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What is a Market? On the Methodology of a Contested Concept

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Abstract:

Some economists find markets everywhere and assume that they emerge spontaneously once a set of necessary conditions such as well-defined property rights is fulfilled. Others emphasise the role of organisations and contend that markets are actually less dominant. But despite claims to the contrary, the market concept is hardly analysed in depth. Nor are there serious attempts to examine empirically where markets exist. Against this background, the paper addresses the question of what is a market. It begins by illustrating how the literature has hitherto defined the concept of a market. On the basis of methodological considerations, which centre on the subject matter of economic analysis, the paper provides a revised conceptualisation of markets in terms of those conditions under which stylised facts about relative prices can be observed. The final part of the paper discusses the link between the conceptualisation of a market and the informational role of relative prices highlighted by the Austrian School.

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1 Introduction

Many economists tend to find markets almost everywhere on Earth and in history. Indeed, some believe that even the formation of intimate social relations such as marriages is governed by markets (cf. Becker 1976). Moreover markets are frequently assumed to emerge spontaneously once a set of necessary conditions, including, amongst other things, well-defined property rights and liberalised prices, is fulfilled (e.g. Åslund 1995; EBRD 1996). The essence of this view is beautifully reflected by Oliver Williamson's dictum that 'in the beginning, there were markets' (Williamson 1983, p. 20).

Evidently, the above picture differs sharply from that drawn by Herbert Simon. He has posed the question of how a Martian would describe the institutional structure of economic life on Earth, were it to observe our planet from its spaceship (Simon 1991). Distinguishing between organisations (green areas), market relationships (red lines) and contractual relationships (blue lines), this Martian would most likely report back to its home base, or so Simon muses, that on the economic map of the Earth, green areas of various sizes dominate (except for rural areas in India, Africa or China perhaps), in turn to a varying degree connected by either red and blue lines on the Western hemisphere and large parts of Asia, and - prior to 1989 - by mostly blue lines on the North Eastern hemisphere. On Simon's account, then, markets do not appear to be as dominant as some economists would have it, nor are markets and organisations the only governance mechanisms that can be found within national economies (cf. Hollingworth and Lindberg 1985).

In a sense, however, these contrasting views are merely the most visible symptoms of a much deeper problem. No less an authority than Ronald Coase has observed that the role of markets in modern economic theory is even more opaque than that of enterprises (Coase 1988). Thus, even though its frequent use in economic discourse seems to suggest that there must be some agreement on the meaning and content of the concept of a market, closer inspection immediately reveals a wide range of meanings and contents. This diversity is in turn rooted in the fact that the market concept itself is hardly if ever analysed in a systematic fashion with a view to identifying the constituting or essential elements of a market (cf. North 1977). Indeed, the term 'market' has nowadays strong metaphorical connotations in that many uses do not make reference to the etymological origins of the term. 'Market' denotes both demand and supply, buyers and sellers, competition and exchange, but none of these uses refers directly to markets in the way common parlance sometimes still does, namely to markets as the socio-economic phenomenon which takes place in the marketplace of a city or town. Given the paramount role ascribed to markets in economic analysis, what are we to make of this diversity? To be sure, McCloskey and others have repeatedly pointed to the rhetorical nature of economic discourse, rightly arguing that economics is a conversation about economic arguments (McCloskey 1986). And in such a conversation, metaphors are as legitimate (and necessary) as in any other conversation, their specific meaning being shaped by the respective context and the background knowledge of the speaker. But, evidently, a metaphor presupposes a non-metaphorical meaning. While there may be situations when we speak of the market but have something else in mind for which we lack a proper expression, in some cases at least, the notion of a market is not used rhetorically and thus has to be given some substance.

An important example in this respect is the already mentioned literature on the transformation of postsocialist countries (e.g. World-Bank 1996). This literature epitomises transformation as the replacement of plans by markets. Therefore, it is the market itself that is of interest now. Moreover, in order to make the transition from plan to market empirically verifiable and thus in order to assess the progress of transformation, one has to give criteria for the existence (or absence) of a market. Yet such criteria are virtually absent, the implicit assumption being that markets emerge spontaneously whenever appropriate preconditions are present, or, what is even more questionable (cf. Kornai 1994), that markets came into being as soon as central planning had been abolished. As a consequence, economists appear to find themselves in a situation where the victory of the market marks 'the end of history' (Fukuyama 1992), but where it seems difficult to be really confident that (or to what extent) markets do actually exist. Moreover, lacking as we do a theory explaining the emergence of markets which goes significantly beyond product cycle reasoning (for an account along such lines see Brezinski and Fritsch 1997), we do not know where to look for newly emerging markets either, or why some markets may fail to materialise.

The need for a more detailed specification of the market concept is thus particularly pressing in a normative context. Economists or politicians who endorse markets must specify where and when a market does in fact exist and where and when it is absent. Unless they are able to do so, their policy recommendations could neither be evaluated in relation to the purported objectives of market creation nor tested with respect to the empirical implementation of a market. In fact, much the same goes for economic theory. Hypotheses about the functions and the properties of markets (e.g. establishment of prices, allocation of resources, efficiency) which claim to have empirical validity presuppose that the researcher outlines the characteristics of the social object 'market' for which the hypothesised relationship or property is to hold. Arrow and Hahn’s (1971) General Competitive Analysis, for example, provides no explicit definition of what a market is and only a highly abstract account of how markets function. Indeed, it is not until page 348 that they acknowledge that they have taken the ”existence of markets, ..., for granted”. Furthermore, lacking a substantive account of markets, economic research would be in clear danger of ignoring the widespread existence of rival coordination mechanisms between economic entities, thereby failing to address the question of why markets are replaced or circumvented by other governance mechanisms such as industrial networks or cooperatives.[1]

Against this background, the purpose of the present paper is to discuss a number of difficulties that have to be tackled when attempts are made to define the market. On this basis, I shall develop a definition that makes it possible to identify markets empirically against the background of rival social forms such as firms, central planning or occasional exchange transactions. Not surprisingly perhaps, the endeavour reveals, or so I shall claim, that markets cannot be said to occur as often as some economists would have it if the notion is to retain any discriminatory force.

