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The "social order of markets" approach: a reply to Kurtuluş Gemici

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Abstract This is a detailed reply to Kurtuluş Gemici's article, in this issue of *Theory and Society,* "Uncertainty, the problem of order, and markets: a critique of Beckert, *Theory and Society*, May 2009."

Keywords Economic sociology · Social order · Sociology of markets · Uncertainty

Modern societies are complex social configurations populated by actors with highly diverse interests, values, capabilities, and resources. But what are the preconditions that make it possible to organize social life in such a way that social order emerges and chaos does not reign? This problem of order has been the vantage point of social theories starting with Thomas Hobbes and continuing, among others, with Adam Smith, Emile Durkheim, Talcott Parsons, and Harold Garfinkel. Often, these theorists reacted to social situations in which they witnessed the breakdown of social order: Hobbes witnessed the Civil War in England, Durkheim the breakdown of traditional orders in the course of industrialization, and Parsons the collapse of liberal social orders in Europe in the wake of World War I and the Great Depression. While social order may appear to be something to be taken for granted and therefore not worth further sociological scrutiny, in reality it is fragile and highly presuppositional. Quite rightly, Niklas Luhmann emphasized the "improbability of social order" (Luhmann 1995). To bring social order—and the related issues of social change and social conflict—to the center of sociology provides the discipline with a unifying problematic at its very core.

Modern societies are functionally differentiated. This implies that the problem of order can be investigated not just on the societal level but shows up in all institutionally demarcated subsystems: the family, the education system, the legal system, the economy, and so on. Economic sociology is the subfield in sociology

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that investigates economic phenomena: that is, activities related to the production, distribution, and consumption of goods and services through which societies ensure their material reproduction and wealth. For this purpose, functionally specific tasks are assigned through the division of labor and integrated by means of hierarchy, market exchange, and reciprocity. The complexity of social organization that stands behind the operation of the contemporary economic system is mind-boggling. In the economy–and, more specifically, in markets—order is problematic, presuppositional, and improbable. What are the mechanisms through which the integration of economic activities operates? What creates economic change? What causes the occasional (partial) breakdown of the economy in situations demarcated as crises?

These are the principal questions for a sociological investigation of the economy. They connect economic sociology to the sociological venture writ large. Kurtuluş Gemici is quite right in stating that this approach shares traits with economics. Adam Smith's market theory—standing at the core also of modern welfare economics—is a response to the question of social order. This model of order is based on heroic and unrealistic assumptions. The model falters empirically because its assumptions do not hold. Order in the economy cannot be understood as arising from the aggregation of individual interests. Uncertainty and collective action problems stand against this. At the same time, the notion of uncertainty provides the entry point for a distinctively sociological approach to the investigation of economic phenomena. The concept provides the basis for the recognition of social macrostructures—that is, institutions, networks, and cultural scripts—as the building blocks of economic order. The social macrostructures constitute a field that provides guidance for agency in the economy by shaping mutual expectations. They are not (only) external constraints but constitutive for action orientations—in other words, for actors' understanding of how to act competently in a given situation.

Kurtuluş Gemici is mistaken in describing the "social order of markets" approach as a theory of preference formation. Although this is one part of it, the core consists of the interplay between social structures and agency. One of its premises is that, although structures do not have to stem from conscious action, "all patterns have to be made intelligible in relation to conscious action" (Joas 1996, p. 232). There is no social order independent of the concrete social interactions through which social order is established, reproduced, and changed, even if "order at the level of interaction is not equivalent to social order" (Gemici, p. 4). To be socially relevant, the structures on which social order is based must be enacted. They become enacted by actors whose expectations and decisions are shaped through them. At the same time, it is through agency that the structural composition of the economic field changes. This is why greater emphasis needs to be put on the development of a theory of action as part of research in economic sociology (Beckert 2003). Sociology should follow economics in its emphasis on the need to provide microfoundations for the explanations of economic phenomena. It should not follow rational actor theory because it has little to say about situations in which decision making takes place under conditions of fundamental uncertainty.

