enjoy doing so if the market price of this service is plummeting and they consider their time too valuable.

This, of course, is precisely the kind of reasoning that the theory of the allocation of time as developed by the Chicago economist Gary Becker would assume for all actors.<sup>16</sup> The fundamental difference to Aspers' approach is not only that Becker's theory lacks a historical understanding of agency. By indiscriminately assigning a value to everything, it also lacks a differentiated view of markets as specific coordination mechanisms. First, it ignores the central fact that valuation itself is a complicated social process that markets facilitate in a very specific way. Second, it assumes that competition is a fact of life without asking whether competition on markets might still be a different thing. This makes it impossible to reconstruct the social impact of marketization because in Becker's general theory of human behavior, everything is a market already.

Elaborating on a definition of modern consumption, Thomas Welskopp has recently argued in a similar direction, placing a stronger emphasis on the specificity of markets. To him, modern consumption is not so much an act per se but – in contrast to the simple using up (*Verbrauch*) of goods – a mode of economic activity that is by definition linked to market exchange. Welskopp illustrates this with a short discussion of the history of utilities. Introduced by private companies during the early nineteenth century, the sewage system created a mode of consumption. As private companies were primarily interested in making profits, the supply of water was contingent on household income and it was unequally distributed. Wealthy people escorted visitors through

15 Aspers, Markets (fn. 10), p. 21.

16 Gary S. Becker, A Theory of the Allocation of Time, in: *Economic Journal* 75 (1965), pp. 493-517.

their villas and proudly presented their water closets because they could use them as a sign of social prestige. Similar descriptions could be found for the diffusion of electricity, railroads, communication or postal services. Their subsequent nationalization during the nineteenth and early twentieth century removed these services from the mode of consumption and transferred them to the mode of support from the state.<sup>17</sup> Resembling the ideal type of redistribution, this kind of state aid changed social relations. On the supply side, it eliminated competition and created state monopolies, while on the demand side, the fee which the citizens now paid was no longer a market price. Consequently, it was no longer a means of social distinction.

### 3. Integrating Economic Theory into the Analysis of Marketization

The structure that was established during the nineteenth and early twentieth century was not designed primarily for efficiency, because its aim was to provide nationwide coverage of utilities. Since it was controlled by (state) monopolies, it was not a market in an economic sense but rather a mode of redistribution. However, as Welskopp argues, when neoliberals criticized the state provision of utilities they nevertheless used the language of market efficiency. By evaluating the fee that was charged by the state monopolies according to the same criteria by which they would have evaluated market prices, they intentionally blurred the line between the mode of redistribution and that of markets. It is not surprising that, based on these narrow criteria, the state provision of utilities looked less than favorable.

The actual degree of efficiency to which the neoliberal turn and the shift to deregulation, liberalization and privatization has led is mixed and debatable.<sup>18</sup> It has, however, certainly altered practices and social relations. As competition entered the scene, citizens as consumers were now confronted with a wide range of choices. They had to make decisions that involved effort and time: mostly searching for information but at times haggling over prices and conditions as well. A water closet no longer made much of an impression. But in certain peer groups, the conditions of a mobile phone contract could still be an important aspect of social comparison. Also, some citizens might have been embarrassed to discover that they had paid twice as much as their neighbors for the same amount of gas or electricity.

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17 Thomas Welskopp, Konsum, in: Christof Dejung/Monika Dommann/Daniel Speich Chassé (eds), *Auf der Suche nach der Ökonomie. Historische Annäherungen*, Tübingen 2014, pp. 125-152, here pp. 142-143.

18 William L. Megginson/Jeffrey M. Netter, From State to Market. A Survey of Empirical Studies on Privatization, in: *Journal of Economic Literature* 39 (2001), pp. 321-389.

The neoliberal demand that the state provision of utilities be considered in terms of the efficiency of markets was intentional and certainly ideological in a political sense. But it also had an important contemporary theoretical background without which the process of marketization since the 1970s is impossible to understand. The performativity of economics approach is particularly useful for addressing this relationship. As the term suggests, the approach looks at economic theories not as passive descriptions of reality.<sup>19</sup> While it assumes a strong congruence between economic theories and some (!) markets, it does not assume this relation simply to be the result of a precise theoretical description. Rather, because economic knowledge itself is assumed to be crucial for shaping economic outcomes, the approach makes it possible to reveal the interrelation of economic theories and markets as well as the social networks through which these effects are generated and markets are established. The idea of performativity is not as broad in scope as Polanyi's ›Great Transformation‹. But it can be used as a tool to understand the complex relation between economic knowledge and real world markets.

