

# I

## The Embeddedness of Markets

---

**I**n a chapter titled “Closing the Deal (Getting Him to the Altar),” a book for husband-hunting single women observes that “getting the man you want to propose and then to turn that proposal into an actual wedding date [is] a feat some women say can be tougher than any corporate transaction” (Fein and Schneider 1997:99). The idea that there are “markets” in seemingly noneconomic areas, such as love and marriage, has become quite widespread in recent years, and not just in popular advice books. To optimize their marketability and increase their success rates, single men and women can set up online profiles to advertise the qualities that make them ideal candidates for marriage. These individuals can then essentially “shop” online, sifting through various “models” until they identify a few potential products to test out. Online dating sites facilitate transactions between buyers and sellers in the “marriage market” in the same way that eBay provides a marketplace for books or movies. Today, even personal matters such as selecting a spouse are conceptualized as market transactions into which “buyers” and “sellers” enter with their preferences and resources and leave with their individual utilities maximized.

Mirroring the spread of economic ideas and market metaphors, economists have increasingly begun to look at issues and problems previously reserved for political scientists, anthropologists, psychologists, and sociologists. This approach is apparent in the *New York Times* best seller *Freakonomics* (2005), the lead author of which, Steven D. Levitt, is an economist at the University of Chicago. The book uses economic principles to investigate an enormous range of social phenomena—from dating to parenting to crime.

We propose to stand *Freakonomics* on its head (so to speak). Instead of offering interpretations of *social* behavior through the lens of *economics*, this book looks at *market* behavior from the perspective of *sociology*. Instead of viewing social institutions as akin to markets, we examine markets as social institutions. Economic models of marriage, childbearing, crime, education, and other social phenomena can provide us with useful insights. However, they tend to assume—or at least imply—that something like market rationality is a fundamental part of human nature. The idea of the rational individual maximizing his or her own utility in the marketplace seems completely natural to us today. How could people ever behave differently? Why wouldn't people pursue their own self-interest? And if such behavior is second nature in markets, it seems logical to expect it in other areas of social life, such as marriage and education.

The central message of this book, however, is that markets are not natural or inevitable. Rather, they are social constructions. Markets, like all social constructions, do not appear or arise automatically. And they do not everywhere look the same. Markets are real in the sense that they have real and important consequences for human behavior, but they are not something humans cannot control; they are not natural in the same sense that the weather, or human biology, is a part of nature. Rather, markets can be shaped this way or that in different societies.

## Markets and Their Alternatives

The socially constructed character of markets is illustrated by the fact that unlike economies, which are an inevitable feature of human societies, markets are only one of an array of institutional possibilities. Since every society must produce, distribute, and allocate the goods that people need to live with, all human societies have an economy of one sort or the other. But economies can be organized in many different ways, as any anthropologist or historian can tell you. In other words, the bases on which economic activities occur can vary widely. For example, economic production occurs within subsistence economies, in which families produce all—or almost all—of what is needed for household consumption. In traditional hunter-gatherer societies, people live in small family-based communities in which men hunt and women gather wild roots, seeds, and other vegetable products. Nobody buys or sells anything, and there are no markets to speak of.

Aside from markets, another way to exchange and distribute goods is through gift giving. Anthropologists have long noticed that in traditional societies, gift giving plays a crucial role in exchange—often much more important than exchange through markets. In the words of one famous

anthropologist discussing the Maori of New Zealand, “Gifts were presented in the event of births, marriages, deaths, exhumations, peace treaties and misdemeanors, and incidents too numerous to be recorded” (Lévi-Strauss [1949] 1996:18).

During the Middle Ages in Europe, market exchange was relatively unimportant. Most of the valuable goods that circulated did so because they were either stolen or given as gifts (Spufford 1988). When thinking about how French gold coins ended up in a medieval Danish hoard, we might be tempted to suppose that traders from Denmark exported goods to France and were paid in cash. Far more likely, however, is the possibility that Vikings simply stole the coins during a raid on the French coast and took their loot back home to Denmark. In this historical period, theft and gift giving governed the circulation of precious goods much more than did market exchange.