Making uncertainty and order in markets the starting point of investigating the organization of the economy forms the basis of many works that have shaped the field of economic sociology over the past 20 years. Examples include the work of Guseva and Rona-Tas (2001) on the emergence of credit card markets in Eastern

Europe; Joel Podolny (1993) on the social status of firms as a signal for quality; Olav Velthuis (2005), as well as Jens Beckert and Jörg Rössel (Beckert and Rössel 2011 forthcoming), on the art market; Nina Bandelj (2008) on foreign direct investment in Eastern Europe; Lucien Karpik (2010) on judgment devices; and Paul DiMaggio (DiMaggio 2002) on emotions in the economy. Also, Neil Fligstein's (2001) work sets out from the problem faced by firms in the capitalist market economy to reduce uncertainty and create stable worlds. Christoph Deutschmann (2009) has made uncertainty the starting point of a theory of capitalist dynamics and Heiner Ganßmann (Ganßmann 2011) has recently developed a sociological analysis of money starting from the problem of uncertainty. These are just some examples, to which many more could be added. In France, a whole research school has developed under the name "économie des conventions" (Favereau and Lazega 2002), which sets out from the problem of uncertainty and the role of conventions in the coordination of the economy.

In many other studies in economic sociology the issue of uncertainty and social order plays an important, albeit little recognized role. Mark Granovetter's seminal essay from 1985 is in large part a discussion of the problem of social order in the economy. Granovetter introduces networks as an alternative to the Parsonsian and the Williamsonian solutions to the problem of how actors coordinate in situations characterized by double contingency. Embeddedness as the core term used in economic sociology refers often to social devices reducing uncertainty. Social networks are devices generating order in complex economic configurations by positioning actors and organizations in the economic field. The technical devices analyzed in the performativity approach are instruments used for making the calculations on which economic decisions are based, reducing uncertainty by creating expectations with regard to the actions of other market actors.

To date, the various works have not been integrated. Often, very similar ideas have been developed by different authors without mutual recognition and an integrated theory is still lacking. Nevertheless, I maintain that making uncertainty and problems of coordination the focal point of a sociological approach to the economy is the most promising road on which to advance. Its potential for providing a unifying foundation for economic sociology is greater than that of any other approach.

This does not mean that this approach is without unresolved issues and that all that remains to be done would be to integrate the different facets into a coherent theoretical body. Kurtuluş Gemici points to the fact that there might be coordination problems other than the three identified so far (Gemici, p. 6). While I do not find his list convincing, because the problems added do not relate specifically enough to the economy, in principle it is possible to identify further coordination problems. They could be added. More important seem to me two other aspects that Gemici highlights and that deserve special attention. One is the focus on the concept of coordination itself, the other the question of historicity.

To what extent does the investigation of coordination problems under conditions of uncertainty provide the basis for the sociological analysis of economic phenomena? Undoubtedly, coordination based on reciprocal expectations is indispensable for the integration of economic activities. This is achieved through social devices constituting the embeddedness of economic action and their enactment in economic practices. At the same time, it must be recognized that these devices are not just neutral entities serving as self-enforcing "traffic cops" in the task of producing order in economic organization. Instead, the devices allowing for order in the economy almost always have, at the same time, distributional consequences, influencing the material wealth, social status, level of security, and ideal interests of actors.[1] The organization of the economy is not just about making complex social interactions possible but about "who gets what" (Beckert 2009a). As a result, the concrete forms of coordination in the economy are essentially contested between actors. I follow Kurtuluş Gemici in the assessment that power relations shape markets.

Two examples: Labor law is undoubtedly an essential constituent of the order of labor markets, helping employers and employees to align their actions. At the same time, the concrete stipulations of labor law decide on the strength of labor and capital in industrial conflicts. The right to organize, the limitation of working hours, minimum wages, and standards of safety at work all have distributional effects and are therefore contested between labor and capital. A very different example is price differentiation in the wine market. This is based on "judgment devices" (Karpik 2010) that inform consumers of the quality of the wine they intend to purchase. Judgment devices are tools to differentiate the quality of products and therefore help consumers to orient themselves in a highly complex market environment. Without such devices consumers would have no justification to pay a high price for a bottle of wine and the market would collapse into an undifferentiated mass market. Consumers and producers have a joint interest in the existence of devices demarcating quality differences. At the same time, any such device privileges some producers over others and is therefore essentially contested. The Bordeaux classification from 1855 has provided a handful of wine producers with a stable rent that they have defended against all attempts by competitors to change the status order based on this classification.