Donald MacKenzie demonstrates this at one point in his study of the Chicago market for derivatives. His example is Leo Melamed, who was the central figure in establishing a market for futures in currencies at the Chicago Mercantile Exchange. Because contemporary regulators in the early 1970s tended to see these futures as a form of illegal gambling, Melamed decided to engage Chicago economist Milton Friedman to write a memo. The memo cost Melamed \$5,000 and was sent to George P. Shultz, who, as Secretary of the Treasury, was crucial for rubber-stamping the idea. The memo helped pave the way. ›If it's good enough for Milton‹, Shultz is said to have remarked, ›it's good enough for me.‹<sup>20</sup> The currency futures market was launched. In the memo, Friedman had argued that such a market was efficient because it could hedge certain risks for businesses engaged in foreign trade. But as MacKenzie's historical reconstruction shows, efficiency in itself falls short of explaining its emergence.

Although there are probably few instances in which the link between economic theory and the construction of markets is as obvious as in MacKenzie's demonstration, it nevertheless challenges scholars of marketization to integrate economic knowledge as a *potentially* crucial factor into their analysis. Since it is a priori unclear in which cases economic theories had a real impact, the limitation of a potential impact should be taken seriously. To what extent, for example, neoliberal reasoning was a driving force for deregulation and privatization or simply a convenient way of justifying political measures that would have been taken anyway is an open question. It is precisely the question that needs to be answered if we are to move beyond vague statements

19 Michel Callon, What Does it Mean to Say that Economics Is Performative?, in: Donald MacKenzie/Fabian Muniesa/Lucia Siu (eds), *Do Economists Make Markets? On the Performativity of Economics*, Princeton 2007, pp. 311-357.

20 Donald MacKenzie, *An Engine, Not a Camera. How Financial Models Shape Markets*, Cambridge 2006, p. 148.

about the relationship of neoliberal ideology on the one hand and the political fact of marketization on the other. The performative approach should not be misconstrued as a convenient way of establishing this link. Rather, it provides some tools for taking seriously changing thoughts about the economy and for tracing the channels through which they diffused. Seen in the light of new economic sociology's more encompassing concept of embeddedness, it then becomes possible not only to assess the social impact of marketization in detail but also to carefully analyze the role of social actors in this process instead of simply referring to ›ideology‹.

#### 4. Conclusion

New economic sociology can be helpful for analyzing the process of marketization in three different ways. First, it solves the theoretical dilemma by providing an alternative conceptual framework that makes it possible to integrate economic theory into the analysis instead of simply discarding it. Assumptions like market efficiency or more specific approaches like Becker's theory of the allocation of time can be recognized as a powerful and performative set of ideas, without adopting the theories' basic assumptions. Second, by referring to markets as the central point of orientation, new economic sociology makes it possible to draw a clear line between the ›economic‹ and the ›non-economic‹. This is not only important because the two concepts can become messy if not properly defined, but also because their distinction was intentionally blurred by the influential works of members of the Chicago school. Third, by conceptualizing markets as embedded, new economic sociology accounts for the various forms of different product markets and their complex and historically contingent structures. With respect to marketization, this avoids the kind of flawed conclusions about the social impact of markets which may be easily suggested by less differentiated approaches.

For historians, of course, the analytical framework presented here is little more than a starting point for a theoretically informed empirical investigation. But it is also a call for an interdisciplinary project. Historians bring with them a sensitivity for contemporary mindsets and decision-making horizons in which sociologists tend to be less interested. For the task of contextualizing the power of ideas and linking them to different central actors who paved the way for marketization, this is a real asset. It might help to explain some of the exaggerated hopes that many contemporary actors (including some sociologists) associated with the spread of markets, whether in the sense of great political transformations or with respect to privatization.

New economic sociology is a tool that provides no general answers. As Beckert points out, economic sociologists are only beginning to understand the relevance of markets as an integral part of modernity. Historical as well as comparative approaches

will be crucial to come to valid conclusions that consider its diversity.<sup>21</sup> The theoretical tools discussed here are helpful in accounting for the variety of real markets and the complex ways in which actors and abstract theories have been instrumental in setting up markets and shaping them. By reconstructing the historical change of markets and market societies and by demonstrating that under different historical circumstances marketization itself was a contingent concept, historians can reciprocally help sociologists to avoid the pitfall of constructing a theory that stands outside of history.

**Sebastian Teupe**

Universität Bayreuth | Kulturwissenschaftliche Fakultät | Facheinheit Geschichte  
Universitätsstr. 30 / GW II | D-95440 Bayreuth  
E-mail: [sebastian.teupe@uni-bayreuth.de](mailto:sebastian.teupe@uni-bayreuth.de)

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21 Beckert, *Die soziale Ordnung* (fn. 9), p. 61.