CONTESTING MARKETS ALL THE WAY DOWN

Fred Block

There is a story that has been told by both the physicist Stephen Hawking and the anthropologist Clifford Geertz. They report that a famous scientist was lecturing on the structure of the universe and when he finished, somebody stood up and said your account is rubbish; the earth is held up by a giant turtle. The scientist politely replied that that is an interesting hypothesis, but he wants to know what holds up the turtle. The critic responded as though it was completely obvious: 'The turtle rests on another turtle which sits on yet another turtle; it is turtles all the way down'. This is, of course, a postmodern joke; it calls into question the idea that there are foundational realities that ground us.

But the story is of relevance for those of us seeking to argue that markets are socially constructed all the way down – from actions by governments and global institutions all the way down to the smallest interaction between buyers and sellers on a street corner. This line of argument is intended as a direct challenge to the free market theorists who insist that 'The Market' is an autonomous entity that will produce socially and economically desirable results if only it is left to operate by its own internal logic. Those who emphasize the social construction of markets argue instead that there is no such thing as The Market; there are instead lots of markets and market processes, but these are all built out of social interactions of concrete human beings. The idea that markets have intrinsic qualities is an illusion; how they work – just like any other social institution; the state, the family, the church – depends on the specifics of how they have been organized.

The complexity is that many of us who are deeply critical of certain kinds of market processes sometimes embrace the idea that markets have a life of their own. For example, it is common to talk about the recent financial meltdown in terms of "runaway financial markets" that produced a series of negative consequences including an economic crisis, deepening inequality, and increased global unemployment. But such arguments end up bearing a close resemblance to the Right's core claim that The Market exists and it has its own unique and special logic. The critique has the ironic effect of validating market fundamentalism's core claim that markets are natural and autonomous entities rather than malleable social constructs.

This is a longstanding problem in social theory. Karl Marx argued that the capitalist organization of markets was anything but natural and permanent; it was a very specific historical product that he believed would soon be swept away. Yet he could not resist the temptation to compare capitalism to a creature. In his historical writings, he used the metaphor of the giant in Greek mythology, Antaeus, to describe capitalism (Block 2000). Whenever Antaeus was thrown to the ground, he derived new strength. Hercules only succeeded in defeating this giant by holding him in the air and crushing him. In the same way, Marx argued that each time proletarian struggle throws capitalism to the ground, it comes back even stronger. Yet such an image ultimately undercuts Marx's view that capitalism is a particular and fragile historical construction and is anything but a natural way to organize society.

In short, the question is whether it is possible to elaborate powerful critiques of the negative consequences of specific market arrangements while retaining the view that markets are socially constructed all the way down. That is the problem that I am addressing in this paper.

Zelizer and Walzer

I am building on arguments made by two scholars who both happen to have been based at Princeton – Viviana Zelizer in the Sociology Department and Michael Walzer at the Institute for Advanced Studies. Zelizer has been arguing over the last thirty years that there is something deeply wrong with a very familiar critique of markets (Zelizer 2011, especially ch. 17). Her focus is on arguments elaborated by the Romantics and by Karl Marx in the 19th century and by Simmel and many other critical theorists in the 20th century. This is the claim that commercial transactions are inherently subversive of the shared values on which human societies depend. Michael Walzer (1983) makes a parallel argument when he explores Marx's description in the *Economic and Philosophical Manuscripts* of money as the "universal pander". Marx (cited in Walzer 1983, 95) presses home his point by drawing on Shakespeare's *Timon of Athens,* which speaks of gold's transformative powers:

> Gold, yellow, glittering, precious gold?...
>
> Thus much of this will make black, white; foul, fair:
>
> Wrong, right; base, noble; old, young; coward, valiant.

This view of the transformative and subversive power of money has become part of the common sense of our society. Just ask undergraduate students why people give gifts and cards on certain holidays. They almost always answer that it has nothing to do with sentiment or feelings, but that these are rituals foisted on us by commercial interests.