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[1] In particular networks have recently received a lot of attention. See the contributions in Grabher and Stark 1997.

The paper is organised as follows. In section 2, I shall briefly illustrate how economists and other social scientists have attempted to define the concept of a market and identify several key issues. On the basis of a number of methodological considerations discussed in section 3, section 4 then takes up the task of providing a revised conceptualisation of markets and explores its operationalisation against the background of rival social forms. Section 5 discusses the suggested definition of a market against the background of the institutionalist perspective on markets and the Hayekian analysis of markets as information processing devices. Section 6 concludes and summarises.

2 The Received View: Setting the Stage

The diversity and ambiguity of the notion of a market in common parlance corresponds with few and rather diverse attempts to define the notion in more detail. In order to illustrate this diversity, I shall proceed by providing a brief account of the received view, thereby highlighting a number of key issues which the following methodological discussion has to address.

For a start, it seems helpful to distinguish between roughly three categories of definitions. The first category, observational definitions, comprises definitions which refer to some empirical phenomenon, often together with one or several stylised facts about prices and/or commodities. Some (Neo-) classical economists can be included here, for they saw the market as synonymous with either a marketplace or a geographical area in which exchanges of the same commodity take place (Swedberg 1994). Thus, according to Cournot, a market is 'a region in which buyers and sellers are in such frequent intercourse with each other that the prices of the same goods tend to equality easily and quickly' (Cournot 1897, quoted in Hodgson 1988 p. 173). But even more recently, it is possible to find definitions which focus on markets as locations. Lipsey for instance has defined a market as 'an area over which buyers and sellers negotiate the exchange of a well-defined commodity' (Lipsey 1983, p. 69). His definition thus echoes the traditional notion of a marketplace, even though the area in question is now (apparently) much larger than a medieval square or the site of a trade fair. Moreover, his definition also highlights the notion of a well-defined rather than unspecified commodity. And this too can be regarded as an empirical fact to be singled out.

The reference to a specific locale is lost in definitions which see the market as synonymous with (the willingness to) exchange, as in the case of Gravelle and Rees. For these authors, 'a market exists whenever two or more individuals are prepared to enter into an exchange transaction, regardless of time or place' (Gravelle and Rees 1992, p. 3). And Jevons, more than a century earlier, takes the market 'to mean any body of persons who are in intimate business relations and carry on extensive transactions in any commodity' (Jevons 1871, quoted in Hodgson 1988, p.173). For all apparent differences, an observable phenomenon, namely exchange, remains at the heart of these definitions. The same applies to Marshall's thinking about markets, even though it has changed over time (Swedberg 1994). In his earlier definition, that which can be found in his Principles of Economics, Marshall conceives of the market in terms of demand and supply and takes converging local prices (again an empirical criterion) to be the hallmark of a unified market (Marshall 1938). In his later Industry and Trade, by contrast, Marshall focuses more on the social organisation of a market when he writes that 'in all its various significations, a "market" refers to a group or groups of people, some of whom desire to obtain certain things, and some of whom are in a position to supply what the others want' (Marshall 1919, p. 182; cf. Swedberg 1994). Marshall's latter definition thus comes closer to the category of structural definitions, which I shall discuss in a moment.

In contrast to observational definitions, functional definitions focus on what the market does rather on what, from an empirical point of view, the market is. Evidently, therefore, policy proposals which endorse the market as a superior allocation mechanism do so on the basis of a functional rather than an observational definition of the market. Within the orthodox tradition, at least two views can be distinguished. According to the first, the market is essentially regarded as an allocation mechanism (or more metaphorically as an ‘invisible hand’ as in Adam Smith’s work) while according to the second, closely related view, the concept of a market is equated with the determination of relative prices by demand and supply (see Barnett 1991). Both definitions reflect the analytical role ascribed to the market in orthodox economic theory. Their underlying understanding culminates in general equilibrium theory as pioneered by Walras, where the market is synonymous with (the intersection of) unobservable and merely hypothesised demand and supply (curves) and devoid of any institutional, spatial or social features, and where each individual market is part of a set of interrelated markets that make up the economy as a whole and that is seen as jointly determining a vector of relative prices and an associate allocation of commodities (Debreu 1959). From this perspective, the pricing function and the allocative function of markets are two sides of the same coin. A third view, which appears somewhat more fundamental, ascribes to markets the function of providing a natural order or an equilibrium of social activities, thereby having some resonance with Hayek's notion of spontaneous order.

Heterodox approaches generally differ from neoclassical theory with respect to the analytical role of demand and supply factors for the explanation of prices and quantities. The former see prices and quantities, outside auction markets at least, as being determined by different although possibly interdependent factors, for instance some variety of mark-up or 'administrative' pricing and effective demand (cf. Means 1938; Okun 1981; Lavoie 1992). As a consequence, the market qua demand and supply is amended or replaced by institutions, production technology (Sraffa 1960) and / or income effects, its analytical role being confined to an arena where these factors shine through as it were in the form of specific prices and quantities. The importance of the market then lies in the fact that without real exchanges, we would have price tags rather than prices and / or quantities asked for or offered rather than quantities traded.