Traditional obligations between people at different levels in the medieval social hierarchy also regulated economic activity. During the Middle Ages, economies were governed through an economic system known as feudalism. In a feudal economy, serfs worked the land of the lord of the manor according to a set of long-held traditions (with the threat of coercion lurking in the background). In return, the lord was supposed to protect the serfs, dispense justice, and provide for the local church. Thus, agricultural produce and other staple goods were distributed in the local economy, but not primarily through market exchange. The serfs were not paid wages for their labor, and the lord was not paid for his protection: Their symbiotic relationship was based on social tradition, not on the market.

A market is but one institution for governing economic activity, although it is the one most familiar to us today. In markets, goods are exchanged voluntarily on a bilateral basis rather than yielded under the threat of unilateral coercion, given as gifts, or offered in satisfaction of a traditional obligation. Market exchanges occur between individuals motivated by the satisfaction of their own desires but constrained by both their budgets and the rules of the marketplace. Markets are an old and well-known form of economic activity, although they have not been ubiquitous. Archaeological and historical evidence from Africa, Europe, and the Americas documents the existence of ancient transcontinental trade networks (Abu-Lughod 1989).

Although market exchange is an ancient form of organizing economic activity, the economic system of capitalism is actually quite recent. Whereas earlier in human history, markets coexisted with other forms of economic governance (e.g., traditional obligations, gift giving, theft), under capitalism, markets became dominant. This is not to say that all other bases of economic behavior have completely disappeared under capitalism: Gift giving plays a central role in stimulating Americans, especially around Christmas,

and the circulation of goods and money within families continues to occur largely outside of markets (parents typically do not sell breakfast to young children or charge them rent). Furthermore, markets are regulated by various **formal** and **informal institutions** (consider how often gifts figure into how firms manage their customer relations). And many contemporary transactions occur inside of large organizations, where they are dictated administratively rather than negotiated bilaterally. Nevertheless, markets generally play a much bigger role in people's lives today than they have at any other period in human history. Under contemporary industrial capitalism, almost all of the things we use in our everyday lives are acquired through markets—food, clothing, shelter, transportation, entertainment. To purchase these things, most of us earn our livings by getting jobs in the labor market. Since the widespread entrance of women into the paid labor market, one last bastion of nonmarket economic activity has been undermined, namely, the unpaid contribution of the housewife to the national economy. As a result, many goods and services—such as meals, child care, and housework—that only 40 years ago were provided within the family (usually by Mom and for no pay) are today being provided to upper-middle-class households through a paid labor force of cooks, nannies, and cleaners.

Like gift giving in hunter-gatherer societies, markets enter our lives today in ways “too numerous to mention.” Given the near-complete penetration of market relations into our modern economic lives, it is not surprising that we tend to use the market metaphor for other areas of social life, such as dating and marriage. However, in applying this market language elsewhere, we tend to forget that markets themselves are not inevitable but, rather, represent one of many possible economic arrangements. This book considers markets as social institutions and calls the “naturalness” of markets into question. Our argument is informed by two general observations. The first is that markets have certain preconditions without which they cannot function. The second is that markets function very differently at different times, in different places, and in different spheres of economic life.

## Markets and Their Preconditions

Markets involve a form of social activity that is possible only under certain specific circumstances. Markets don't appear out of thin air; rather, they depend on an institutional foundation (Collins 1992; Weber [1927] 1981). Four key elements constitute that foundation: property, buyers and sellers, money, and information. Markets depend on the existence of property. Market exchange cannot occur unless there is something to exchange, and what people buy and sell in markets are not things or objects themselves but

rights over those things. Today, the idea of private property has become so commonplace that we tend to take our ownership of property for granted. If I buy a car, I assume that it is my car and that nobody can take it away from me; my ownership of the car seems obvious. If my car were stolen, however, my property rights would be violated. And although I would no longer possess the car, I would still own it (the thief, in contrast, possesses the car but does not own it). What makes the car mine is a set of property rights, which apply because I live in a society that recognizes private property rights and enforces them through an effective legal system.