However, Zelizer and Walzer ask in different ways how is it that even though people have been worrying since the 16th century about the subversive effects of money on human values that most of us are still able to differentiate between black and white, foul and fair, wrong, and right (See also Ringmar 2005) ? In another book, Zelizer (1985) asks a related question. Given these long standing worries that market values are swallowing the entire culture, how can we explain the successful movement at the end of the 19th century to sacralise and sentimentalise children and cloister them away from any involvement in the making of money?

In other words, both proponents of the market and critics of the market often share a view of market logic as being similar to an epidemic or a flood that sweeps up everything in its path. But such a view is historically mistaken because as Walzer argues, the expansion of certain markets has required the contraction of others. For example, before the French Revolution, government offices were routinely bought and sold. The rise of modern market societies meant the bureaucratization of the means of government administration; both military officers and tax collectors lost ownership of the means of administration. In fact, the level playing field that vigorous market competition needs is inconsistent with government officials selling their services to the highest bidder.

In short, in the most successful market societies, not everything is for sale. On the contrary; there are myriad blocked and partially blocked exchanges—transactions that are legally or morally prohibited (Walzer 1983). The fact that these laws and norms are sometimes violated does not undermine the fundamental point. Effective markets require that some things not be for sale, including individual rights, judicial rulings, and the standards of measurement.

It is implicit in both Zelizer and Walzer that market societies depend on people's ability to make fine distinctions. Just because some things can be traded for money does not mean that all things should be. This line of argument immediately challenges metaphors of markets as natural. If people understand that some things can be purchased with money and others cannot, then money ceases to be the universal pander; both Shakespeare and Marx might have exaggerated money's ability to subvert our ability to distinguish right from wrong.

This perspective is true to the insight that markets are socially constructed 'all the way down'. But this view also tends to domesticate market processes; markets are no longer seen as exercising that ferocious ability to reshape social life that Marx and other critics emphasized.[1] But here is the problem. Sometimes market processes really do produce extremely scary and destructive outcomes. Sometimes there is a 'race to the bottom' as when the low wages in Chinese factories make the 'China price' the bane of workers around the world. Or financial firms compete with each other to buy up dubious and predatory mortgage loans, generating a housing bubble and a financial bubble that burst with explosive consequences. The challenge is to incorporate these market dangers into the Zelizer-Walzer framework without slipping back into concepts or imagery that naturalises the market. If we can do this, we would also have a theory of markets that leaves considerable room for human agency, rather than simply seeing markets as overpowering structures.

Tightly Coupled and Loosely Coupled Markets

Charles Perrow (1984) makes an important distinction between tightly coupled and loosely coupled systems. Perrow argues that catastrophic accidents are more likely in tightly coupled systems where problems

1 This is probably the reason why Steiner (2009) mistakenly reads Zelizer as fundamentally inconsistent with Polanyi.

immediately flow from one area to another (See also Palmer and Maher 2010 for an application of Perrow's approach to the mortgage crisis). But in systems that are loosely coupled, there are buffers or circuit breakers that limit the spill-over of trouble in one area to other areas.

The self-regulating market of free market theory is postulated to be a tightly coupled system because shifts in preferences and prices are supposed to move quickly from one market to another so as to bring supply and demand back into balance almost instantaneously. In fact, one of the key reasons that free market theorists are suspicious of government regulation of markets is the fear that such actions will impede the ability of markets to adjust quickly to changes in the availability of certain economic inputs.

But critics of capitalism also tend to conceptualize it as a tightly coupled system in which negative chains of causality operate with both speed and inevitability. So, for example, the logic of competition between firms will provide incentives to shift costs on to workers, consumers, or local communities. If, for example, one firm speeds up the production line in a way that endangers worker health and safety, pretty soon, all the firms in the industry will have done the same. Or if one bank begins to realize bigger profits by engaging in riskier transactions, then pretty soon that shift will ratchet through the entire industry. Moreover, such negative consequences can play out in social arenas far from the market. If, for example, a university-based scientist tilts his or her research to support the claims of a firm in exchange for generous compensation, then there could be a sudden collapse of scientific integrity as other colleagues followed this example.

But the reality is that markets are loosely coupled institutions, and there are many potential 'circuit breakers' – mechanisms that ordinarily stop or slow these destructive dynamics. Available circuit breakers encompass institutional structures such as minimum wage laws, unemployment insurance, and government regulatory agencies, but they also include widely shared cultural values that emphasize our obligations to each other and the primacy of family ties. In short, these market dangers do not just happen; they require an active overriding of multiple circuit breakers.