Likewise functional are Austrian definitions of the market, but with a different function at their core. In particular Hayek emphasises the ability of markets to aggregate and disseminate dispersed and particular knowledge and information in a way which is superior to, say central planning (Hayek 1945). I shall take up this issue in section 5.

The last category comprises structural definitions. These definitions draw attention the underlying and hence not immediately observable structure of a market, emphasising the alleged mechanisms and structures that give rise to market phenomena. Hodgson's definition, for instance, belongs to this category, for he sees the market as 'a set of social institutions in which a large number of commodity exchanges of a specific type regularly take place, and to some extent are facilitated and structured by those institutions. Exchange ... involves contractual agreements and the exchange of property rights, and the market consists in part of mechanisms to structure, organise, and legitimate these activities' (Hodgson 1988, p. 174, my emphasis; similarly North 1990, Richter 1996 and Richter and Furubotn 1996). In like manner, conceptualisations of markets in terms of networks of stable exchange relationships (e.g. Fourie 1991 or Snehota 1993) can be said to belong to the third category provided these networks perform some analytical role in understanding market phenomena. Last but not least, recall Marshall's later definition.

At this point, I should emphasise that hardly any definition fits nicely in only one category. While the notion of 'extensive transactions' in the case of Jevons would seem to single out his definition for the first category, for instance, his emphasis on 'intimate business relationships' draws attention to some underlying social structure. The same applies to Hodgson's definition, which, despite its institutionalist flavour, contains a number of empirically observable elements which make the definition come closer to some of the observational definitions. Likewise, the network approach to markets highlights the importance of social structures but ties these structures in turn to observable events. Finally, functional definitions have structural connotations in the sense that the typical market is characterised by (usually) a multitude of buyers and/or sellers rather than a monopolist facing a monopsonist.

Bearing these caveats in mind, the above categorisation nevertheless suggests that definitions are congenial to specific purposes, which can be rationalised against the background of the research programme within which they are introduced. As for observational definitions, one may suspect for instance that, in principle, the objective is to single out for further investigation some empirical phenomenon. In the case of functionalist definitions, by contrast, a great deal of the analysis has already been carried out. For it is precisely a result of this analysis that we can now ascribe a specific function to the market. At the same time, the particular function attributed to the market provides a guiding line for further research, e.g. as regards market failure. Structural definitions, finally, belong to an intermediate position in that, accepting as they do the function of markets in principle, their concern is to open the black box of the disembedded and deinstitutionalised market of neoclassical theory, and to provide a better understanding of the working of the market by highlighting some central structural features of markets.

On this view, then, the reported lack of a common definition of the market can in part be explained by the purpose for which each definition is introduced. And since each definition belongs to a specific part of economic discourse, it has first of all to be judged in its own terms. It would therefore be nonsensical to criticise structural definitions for being empirically ambiguous, as it would be problematic to look for rich empirical content in functional definitions.

Still, do at least observational definitions suffice to identify markets empirically? On the whole, the answer seems to be negative.[2] For instance, what is the region where, according to Cournot, buyers and sellers meet? And is 'intercourse' supposed to denote more than exchange, e.g. a certain degree of mutual trust? A similar critique applies to definitions which focus on exchange. For exchanges which fit these definitions occur in various contexts and forms, many of them located beyond

[2] Cf. Hodgson 1988.

the confines of the economic sphere narrowly conceived. Using these definitions, we would have to conclude that markets are indeed everywhere and that, consequently, the market concept lacks discriminatory force. Thus, despite the cautionary remark that precedes the quotation from Gravelle and Rees, the concept of markets held by (some) economists is not only much more general than its common understanding (this in itself would be hard to criticise), at times the concept is so general that it becomes indistinguishable from exchange itself, and hence redundant.[3]

As to the remaining two categories of definitions, there are also significant problems. Thus, functions can only be ascribed to previously specified objects because a functional definition presupposes an account of the object to which the function is ascribed (Searle 1995). Hence functional definitions may be rightly criticised if such an account is absent or incomplete. Similarly, structural definitions presuppose an account of the object or phenomenon whose underlying structure is to be identified. Otherwise the market concept as such would remain empty. One could hold, of course, that the market is synonymous either with its function or with a particular structure or set of institutions. But both defences do not hold enough water. The first implies that markets vanish once they cease to function properly while the second requires that a set of institutions be identified that can be found in each and every market. As far as I have reviewed the institutionalist literature, no such identification has been carried out so far. Indeed, it seems difficult to conceive of any specific set of institutions (in Hodgson's sense) that is common to each and every market and that

[3] This is also evident in an otherwise thoughtful paper which provides various reasons for distinguishing between markets and other forms of exchange but then hesitates to acknowledge that the notion of market is redundant once the concept of a market is synonymous with exchange (cf. Heinemann 1976).

would suffice to define a market.[4] The only institution which appears to be almost universal is money. Yet barter trade or the use of commodity rather than fiat money suggest that markets can exist in the absence of money. The same goes for property rights safeguarded by the state. While it is clear that the notion of exchange presupposes a distinction between 'mine and thine', property rights do not have to be enforced by the state. In fact, for centuries international trade, and prior to the emergence of modern states even intranational trade could not rely on legal support, but had to be based on mutual trust and reciprocity, often linked to kinship or religious ties (cf. Greif 1989; Greif 1994).