In the United States today, if my car is stolen I can call the police to help recover it, and, if caught, the thief will be prosecuted in court. In many other societies in history, however, my rights over my car (or a similar object) would not have been so secure. In some countries, I might not even be able to use the law or the police to recover my stolen property if I am a member of an oppressed ethnic minority. In other countries, and at other times in history, law enforcement officials might actually use their coercive powers to take my property for themselves. In general, markets perform poorly in places where private property rights are insecure (why should I invest in a factory if it can be taken away from me?), and insecure property rights are cited by economists as a factor contributing to economic underdevelopment.

Property rights are not “natural”; they are a social construction—the creation of groups of human beings. And property rights evolve over time. In the United States today, property law has been extended to encompass things such as software, music, and computer operating systems. A century ago, such forms of property did not even exist. Whatever tangible and intangible things property law covers, without reasonably secure property rights, markets cannot function.

Another precondition for markets is the existence of buyers and sellers. This precondition seems easily met today, but during earlier historical periods, the absence of buyers and sellers limited how much economic activity could be conducted in markets. Throughout much of human history, people have hunted, gathered, and grown the food they ate, made their own clothes, and constructed their own shelters—all things that today we are used to receiving through markets. People who make their own clothing or provide their own food do not need to buy in the market. Thus, a grocery store that opened in a community of subsistence farmers would probably fail due to a lack of buyers. Even today, the importance of advertising serves as a reminder that the existence of buyers for a product cannot be taken for granted. Entrepreneurs and inventors must hire teams of marketers and advertisers, or their products will never be sold.

If buyers cannot be taken for granted, then neither can sellers. The fact that someone wants to buy does not mean that there is someone else who

wants to sell. The experience of employers in colonial sub-Saharan Africa during the late 19th and early 20th centuries illustrates the point. European firms established extractive enterprises to exploit Africa's natural resources—mining for gold, diamonds, and copper and producing cash crops such as rubber and kola nuts. They needed workers to labor in the mines and plantations, so they tried to hire the indigenous population. The mine and plantation owners wanted to “buy” in the labor market, but the indigenous population, who were mostly subsistence farmers and hunter-gatherers, did not want to “sell.” Working in a mine is dangerous, unpleasant work, and they didn't need money.

One solution the colonial governments found was to force natives into the cash economy by requiring them to pay taxes in cash. The governments instituted new taxes, and, to acquire the money necessary to pay the taxes, indigenous people had to offer themselves as wage laborers to the mines and plantations (Arhin 1976:460). Thus, colonial governments found a way to create “sellers” in the labor market.

The need for buyers and sellers draws our attention to another precondition for markets: the existence of a medium of exchange. During earlier periods of human history, exchange took place through barter, or in-kind exchange: a sack of wheat for a baby goat and so on. In-kind exchange is restricted, however, by the need for a “double coincidence of wants”—the person with wheat has to want a goat, and the goat owner has to want wheat. Otherwise, the deal doesn't go through.

Gradually, however, a diversity of different forms of money emerged, from gold and silver in Europe and parts of Asia to cowry shells in parts of Africa, to cacao beans in the trading region of the ancient Aztecs. The value of these earliest forms of money derived from the value of the objects serving as money: A gold coin, for example, possessed value because gold possessed value. The first forms of paper money were essentially “IOUs”—pieces of paper that certified that they could be redeemed for certain quantities of precious metal. Today, however, we have become accustomed to “fiat money,” or money that is valuable simply because we all agree that it is worth something. Fiat money is the ultimate social construction, because its value depends entirely on collective beliefs regarding its worth.

The final precondition for the functioning of markets is the availability of reliable information. People won't buy or sell things if they don't know enough about them. The absence of accurate information presents an enormous obstacle to markets. For example, people would hesitate to buy gold jewelry if they have no way of knowing how pure the gold is (10-, 14-, 18-, or 24-carat gold). Shoppers might not purchase hamburger meat at the supermarket if they are not sure that it is pure and uncontaminated by germs. And almost no one purchases a used car sight unseen. Market participants need

information about both the quantity and the quality of the goods they buy and sell (as in three pounds of USDA-inspected hamburger with only 10% fat content).