This perspective fits with Amartya Sen's (1981) argument that there are no historical examples of famines happening in societies with democratic institutions. There are instances when a bad harvest or other disasters produces a sudden rise in food prices that puts large numbers of people at risk for starvation. But when the hungry and their allies have political channels through which they can make others aware of what is going on, emergency food relief is usually made available through the government or foreign assistance. With democratic institutions, the destructive dynamic is blocked by the circuit breakers. Hence, famines tend to be restricted to those instances where a tyrannical or colonial government is able to repress protests and effectively suppress news of the disaster.

We can also describe this phenomenon in terms of Polanyi's (2001 [1944]) concept of the double movement. What Polanyi defined as the 'movement of *laissez-faire*' is the self-conscious effort to expand the scope of markets which increases the probability of destructive market dynamics. So, for example, putting a nation on to the international gold standard or reducing or eliminating its use of import tariffs make a national economy more vulnerable to sudden outflows of capital or sudden inflows of imported goods. Polanyi argued that such efforts inevitably produce a protective counter movement by which various groups in society seek to reduce the threat of disruptive market dynamics. While the interests that are mobilized and the justifications used by the protective counter movement can vary enormously, the means used are invariably the creation of circuit breakers that both dampen the probabilities of destructive market dynamics and reduce their impact. The protective counter movement, in short, helps assure that the market is a loosely coupled system.

Moreover the protective counter movement does not operate only through government enactments such as regulations or welfare measures. It also operates through self-help initiatives by which groups of people band together to create counter logics to the market. For example, trade unions were created by working class people to protect themselves from being placed in direct competition with each other. Creating an ethic of solidarity is a means to protect people from damaging competition among different groups of workers. Similarly, business groups do the same thing for employers—trying to reduce the intensity of their competition with each other.

Cultural beliefs and practices are also part of the protective counter movement or could be counted as circuit breakers. Obviously, the Golden Rule long predates the arrival of market societies. But both religious leaders and lay people have repeatedly mobilized the idea that we are obligated to treat our neighbours fairly as a way to blunt the negative consequences of competitive behaviour.

In short, destructive market dynamics happen, but they are not natural; they also have to be made. Their occurrence requires that the circuit breakers be disarmed and that complaints and protests about what is occurring be ignored or repressed. During the housing bubble in the U.S., for example, there were people insisting that mortgage fraud was occurring on a large scale, particularly in minority communities (Hernandez 2009). But these protests and warnings were systematically ignored by the authorities in real time.

Relational Work

Zelizer (2005) has recently added a new concept to her framework that helps us to take this argument an additional step. In *The Purchase of Intimacy*, she focuses on the reality that our intimate relations routinely involve complicated economic transactions. But just because we sometimes give a sexual partner money and gifts does not turn the relationship into a *quid pro quo* market exchange. On the contrary, she argues that the people involved do relational work that includes differentiating the nature of their relationship from other existing models including those in which sex is explicitly traded for money or expensive gifts. Whereas critics of the market assume an ineluctable dynamic in which nonmarket values are overwhelmed by market calculations, she emphasizes that people are able to define the specific nature of their own intimate transactions in ways that limit and restrict market logics.

But, of course, individuals are not completely free in the way in which they define these relationships. They make use of available cultural ideas and resources. Moreover, they have to worry about whether their specific arrangements will ultimately be upheld by the legal authorities who often determine which transactions are legitimate and which are illegitimate. She shows that sometimes couples define their relationship as one based on loving reciprocity, but the courts nevertheless reject that definition and insist that the transfers of property that occurred inside the relationship were not legally valid. But she also shows that the rules used by the legal authorities also change over time as cultural values shift. So, for example, earlier rules giving husbands complete control over their wives' property have been modified as gender views have changed in a more egalitarian direction.