For these reasons, the approach to be followed in the present paper seeks to develop a largely formal and a priori conceptualisation of markets. The methodological groundwork for this task will be laid in the following section.

3 On the Methodology of Defining a Market

Of course, whatever definition of a market we choose, it is neither true nor false, only appropriate for the purpose at hand. And as indicated in the preceding section, a definition of the market may have various purposes. So defining a market is essentially a normative enterprise that has to be judged by its usefulness for the chosen purpose rather than its truth or falsity. But what purpose should a definition of the market fulfil and by which principles is its 'usefulness' to be judged? Given the aforementioned economic policy rationale, one criterion is obvious from the start.

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4 Of course, if one sees institutions as routines then there are certain routines or roles (the role of buyer or seller for instance) which appear to be ubiquitous and which are also necessary for markets to emerge. Yet these roles are also played in the case of casual exchange acts. Hence they do not suffice to identify markets.

Any definition of a market should make it possible to identify markets among other social forms.[5] This mode of separation is comparative and contrastive rather than idiosyncratic, meaning that markets are to be distinguished from other specific forms of interaction, notably from hierarchies, central planning and perhaps casual exchange transactions. In other words, the definition of a market must simultaneously indicate why a firm or a hierarchy of planners is not a market.[6] Moreover, although it is often used interchangeably with the notion of a market, exchange is a key concept in virtually all definitions of the market. Hence if these terms are not supposed to denote the same thing - which, as indicated above, would render the market concept pointless - then there must be an empirically identifiable rationale for the use of the term market in addition to its denoting exchange. And whatever this rationale may be, it should also be reflected in the definition of a market.

In order to find empirical criteria for the existence of a market, it would seem sufficient, then, to choose one of the definitions of the first category, suitably specified so as to take the aforementioned criticism on board. Yet doing so raises the further question of how this observational definition and its concomitant empirical criteria are linked to the market mechanism and/or the underlying structure of a market. What reasons do we have to assume, given what economists claim to know about markets, that certain empirical observations are an indicator of the workings of some underlying market mechanism? Indeed, precisely because it is the (economic

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5 This objective is similar to that of Ménard 1995, who seeks to differentiate markets as institutions from institutions as markets.

6 Such a contrastive mode of identification is similar in spirit to a contrastive mode of explanation where the relevant question is not "Why did x occur?" but "Why did x rather than y occur? (cf. Lipton 1993).

policy) rationale for having or introducing markets that markets do perform certain highly valued functions, the former question cannot be neglected when markets are to be defined. This leads to a second criterion our market definition has to fulfil: The definition should be conceptually linked to the analysis of market phenomena, functional or structural, thereby indicating why certain empirical observations are an indicator of the workings of some underlying (market) mechanism.

When this question is to be answered, basically two issues have to be addressed. First, are there any reasons to suggest that some particular social phenomenon with generalised features is going on at all? In other words, are there reasons to suggest that something is taking place that can be theorised (in the sense of making general law-like statements about it)? Second, what justifies the link to the alleged properties and functions of <u>markets</u>?

To address the first issue, note that the subject matter of social scientific explanation is (usually) not any kind of strict event regularity of the form 'whenever <u>x</u>, then <u>y</u> (under conditions <u>c</u>)', but rather what could be termed a <u>demi-regularity</u> (Lawson 1997) or a <u>stylised fact</u>, i.e. a recurrent conjunction of types of events. In economics, stylised facts usually include the allocation of resources to various purposes or the distribution of income and wealth, to name just a few. The reason for focusing on stylised facts rather than strict event regularities is that, in contrast to laboratory settings, the social world is <u>open</u>. Social situations are generally characterised by a multitude of overlapping, sometimes interacting and possibly counterbalancing forces. Consequently, a mechanism whose effects may be observed at one point in time or in some place is overshadowed or offset under different conditions. What we can reasonably look for in the social realm is therefore a situation where one (or a very limited number of) mechanism(s) shine(s) through as it were by producing a number of correlated events. But this means in ontological terms that it is precisely the observation of some regularity or pattern in the flux of events that invites the conjecture that this regularity or this pattern did not occur at random but was the result of the workings of some mechanism or causal relationship which we may try to identify in the course of research.

Second, what justifies the link to the alleged properties and functions of markets? As far as market phenomena are concerned, reviewing the subject matter of much of economic analysis in market contexts reveals that stylised facts commonly refer to relative prices and quantities of exchanged commodities including the relationship between quantities and prices, and the change of quantities and prices over time. It is an obvious (stylised) fact, for instance, that the prices of many commodities exhibit a rather low degree of volatility, but some prices are more volatile than others (cf. Carlton 1989). In a similar vein, relative prices are quite stable over time (even though prices of services tend to increase relative to those of manufactures, cf. Baumol, Batey Blackman et al. 1989), and the demand for a commodity often decreases as its price increases.

Note though that these stylised facts are related to market forms rather than markets per se. Thus, if markets constitute empirical phenomena in their own right, then markets cannot be synonymous with whatever particular phenomena take place in them, e.g. with observed relative prices. Instead, there must be certain stylised facts which can be said to characterise markets in addition to, and in a more fundamental way than, those facts we may observe in specific markets. But what are these stylised facts? To answer this question, I shall ask under which conditions the stylised facts that are apparently analysed as market phenomena (whatever their content) can be observed in the first place. Moreover, I shall claim that these conditions are themselves stylised facts precisely because they refer to the _form_ or _type_ of the phenomena whose content is to be explained. In short, it is specific _types_ or _forms_ of exchanges that a amenable to economic analysis as stylised facts. And it is these types that I take to be _market_ phenomena. Consequently, by identifying the nature of these stylised facts, I shall be able to develop general criteria for identifying markets.