Countless other examples could be provided of the distributional effects of the concrete forms of embeddedness of economic action. The point, however, is clear: coordination in the economy is not just about establishing an order but is also a struggle for social structures—institutions, networks, cognitive scripts—that shape the economic field in ways advantageous to the actors advocating the structures. This does not contradict recognition of the need to allow for coordination through the reduction of uncertainty in the economy but needs to be systematically included in the "social order of markets" approach. In the financial industry, for example, regulations undoubtedly affect the profit opportunities of banks. But no matter what regulation is in place, if uncertainty mounts and creditors lose their confidence in the ability of banks to pay back the money they have borrowed, the market implodes. Hence social devices in the economy must be functional in the sense that they resolve coordination problems, while at the same time having distributional effects.

The simultaneous consideration of social macrostructures as coordinating economic activities and affecting distribution is not only necessary in order to include issues of social inequality and power in economic sociology. It is also the basis for understanding the dynamics of the institutional configuration of the

[1] One might distinguish here between conventions, which serve coordination functions without having distributional consequences (for example, the convention to drive on the left or right side of the road) and institutions, which do have such consequences.

economy: If social macrostructures have distributional effects and are therefore contested, competitors will continuously attempt to change institutions, networks, and cognitive frames in their favor (Beckert 2010). This brings uncertainty back into the market and leads to the change of social macrostructures. There is no guarantee, however, that the newly emerging structures are indeed capable of resolving the coordination problems in the market. Institutional change—pushed through by powerful agents—might also pave the way to the destruction of markets and firms. The financial crisis of 2007 is only one example of this.

The second issue Kurtuluş Gemici points to is the historicity of the approach. Sociologists have always been interested in understanding the historical specifics of an institutional order and have attempted to explain its emergence. Max Weber inquired into the characteristics of rational capitalism and why it developed only in the West. Karl Marx developed a general theory of history from which to predict also future social development. I have argued elsewhere (Beckert 2009b) that economic sociology, if it is to have relevance not just as a narrow subfield of the discipline, but for sociology as such, must also investigate the historical development of the forms of embeddedness. Only by explaining the prevailing forms of embeddedness and their development from existing structural conditions, as well as the conflicts over the institutional regulation of the economy, will economic sociology be able to contribute to the understanding of societal development itself.

The "social order of markets" approach lends itself to such a historical perspective. However, instead of, as proposed by Kurtuluş Gemici, proceeding in very general terms from the "historically specific structural relationships and institutional configurations" (Gemici, p. 10), the proposition is to bring the three coordination problems–valuation, competition, and cooperation—to the center of the analysis. The question then becomes: how have the prevailing resolutions to these coordination problems changed over time? Which historically specific solutions have been institutionalized and why? I briefly allude to the substance of such research. For brevity's sake I limit myself here to two examples referring to the problems of valuation and cooperation.

Viviana Zelizer's work on the insurability of life (Zelizer 1979) and of children (Zelizer 1981) demonstrates how the marketability of certain "goods" is inhibited through prevailing moral considerations. Certain goods do not—or should not—have economic value, although they are "invaluable." The question of the moral limits of economic valuation can be brought into a systematic historical and comparative perspective in an attempt to identify general historical trends and point to similarities and differences between societies. Can one observe a general tendency towards marketization? What systematic limits to market exchange are set and at what times? Who are the protagonists of change?

With regard to the historical development of forms of embeddedness resolving the pertinent problems of trust in economic exchange, Lynne Zucker (Zucker 1986) showed, in a historical study on the American economy in the nineteenth century, how changing social conditions led to new institutional forms through which cooperation was facilitated. Trust was based originally on personal relations, but in reaction to increasing cultural heterogeneity and the emergence of a national market new institutional structures emerged that anchored trust as system-trust. The same development has been recognized in studies on the historical development of credit rating (Berghoff 2005). In the early nineteenth century, creditworthiness was judged based on assessments of the moral integrity of the borrower. This device has changed again and again: today, banks use scoring systems (Jeacle and Walsh 2002).

These are just two examples of research areas in which the development of embeddedness itself can be made the subject of sociological investigation. This research proceeds from the coordination problems identified in the “social order of markets” approach. These coordination problems must be resolved in all economies. The way they are resolved, however, differs profoundly in the course of historical development. The goal is to distinguish economic formations based on how they resolve these coordination issues. How they are resolved and what struggles stand behind the developments to be observed not only informs us about the economy itself but also about social development more generally because the organization of economic exchange is inseparably interwoven with technological, moral, and political developments. In this sense, economic sociology can become a building block for a historical theory of society.

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