Zelizer (2012) has gone on to argue that the concept of relational work can, in fact, be deployed to analyse all economic transactions.[2] In some cases, such as buying a newspaper or chewing gum, the transaction is highly routinized and scripted, but in most important transactions – buying a house or a car, negotiating a loan, hiring an employee or a contractor to remodel one's kitchen – the parties might work from an existing script, but they have to act out their roles in a way that the other party finds credible. Emotional work has to be done on both sides to establish the necessary trust for the transaction to go forward.

This bottom up relational work helps to shape the way that particular markets are structured. So, for example, in delivering health care, physicians face choices between different styles of relational work – what Zelizer calls different relational packages. They might use their superior knowledge and status to construct a relationship that provides the patient with those health services that maximize the doctor's income. Or alternatively, the relationship could be based on the idealized model of professionalism in which doctor and patient share information and try to discover together the best strategies for alleviating the patient's maladies. In the former case, efforts by pharmaceutical companies to 'incentivize' physicians to prescribe certain expensive medications are likely to be successful, but in the latter case, professional integrity helps to block this particular market dynamic.

Moreover, this kind of relational work goes on not just at the individual level, but in the relationships between organizations. So, for example, two firms that decide to collaborate on the development of new products will engage in a complex process of defining their relationship. This might include a formal contract or Memorandum of Understanding, but it also encompasses more subtle ground rules within each organization about what kinds of information should or should not be shared. As individuals from the two organizations work together, they do their own relational work that might reinforce or subvert these inter-organizational understandings.

---

2 Zelizer's article will appear in a special issue of *Politics & Society* that will explore the implications of relational work for economic sociology.

The Indeterminacy of Markets

The value of this approach is that it shows the limits of conventional analyses of how markets operate. Let's look, for example, at mortgage markets. At one extreme, we have the old fashioned mortgage lender depicted in *It's a Wonderful Life* and at the other we have the predatory mortgage brokers writing liar's loans and NINA (no income, no asset) mortgages that were quickly resold to be packaged into collateralized mortgage obligations. In both examples, lenders are trying to make a profit and borrowers want to get the best deal that they can. But the outcomes could not be more different because of the different ways in which the parties do relational work.

In the Frank Capra example, George Bailey, the lender, already knows a great deal about his prospective clients because they have grown up together in the same small town. Since trust is already high, both sides are willing to disclose relevant information including possible threats to the borrowers' income stream and the costs and benefit of different borrowing options.[3] Most importantly, if the borrower does have trouble making payments, their relationship makes it relatively easy – in many cases – to work out some kind of accommodation such as a period of reduced payments until the borrower's previous income is restored.

In the contrasting example, the mortgage broker is trying to maximize the number of mortgages written each day, so he or she relies on scripted performances to save time and effort. Disclosure on both sides is kept to an absolute minimum, and neither side has any interest in addressing the question of what would happen if the borrower has difficulty paying. For the mortgage broker, that is a problem for somebody else – the unknown persons who invest in mortgage bonds and even then, the instruments are constructed to manage a certain rate of default.

Obviously, these contrasting models of lending have radically different consequences for market dynamics. As long as George Bailey was able to keep his bank afloat by borrowing from the 'lender of last resort', he could keep most of his borrowers in their homes and help protect them from the worst consequences of an economic downturn. In contrast, the contemporary example of aggressive mortgage brokers contributed both

3 To be sure, the range of options was pretty limited when the fictional Bailey was supposed to be writing loans.

to a cascade of failing financial institutions and an epidemic of mortgage defaults and evictions. Trillions of dollars of accumulated equity in homes were lost as a consequence of defaults and plunging housing prices.

The point, of course, is that most economic analysis ignores the relational work involved in mortgage lending; they cannot distinguish between George Bailey and the predatory lenders because both were trying to lend money to make a profit. The result is an account of the market that is misleading and incomplete. This is why it was difficult to see that in the new environment created by securitization and other financial innovations, mortgage brokers suddenly had incentives to avoid performing the key roles that lenders had historically fulfilled – distinguishing between worthy and unworthy borrowers and putting in place mechanisms to work out loans in the event that worthy borrowers got into trouble.