Clearly, such an empirical but methodologically grounded definition of the market seems to presuppose an essentialist position in the sense that all markets _qua_ objects of social analysis must have something in common which firms or hierarchies lack. It goes beyond the scope of the present paper to discuss the plausibility of essentialism in depth. Suffice to say however that Wittgenstein's famous criticism of the 'craving for generality' (Wittgenstein 1960) does not undermine essentialism. Wittgenstein rightly points out that there is no reason to assume that all entities that fall under a general term _must_ have something in common. Yet the only conclusion that can be drawn from Wittgenstein's argument is that one cannot assume in advance that some concept is characterised by a set of essential properties, not that there are no essential properties of objects at all (cf. O'Neill 1998). I should also hasten to add that the foregoing considerations do no intend to _explain_ the existence of a market by its function(s) for economic analysis. Rather, the approach adopted here is meant to be transcendental in the sense that it seeks to explore the preconditions under which a social object called market can be theorised in the manner currently _en vogue_ in economics.

4 Towards a Definition of the Market

In the present section I shall discuss which forms of exchange should count as market exchange, given the above criteria. Subsections 4.1 and 4.2 focus on a number of formal criteria of market exchange. Subsection 4.3, by contrast, deals with competition as a necessary expression of the impersonal nature of market exchange, and hence focuses on the main motivation underlying market exchange as opposed to other forms of exchange. The discussion will proceed by contrasting the market with five alternative social forms, namely firms and organisations, central planning, bargaining, casual exchange, and the exchange of gifts. For a summary of the discussion see table 1.

4.1 Voluntary and Specified Exchange

4.1.1 The Argument

The definitions reviewed in section 2 have one thing in common. With the noted exception of the Austrian approach (but see Shand 1984, who includes exchange), they all consider exchange to be the hallmark of a market. In fact, markets are regarded in some cases as nothing but exchange. Note however that it is not exchange per se, but voluntary and specified exchange that, for the methodological reasons outlined above, can qualify as market exchange and that can hence be analysed as a stylised fact. To see why it is not exchange as such, let me explain what I mean by 'voluntary and specified exchange'. For exchange to be specified, it is not necessary that the two parts of the exchange take place simultaneously. Indeed, many exchanges stretch over an extensive period of time. Rather, specificity means that the mutual agreement on the exchange includes a substantive specification of both parts of the transaction. The criterion thus excludes forms of exchange (e.g. the exchange of gifts) where the specificity of the exchange is not given in substantive terms because the transaction is based on (at most) the mere expectation of some compensation or reward that is still to be decided upon. Exchanges within firms or organisations also often lack specificity, e.g. when the employment contract does not give a complete description of the duties and responsibilities of the employee. What is important in the present context is that, without specificity, we could not know what exactly is exchanged for what, nor, consequently, could we know and analyse the (implicit) price. Specificity is therefore an epistemological precondition for the economic analysis of exchange.

At first sight, the condition of specificity would seem to exclude experience goods from the province of markets, since exchanges which involve goods whose characteristics become only apparent in the course of their consumption or use (e.g. second-hand cars) cannot be fully specified ex ante. The condition of regularity and typification, which are discussed in more detail below, imply though that market exchanges are not singular events. Consequently, economic agents can form expectations, either directly or through vicarious learning, about the characteristics of such goods, which can then form the basis for specifying exchange. In the case of used cars, for instance, quality has proven to decrease with time. Hence, the age of a used car may be taken as an indicator of its quality. The subject matter of the exchange, then, is not a used car per se but a used car of specific age. The case of experience goods nevertheless illustrates that the notion of a price becomes problematic if agents have only fuzzy ideas about what they are going to exchange.

The last remark indicates that there are forms of exchange where some components of the exchange are well specified, e.g. working hours and wage in a labour contract, while others are left open or implicit. Since the form and timing of compensation is specified at least in part, these exchanges are not merely gifts. But they also differ from the discrete exchange framework which dominates neoclassical economics and which is sometimes even assumed in heterodox approaches. This framework presupposes not only that the exchange is disembedded from social relations (in the sense that the identity of transacting partners is irrelevant) but also that it is instantaneous and always fully specified. Against this, the theory of relational contracts (Goldberg 1998; MacNeil 1985; MacNeil 1974) emphasises that in an uncertain and essentially open environment, complete contracts would be impossible while (long-term) contracts cannot be dissociated from the social relations in which they are embedded. As in the case of experience goods, the notion of a price becomes problematic, and so does of course any attempt at measurement and aggregation of quantities, because agents cannot tell in advance what exactly they are going to exchange and whether two exchange acts concern truly the same commodity. For the economist, this means that the focus of the analysis has to shift from the content of the exchange (price and quantity) and those factors which determine the content (supply, demand, income, technology etc.) to its form, i.e. to an analysis of those aspects of the exchange which have been formalised and those which have been knowingly left open or contingent upon future events (see for example Goldberg 1998).

Having accepted the methodological basis of our market definition, we are thus led to conclude that extensive relational contracts, even if they fulfil the remaining criteria to be specified below, cannot <u>easily</u> be included in the realm of market exchange as a specific object of analysis. This is not to say, of course, that relational contracts are excluded from market exchange, nor that they are economically insignificant. The point is that their nature sometimes calls for a different kind of analysis, depending on the degree of uncertainty involved.