The importance of information for markets is reflected in the role that governments play in providing that information. For centuries, rulers have recognized that they can help markets grow and flourish if they offer standards for information. Kings and princes would often establish standardized weights and measures so that in the markets, merchants could be sure that a pound measure really weighed a pound or that 100 yards of thread really was 100 yards long.

## The Embeddedness of Markets

This book introduces the field of economic sociology. One of the central insights of economic sociology is that markets are embedded in nonmarket social relations (Granovetter 1985). By *embedded* we mean that markets coexist with, are shaped by, and depend on other social relations. Market relations constitute but one way for human beings to interact with one another. Social relationships consist of many other types of human interaction, including participation in a religious community, belonging to a family or having a network of friends, having political allegiances and animosities, taking part in professional interactions among coworkers, and having citizenship in a country. Economic sociologists study the different ways in which markets are influenced by these other kinds of social relationships (Carruthers 1996).

Earlier, we mentioned the four different preconditions needed for markets to exist and operate. In general, these are not met by the markets themselves but, rather, must be satisfied in some other fashion. Markets do not automatically engender secure property rights, provide accurate information, offer a medium of exchange, or generate sufficient numbers of buyers and sellers. Frequently, government plays some kind of role in the satisfaction of these preconditions. Governments promulgate and enforce formal property rights (North 1981). The legal system also offers contract law so that people who wish to transact with each other can create legally binding agreements. A formal contract law that makes it harder for people to break their promises or to fail to live up to their commitments helps to encourage market activity. In capitalist countries, legal systems offer bankruptcy law—a way for inefficient or unprofitable companies to be “killed off” (Halliday and Carruthers 2009).

Currency, whether paper or coin, is issued by a government mint or central bank. Governments set standards for information about commodities that market participants need. And, as the example of colonial Africa reveals, governments can even get into the business of ensuring that markets

have sufficient buyers and sellers. The important role played by governments in meeting market preconditions ensures a strong link between politics and the economy, even when overt public involvement or government regulation is minimal (Campbell and Lindberg 1990).

Formal government actions (laws, policies, and the like) often satisfy these market preconditions, but such actions are not the *only* way in which this satisfaction occurs. Informal institutions—the kinds that are not written down and codified—are also used frequently to solve the problems of markets. In today's New York City diamond market, people trade small, easily concealed, highly valuable commodities. Trust is a problem in such a market. If you are a diamond dealer, how can you ensure that your employees will not slip merchandise into their pockets? After all, if employees are self-interested profit maximizers, stealing the merchandise may be the most rational thing for them to do. Or you may have problems with suppliers who agree to sell a certain number of diamonds to you at a given price but then back out of the deal when they get a better offer elsewhere.

Diamond merchants in New York can use the legal system, which protects private property rights and offers an effective contract law to make agreements binding. Remarkably, however, they seldom use this formal apparatus (Bernstein 1992). In fact, diamond merchants almost never use the courts to settle disputes or enforce agreements. How can the diamond market continue to function? Why doesn't the diamond trade collapse in a heap of unsettled disputes and pervasive mistrust?

The answer lies in the ability of people to use informal social relations instead of formal institutions. In New York City, the diamond market is overwhelmingly dominated by Hasidic Jews, who run their firms as family businesses. In the Hasidic diamond merchant community, employer-employee trust is created through the strength of family ties but also through common membership in a close-knit, deeply religious community in which stealing from other family members for personal gain is almost unthinkable.

The diamond market in New York is embedded both in family networks and in a specific ethnic-religious community. Diamond traders who break their promises or who act dishonorably won't get sued in court, but they will acquire reputations that, in such a small group, lead inevitably to commercial failure. Reputations travel quickly and easily through the tight-knit community. Other diamond traders will simply not deal with those who have bad reputations, effectively freezing them out of the market. Informal ethnic-religious social ties thus can be mobilized to punish rule breakers as effectively as if they had been taken to court.