A second example comes from inter-organisational relational work. Dina Biscotti (2010) and colleagues (2009) have studied the collaborations between agricultural scientists at land grant universities and corporations. These collaborations have become more common and more attractive to university-based scientists because of the resources that private firms have – money, equipment, and knowledge. But these collaborations have also generated fears of a destructive market dynamic. While the hallmark of academic science is publication in peer reviewed journals, firms emphasise the accumulation of intellectual property by filing for patents. As more and more university-based scientists enter into economic transactions with firms, the fear is that the firms will impose their priorities on the scientists and an increasing portion of scientific knowledge will become proprietary. The free flow of knowledge on which scientific advance depends could simply dry up.

However, Biscotti has discovered that the relational work between universities and business firms has produced new circuit breakers. Many universities have passed rules that prohibit scientists from agreeing to any publication delay that extends for more than six months. This provides individual scientists with a valuable resource as they negotiate their collaboration with firms. When firms pressure scientists to wait to submit a journal article until after a patent application has been filed, the scientist can push back by saying that the university will not tolerate any additional delay. By itself, this measure might not be sufficient, but as

Biscotti argues, this comes in a context where university scientists already have extremely strong incentives to publish. Publishing is critical both to academic promotions and to the likelihood of successful grant applications to government agencies which continue to be the most important and the most prestigious source of research funding.

There are, of course, still other dangers involved in the increase in university-industry collaborations. The flow of corporate money can result in the suppression of findings that damage business interests, it can produce ‘expert testimony’ that is biased, and it can tilt research efforts in a particular direction. For example, much of the genetic engineering effort has been focused on seeds that would produce higher profit margins rather than ones that could improve nutrition or produce drought-resistant crops. But each of these dangers can be reduced by building new circuit breakers. This happens as universities, industries, and governments do relational work to manage conflicts of interest and to assure that there are pools of research money that are independent of industry agendas.

However, it is not simple to construct circuit breakers that are effective. Working out the details of a regulatory regime is a complex task that requires constant updating as market participants find ways to work around earlier rules. But the point is that is not ultimately the incentives of the actors that are most important; it is the concrete ways in which they do relational work and the specifics of the institutional rules for managing the transactions that matters most.

The Problem of Market Fundamentalism

From this relational approach to markets, it should be clear what is wrong with the market fundamentalist ideas that have dominated economic and political debates over the last thirty years. [4] Its adherents talk as though markets are natural entities and they insist that their policy agenda is simply to ‘unleash’ market forces to solve problems. But every market has to be socially constructed with particular rules about what constitutes property, what is a valid contract, what are the specific rights

4 Market fundamentalism is another name for what Polanyi (2001) called the “free market utopia” or what others (Harvey 2005; Peck 2010) describe as neoliberalism (Somers and Block 2005).

and obligations of the parties to that contract, and so on. And people and organizations have to learn specific ways of doing relational work to fit those different market settings.

To construct the markets that it imagines to be natural, market fundamentalists have no choice but to use the state as an instrument to achieve their objectives. The result is a deep inconsistency. On the one side, the doctrine claims that 'government is not the solution, government is the problem' – that market solutions are always to be preferred over reliance on government. On the other, market fundamentalists always depend on government to impose their 'free market' solutions on society. If, for example, they are successful in getting 'rent control' legislation repealed in a particular city, they see no contradiction in using the sheriff's office to evict the people who are unable or unwilling to pay market rents. Or when they are successful in stripping the poor of their eligibility for 'market-distorting' welfare payments, they see no problem in mobilizing governmental power to force poor women to disclose the identity of the father of a new baby. Or the same pharmaceutical companies in the U.S. who are outraged at any discussion of price controls on their products are insistent that the U.S. authorities enforce their government-granted patent rights not just in the U.S. but everywhere on the planet.

The critical point is that market fundamentalists have been enormously successful in hiding this core inconsistency between their avowed libertarian goals and the statist means they employ to achieve those goals. This is another indication of the continuing power of the ideology that claims 'free market' reforms are simply a question of restoring practices that were widespread in some halcyon past before we became overly dependent on government.