Note that specificity as understood here should not be confounded with the sociological concept of reciprocity. For sociologists reciprocity is given if the exchanged commodities have the same value and they sometimes invoke monopolistic power as an instance where reciprocity is violated (cf. Heinemann 1976). But this view seems mistaken because, provided the exchange is voluntary (see the next paragraph), the participants to the exchange have only agreed on the relative value of the commodities to be exchanged, i.e. on the terms of trade, no matter if, or how much, monopolistic power is involved. That is, they have agreed on how much of commodity x each participant is willing to sacrifice in order to obtain y, and thus on the price. Nothing is thereby implied for the absolute valuation of each commodity, either by the individual or by society as a whole. For assessing absolute valuation a common standard of value would be required which is valid throughout society.[7] Nor should specificity be confounded with (the absence of differences between) subjective preferences over goods. Since it is only intelligible to speak of varying preferences if the subject matter of these preferences is the same, specificity is an intersubjective element which is presupposed whenever statements about preferences are made.

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7 In technical terms, a common standard of value would require a cardinal measure of value plus unit comparability.

The second criterion for exchange to qualify as market exchange is its being voluntary. This condition, while difficult to pin down precisely, is indispensable in order to rule out forced (involuntary) forms of exchange such as central planning, where the terms of the exchanges are ordered from above. A basic element of voluntarity can be seen in the possibility of 'exit', either by choosing another exchange, if alternatives are available ('partial exit'), or by abandoning the exchange situation altogether, if no alternatives are available ('total exit'). The latter means that the agent to whom an exchange offer is made can choose not to exchange at all by sticking to the status quo. The issue thus turns on the question of whether exit is a viable option. As suggested below, the opportunity costs of not accepting an exchange offer may help to operationalise voluntarity. For the moment, suffice to say that the question to what extent exchanges are voluntary depends as much on the structure of the exchange situation as on the subject matter of the exchange. Monopolistic power, that is, can, but does not necessarily need to, preclude voluntarity.

Note, finally, that bargaining (but not simply haggling about the price in the presence of competitors or more formal negotiations which aim at specifying the precise terms of an exchange) is often an involuntary form of exchange if it occurs in situations where no alternative trading partners are available (or at least conceivable) for both sides so that exit is not an easy option. The participants in the exchange cannot credibly threaten to withdraw in order to deal with somebody else. Similar considerations hold for central planning and other hierarchical allocation mechanisms, of course, since transactions are ordered from above and no exit option is usually available. In both cases agents have to resort to 'voice'.[8] Hence, voluntarity is an important criterion by which markets can be distinguished from allocation mechanisms which resort to power and authority, or where circumstances force participants to reach an agreement.

4.1.2 Operationalisation

The development of criteria for the existence of markets would be of little use, if it was impossible to link these criteria to observable events. In principle, at least, this seems to be possible for both properties of exchanges.

The criterion of voluntarity can be operationalised in terms of the costs of not entering into a particular exchange transaction. Thus any particular exchange is involuntary if the possibility of exit is foreclosed because the costs, including the psychological costs, of not carrying out a particular exchange, that is, the costs of the status quo or the terms of alternative exchanges, are prohibitive. Thus petty exchanges with a monopolist/monopsonist could still qualify as voluntary as do, of course, exchanges where substitutes or other suppliers/sellers are readily available. For instance, telecommunications used to be a monopoly in many countries until recently, yet I would still regard the decision to have (or use) a telephone as voluntary, be it because it is mostly not a matter of life or death whether I have or use a phone, be it because alternatives are available (writing a letter) whose existence reduces the opportunity costs of telecommunication. The requirement to have one's house connected to the sewer, by contrast, constitutes a form of involuntary exchange in that opting out is usually precluded by law. The same seems to be true for

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[8] In reality, the distinction between bargaining and central planning is blurred since the setting up

many sections of the labour market where job seekers have no choice but to accept whatever they are offered so that a substantial amount of power may be conferred to employers. The extent to which an exchange is voluntary thus depends on the available freedom of choice. Incidentally, Friedman makes a similar point when he endorses competitive markets on the grounds that both sellers and buyers can choose between their trading partners (Friedman 1962).

Blackmail, on the other hand, does not qualify as voluntary exchange. We cannot choose not to exchange our life for whatever material goods we possess with the person who blackmails us. Of course, what matters is how the agent herself perceives the situation, i.e. whether she thinks that exit is possible rather than whether an omniscient observer knows that exit is possible. The latter aspect may complicate the issue, but only to the extent that official statistics do not suffice and have to be replaced or amended by information (gathered through interviews for instance) about how agents construct their environment. Perhaps this is also what some sociologists have in mind when they refer to valuational reciprocity in (some forms of) exchange. Reciprocity would then mean that the opportunity costs for both parties are relatively low.

In a similar vein, official statistics may tell us little about the degree to which an exchange is specified. Yet it is straightforward to examine exchange contracts with a view to investigating the degree to which they cover all aspects that are of interest for buyer and seller (again as perceived by those involved in the exchange).

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of plans usually involves extensive bargaining between planners and enterprises.

4.2 Typification and Regularity

4.2.1 The Argument

By distinguishing between voluntary and involuntary, specified and non-specified exchange, we can exclude forms of exchange (gifts, blackmail but also firms and organisations) that cannot be analysed as 'economic exchange' proper or that are the result of bargaining processes or hierarchical governance. Still, not all instances of exchange selected by these criteria allow meaningful analysis. As already noted, typified and regular exchanges enable economic agents to form expectations about the characteristics of experience goods. In the present section, I shall argue that typification and regularity have to be seen as essential elements of markets for other reasons as well.