Thus, some markets are embedded in formal social institutions (such as the law), whereas others are embedded in informal ones (such as family, ethnic community, or friendship networks). Whether formal or informal,

institutions help provide critical market preconditions. At the same time that markets are embedded in *institutions*, they are also embedded in *culture*, or sets of meanings. The **embeddedness** of markets in culture is well illustrated by the role of advertising in creating a group of buyers for a given consumer product. As we discuss in Chapter 2, advertisers draw on preexisting cultural meanings (e.g., what it means to be a successful and attractive man) and link those meanings to the products being advertised (e.g., a sports car with a powerful engine) so that members of particular cultures want to buy those products. Together, institutions and cultural meanings constitute two different sorts of nonmarket social relationships in which markets are embedded.

## The Consequences of Markets

What difference does it make that in American society today so much of the economy is governed by markets? In Chapter 6, we focus on the consequences that pertain to economic inequality. Markets distribute goods, but they also distribute wealth, income, and jobs in a highly uneven manner. We examine the extent of economic inequality and how it has changed over time, and we look at different forms of discrimination that occur in markets and their role in the creation and maintenance of inequality.

Through their actions, markets can reduce, reinforce, or exaggerate other social differences. The case of gender illustrates this point. In every society, social and cultural differences (in addition to biological differences) distinguish men from women. When added to these social differences, economic differences can make the distinction between male and female even sharper. In the contemporary United States, for example, men and women have very different labor force experiences, and, consequently, men on average earn higher incomes than do women (although the gap is shrinking). The U.S. labor market exaggerates the differences between men and women.

## The Variety of Capitalisms

Economists—both classical and contemporary—have tended to conceptualize capitalism as a single economic system. In the 18th century, Adam Smith praised the virtues of “*homo economicus*,” or “economic man,” a universal character who behaved in a rational, self-interested way regardless of residence, social background, historical period, or cultural context. A century later, the revolutionary Karl Marx described what he saw as the defining features of capitalism in his masterwork, *Capital*. Today, economists from multilateral organizations such as the International Monetary Fund consult

with developing nations on how to build effective capitalist economies. Over the years, economists have come up with useful generalizations about capitalism as an economic system.

The fact that capitalism possesses some core features does not, however, mean that markets are always and everywhere the same. In fact, even in a single city we can see very different kinds of markets at work. In New York City, for example, financial markets governed by formal organizations such as the New York Stock Exchange, with oversight by the Securities and Exchange Commission, can be found on Wall Street, while markets governed by informal, family-based institutions can be found only a short distance away, where Hasidic Jews have their diamond stores. In midtown Manhattan, huge department stores, such as Bloomingdale's and Macy's, are run according to formal bureaucratic rules. Meanwhile, down on Pearl Street in Chinatown, family-owned businesses work according to a very different set of organizational principles.

Just as we can see differences at the level of markets in the same city, or even in the same industry, we can also discern macro-level differences in markets across different countries. Some very good examples of such variation can be found in labor markets. In contemporary Germany, for example, blue-collar job markets tend to be governed by formal institutions. German companies have apprenticeship programs in which entering employees receive high levels of training that prepare them for a variety of skill-intensive tasks within specific industries. As a result, German workers tend to stay with the same companies over their entire working lives, moving up within those organizations (Ebbinghaus and Eichhorst 2006). In contrast, in the United States, working-class people generally have less specialized education and tend to move frequently between jobs and firms (Hollingsworth 1997; Piore and Sabel 1984).

In searching for new jobs, American workers sometimes rely on social networks; they hear about a job opening through a friend of a friend or the brother of a neighbor, for example (Granovetter 1974). Many firms use the personal networks of their current employees to help recruit new employees. The embeddedness of U.S. labor markets in informal social networks helps solve problems of information, such as how to find reliable employees. However, such forms of embeddedness can have negative side effects, including the perpetuation of discrimination in hiring—a problem we discuss in Chapter 6.