Moreover, it is ultimately at this level of ideology that market fundamentalism is most insidious. The fact is the U.S. Securities and Exchange Commission did periodically send investigators out to interview Bernard Madoff, the man who ran a $50 billion Ponzi scheme, in response to complaints that he was bilking investors. And bank examiners did continue to inspect the balance sheets at Bank of America and Citibank through the entire period that they were building up huge portfolios of extremely risky assets. However, the consequence of years of market fundamentalist ideology was that these regulators and examiners had lost the ability to make effective judgments. They had internalized the critique of government officials as ineffective bureaucrats who were in no position to question the strategies being used by highly successful investors and financial institutions. So when they did their relational work with the people they were supposed to regulate, they completely failed to uncover the information they were supposed to be looking for.

In other words, the circuit breakers were effectively overridden by market ideology. When actors believe the ideology of market fundamentalism, it can change their choices in ways that dramatically expands the dangers of destructive market dynamics. If a parent comes to believe the amount on the paycheck accurately reflects his or her worth as a human being, then work is likely to be prioritized over the needs of other family members. If a university administrator believes that a university should be run just like a business, then he or she will be less effective in negotiating rules that protect researches from the pressures of business collaborators.

At the end of the day, the power that markets exert over us depends on what we and others believe about markets, governments, and how they should or should not interact. Not on the individual level, but collectively, believing really can make it so. This is why the memory of the Great Depression of the 1930's worked for decades to discourage politicians from dismantling circuit breakers designed to block market dynamics. Only when those memories faded in the 1980's did that dismantling process accelerate. In a word, we have the capacity to bring markets under control and force them to operate in a way that is consistent with our most cherished values including commitments to freedom, equality, justice, democracy, and a sustainable environment. To be sure, achieving this end requires a political struggle against the powerful forces that benefit from the ideology of market fundamentalism. But the first step is to understand that markets are socially constructed all the way down.

Fred Block is Professor of Sociology at the University of California, Davis.

flblock@ucdavis.edu

Author's note: Although she is not responsible for my specific formulations, many of the ideas in this paper come from my years of collaboration with Margaret Somers. I am also grateful to Viviana Zelizer for ongoing conversations. Thanks are also due to several anonymous reviewers at the Journal of Australian Political Economy.

References

Biscotti, Dina (2010) *Beyond Knowledge Transfer: The Social Construction of Autonomous Academic Science in University-Industry Biotechnology Research Collaborations,* Ph.D. dissertation, Department of Sociology, U.C. Davis.

Biscotti, Dina, Leland L. Glenna, William B. Lacy, and Rick Welsh (2009) The 'Independent' Investigator: How Academic Scientists Construct their Professional Identity in University-Industry Agricultural Biotechnology Research Collaborations, *Research in the Sociology of Work* 18 (261-285).

Block, Fred (2000) Deconstructing Capitalism as a System, *Rethinking Marxism* 12:3 (83-98).

Harvey, David (2005) *A Brief History of Neoliberalism,* New York: Oxford University Press.

Hernandez, Jesus (2009) Redlining Revisited : Mortgage Lending Patterns in Sacramento 1930-2004 , *International Journal of Urban and Regional Research* 33:2 (291-313).

Peck, Jamie (2010) *Constructions of Neoliberal Reason,* New York: Oxford University Press.

Ringmar, Erik (2005) *Surviving Capitalism,* London: Anthem Books.

Sen, Amartya (1981) *Poverty and Famines,* New York: Oxford University Press.

Somers, Margaret and Fred Block (2005) From Poverty to Perversity: Ideas, Markets, and Institutions over 200 Years of Welfare Debate, American *Sociological Review* 70:2 (260-287).

Steiner, Philippe (2009) Who is Right about the Modern Economy: Polanyi, Zelizer, or Both?, *Theory and Society* 38:1 (97-110).

Walzer, Michael (1983) *Spheres of Justice, New* York: Basic Books.

Zelizer, Viviana (1985) Pricing *the Priceless Child, New* York: Basic Books.

Zelizer, Viviana (2005) *The Purchase of Intimacy*, Priceton: Princeton University Press.

Zelizer, Viviana (2011) *Economic Lives: How Culture Shapes the Economy,* Princeton: Princeton University Press.

Zelizer, Viviana (2012) How I Became a Relational Economic Sociologist and What Does That Mean?, Politics *& Society*, forthcoming.