To begin with, recall that if exchanges can be characterised by the implied 'prices' and if these prices are to be analysed, then, in keeping with the above characterisation of the subject matter of economic explanation, there must be some property of these prices - a (set of) stylised fact(s) - that requires explanation. For stylised facts (or demi-regularities) to be observable, however, the characteristics of the commodities in question and their prices cannot be wholly idiosyncratic across exchanges. In other words, both prices and commodities must be similar in a significant number of cases, where the similarity of commodities is a necessary (but not sufficient) precondition for meaningful similar prices to be observable. Without similarity, we would have a multitude of heterogeneous and unconnected exchanges, which have nothing in common that could serve as the starting point for further generalised analysis. At the same time, regularity suggests that the factors which underlie different exchanges are similar.

Of course, the condition of commodities being sufficiently similar is usually fulfilled for many natural resources or other bulk materials. For manufactured commodities, by contrast, things are more complicated as even apparently homogenous commodities such as clothes reveal upon closer inspection a multitude of features. The question then arises as to which features of a commodity can be neglected (abstracted from) in order to include the commodity in question into a category such as 'middle price white shirts' whose price may then exhibit certain stylised facts, and which features are essential to the commodity. This cannot be done from an armchair's perspective but requires the analyst to examine how buyers and sellers themselves perceive the respective commodity.[9] Lumping together commodities on the basis of an often arbitrary selection of physical properties is a widespread habit among statisticians, but research in the sociology and psychology of consumption reveals that in reality physical characteristics hardly play the role that is accorded to them in the construction of statistics and, consequently, in economic analysis (cf. Rosenbaum 1998).

In a similar vein, the researcher has to decide whether all observed prices have to be considered in the search for stylised facts or whether only sufficiently similar prices are included. After all, price differences between otherwise homogenous commodities may themselves be something that has to be explained. This is particu-

[9] Note again that perception is not the same as evaluation. The latter presupposes the former and perceptions are less likely to differ across individuals than are evaluations. Indeed, for communication to be possible, perceptions must overlap to a certain degree.

larly evident once a potential market stretches over a large geographical area. Here two observed prices may belong to two separate markets.

Exchange, then, is typical if the primary subject matter of exchange (good or service) can be regarded as remaining largely unchanged across a number of exchanges or, in the case of barter, if both parts of the exchange are similar across a number of exchanges. And only by virtue of exchanges being typical is it possible to observe stylised facts about prices. Note that these considerations also hint at criteria for distinguishing <u>between</u> markets. Thus if a group of exchanges can be described in terms of certain stylised facts, while another group of exchanges is characterised by another set of stylised facts, then these two groups obviously belong to, or constitute, different markets (even though the commodity in question is basically homogenous). Stigler and Sherwin, for instance, use the degree of correlation between prices for grain in various locations (as such a stylised fact) in the US in order to determine the extent of the respective market (Stigler and Sherwin 1985).

The condition of regularity basically means that similarities between commodities remain constant over a certain period of time or, at least, that they do not decrease rapidly. This condition is related to the condition of typification just discussed because a number of exchanges which exhibits certain features (e.g. roughly the same characteristics) is hardly ever carried out simultaneously. Even so, regularity is a criterion in its own right. Not only must phenomena last for some time in order to be observable, the relevance of any social scientific explanation also depends on the persistence of the phenomenon that is to be explained. To be sure, it is at times the <u>change</u> in some variable, rather than the persistence of its numerical value, that calls for analysis. But even then the change has to stand out in the flux of events, which, after all, comprises all sorts of changes, by exhibiting a certain degree of stability. In other words, change can only be observed if the change itself remains at least partly unchanged or if the change takes place against a background that exhibits a certain degree of stability.

These considerations apply not only to the characteristics of the commodity itself, but also (but in a somewhat more limited sense) to its price. The deviation of the observed price from the mean value, for instance, may be of limited relevance if this is part of the fluctuation of prices around the mean. But things are clearly different once a new mean value is being established in the course of time. This is not to suggest, of course, that the volatility of prices cannot constitute an explanandum in its own right, nor that prices are required to remain constant or sticky for an extended period of time. Rather regularity means that, first, prices are not so volatile as to render it impossible to specify what exactly is the price that is to be explained, i.e. if we can observe more then merely white noise. Second, it means that in order to link observed prices causally with a set of potential explaining factors, both prices and explaining factors must persist (often parallely) for some period of time, the length of which depends on the type of commodity in question.

4.2.2 Operationalisation

The operationalisation of regularity and typification requires the economist to make a judgement informed by partly extra-economic considerations (physical, biological, psychological etc.) about the significance of differences between observed exchanges. Since such a judgement is likewise necessary for compiling all sorts of statistics, it does not seem to pose problems which exceed those encountered whenever nonidentical items are to be collected under a single heading. There are no reasons to suggest after all that the distinctions used in official statistics always correlate with a meaningful distinction between markets, both geographically and substantially. And as with the definition of a market in general, the operationalisation of individual criteria is unlikely to be achieved once and for all. Since theory and empirical application are mutually dependent, we should expect that some operationalisations have to be revised in the light of a closer examination of the market they helped to identify in the first place. But this is not an argument against operationalisation per se.