National differences in the institutions and traditions that govern labor markets are often by-products of the distinct problems faced by different nations in the process of economic development (discussed in Chapter 7). They can also be traced to cultural differences—for example, different

culturally based perceptions of what is appropriate or inappropriate, right or wrong (or “legitimate,” as sociologists like to say). It may be that U.S.-style labor markets would never work in Germany because people would perceive them as too arbitrary; conversely, the German model of lifetime employment might be perceived in the United States as inhibiting an individual’s freedom of choice. Whether problem-based or culture-based, such cross-national differences are deep and pervasive enough that some sociologists speak of a multiplicity of “capitalisms” rather than “capitalism” in the singular (Hollingsworth and Boyer 1997).

## Globalization

The plurality of “capitalisms” highlights a final theme running throughout this book: namely, the process of **globalization** that has increasingly affected our political, social, cultural, and economic lives. By *globalization*, we mean the intensification of worldwide social relations that has resulted in the linking of distant localities in such a way that local happenings are shaped by events occurring many miles away and vice versa (Giddens 1990:64). This concept refers both to objective changes in the world around us—for example, advances in communications and globalized production—and to subjective changes in the way we perceive ourselves in the world (Robertson 1992:8). Today, we are connected by multiple links to diverse parts of the world, and we think of ourselves as world citizens more than at any other time in history. In this book we return repeatedly to the issue of **economic globalization**, or the internationalization of production, consumption, distribution, and investment. Today, we see the evidence of economic globalization all around us—for example, whenever we purchase an item manufactured in China. Accompanying economic globalization has been a process of cultural globalization, or the displacement, melding, or supplementation of local cultural traditions by foreign or international ones; today, for example, we can buy a McDonald’s hamburger in Paris, Beijing, Mexico City, and Cape Town.

Globalization has been going on for hundreds of years, in ebbs and flows, but the past several decades have seen an unprecedented spread of markets across national boundaries. This recent bout of economic globalization has been caused in part by technological developments—particularly in communication technologies (e.g., the Internet)—and by improvements in transportation. At the same time, social, cultural, and political factors have always determined which kinds of technologies get developed and how they will be used in the globalizing process.

Because of economic globalization, capitalism has become an ever more transnational economic system. This has had consequences for national cultures, for the roles of social networks and formal organizations in governing economic life, for the paths nations take in pursuing economic development, and for inequality. We explore all these issues in this book.

## Outline of the Book

Roughly speaking, the organization of this book is from the micro to the macro—progressing from topics that concern individual economic behavior to those that focus on the economic development of nations and the international economic system. We begin with a chapter on the cultural meanings of commodities, why such meanings matter, and how they are shaped through marketing and advertising. Such meanings are an important determinant of market demand and underscore that the economy has a symbolic, as well as a material, aspect. Chapter 3 discusses organizations and the economy. Large corporations have come to dominate many of the leading sectors of the modern economy, and in Chapter 3 we address the consequences of this important change. Chapter 4 considers the role that social networks play in markets. Networks operate at multiple levels, ranging from the personal networks that link friends and family members together to the formal interorganizational networks that join one corporation to another. Networks create particular structures within markets.

Chapter 5 deals with money and finance. These topics have become particularly salient in the wake of the financial crisis of 2008, but in Chapter 5 we reveal their significance for a number of enduring issues.

Chapter 6 addresses the issue of economic inequality. Among other things, markets create economic differences: How substantial are these differences? Who benefits from them? Do they vary over time or from one country to the next?

Chapter 7 is devoted to a discussion of economic development. Ever since Adam Smith wrote *The Wealth of Nations* more than 200 years ago, economists have been fascinated by the question of why some countries become wealthy while others remain poor—and the question of how poor countries can catch up to rich ones. In Chapter 7 we argue that development has social as well as economic preconditions.

We hope that after reading this book, you will no longer take markets for granted as natural and universal. Markets are complex, diverse, and deeply connected to social life. Certainly one does not have to be an economist to appreciate the social significance of the economy, and we hope that our interest in the economy is contagious.