4.3 Competition

4.3.1 The Argument

Competition between either sellers or buyers or both is the fourth characteristic of a market. In contrast to neoclassical theory, however, competition as understood here refers only in a very limited sense to the structure of a market in terms of number of buyers and sellers on each side. Rather, competition is seen, following Georg Simmel, as a form of indirect conflict which is not directed at the opponent but consists of a parallel effort, attempting to surpass an opponent by offering opportunities for exchange which are preferred by other buyers or sellers (cf. Simmel 1903). Since such efforts presuppose that economic agents can create and, at least temporarily, maintain informational asymmetries regarding preferences and technologies, 'perfect competition' in the neoclassical sense with its idealising assumption of perfect information precludes Simmelian competition. The neoclassical notion of competition and the Simmelian understanding thus only agree with respect to the claim that true monopolies and monopsonies without the possibility of exit preclude competition because (in contrast to auctions and tenders with only one seller or buyer) neither potential buyers nor potential sellers compete with each other.[10]

The criterion of competition is important because it excludes not only monopolies and monopsonies without exit (here competition and voluntarity overlap conceptually)[11] but also forms of exchange which, even though they are voluntary, specified, regular and typified, have purposes other than personal gain, e.g. maintaining or establishing social relations via gifts.[12] Competition is thus in a way the alter ego of the impersonal nature of market exchange in modern economies emphasised by Max Weber. This becomes evident if we consider the role played by the identity of the exchange partners including his or her status, social function etc. vis à vis his or her actions, i.e. the degree of embeddedness of the exchange (cf. Granovetter 1985). In other words, if we focus on what the competitor is as opposed to what he or she does.

In the most extreme case, both buyers and sellers are unknown to each other and so is their social status. In such a situation buyers and seller do not share any personal bonds. They only acquire a degree of mutual familiarity (and may also develop more intimate personal relationships) in the course of obtaining and formulating offers for potential exchanges (this is an aspect of the 'vergesellschaftende' effect

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10 A public utility such as water is presently a case in point, for buyers do not compete with each other, nor do they have the possibility of exit.

11 In the present context, a monopoly/monopsony is defined in terms of a specific characteristic that is supplied or demanded by only one supplier or buyer, respectively. Thus BR may have been the only railway company in Britain prior to privatisation, but it was not the only supplier of transport services, private cars, buses and, more recently, planes being closes substitutes. Hence BR was not a monopoly.

12 For a discussion of motives other than personal gain narrowly conceived see Heinemann 1976.

of competition emphasised by Simmel 1903). Even so, their respective identity does not influence the decision with whom to trade nor does it influence the terms of the trade. What matters is only the features of an offer relative to the features of other offers and the correspondence of offers with one's own desires and preferences. If, on the other hand, maintaining or establishing social relations motivate exchange, then the identity of the trading partners as well as the identities of fellow buyers or sellers are of utmost importance and have to be known prior to the actual transaction. For it is only with respect to these identities that the full content of the exchange can be determined.

Clearly Simmelian competition and neoclassical oligopoly, in particular game theoretic models, have much in common in that both depart from the framework of perfect competition by conceptualising competition as some form of strategic interaction. But there are two important differences. First, on Simmel's account, interaction with competitors and customers is not an indicator of imperfection as in neoclassical economics, where interaction comes to an end when prices are given, but the hallmark of competition. Without interaction, there is no competition whatsoever. Second, Simmel acknowledges the social nature of economic agents and the way in which different forms of interaction affect the embeddedness of economic agents.

As with specificity, competition as understood here contributes to the possibility of analysing exchange in largely economic terms, i.e. by abstracting from determinants of the outcomes of exchange that have to do with idiosyncratic relations between individual buyers and sellers. For such an analysis would evidently be impossible, or at least lack explanatory weight, if observed prices were merely surface phenomena without real significance to the parties to the exchange. To be more specific, the notion of a price would loose much of its significance as a decision variable for agents, if the latter cease to see the acquisition of goods or services as the main purpose of exchange transactions. The insignificance of the identity of buyers and sellers in competition highlights an important difference between market exchange and bargaining. Market exchange is not only different from bargaining because the latter usually precludes exit but also because bargaining is often shaped by pre-existing social relations, including trust and power, which are welded to the identity of those who bargain.

Note moreover that competition as understood here likewise helps to distinguish between exchange on markets and exchange in the context of central planning. For while central planning involves various kinds of typified and regular exchanges, buyers and sellers do not compete with each other (except for attempts to bribe superiors in order to ensure low output targets and high input allocations). Finally, competition also distinguishes markets from hierarchies and organisations in which interactions are co-ordinated through commands backed by authority and power and in which competition is often deliberately restricted so as to safeguard the interests of the organisation as a whole as opposed to those of individuals.

4.3.2 Operationalisation

The criterion of competition may seem to be more difficult to operationalise than the criteria discussed above. The reason is that interpersonal relations, or their absence, are notoriously difficult to observe. As a proxy, however, one may take obviously suboptimal but persistent exchanges (given the information actually available to agents with bounded rationality) as indicators for the existence of factors (such as personal bonds) which prevent agents from exploiting all opportunities for exchange, and hence as indicators for limits to competition. Another possible indicator for competition could be the amount of resources spent by both buyers and sellers for collecting and disseminating information about potential exchanges.

Table 1 approximately here.

4.4 Degrees of Marketness

The above criteria should not be taken to represent discrete borderlines which tell us exactly when a market exists and when it doesn't. Rather, they represent characteristics by which real world situations have to be judged and evaluated. Thus what matters is not the presence or absence of competition but its degree, as it is the degree of typification and regularity that can be observed rather than the question of whether we are dealing with a truly homogenous commodity such as tin. The same goes for specificity and voluntarity. Few exchanges are fully specified, and even if they are there may be an element of uncertainty involved because one cannot exactly know ex ante what one is to get in return. Similarly, voluntarity may be reduced but not necessarily absent in a monopoly. Following the terminology of Block exchange situations can be said to exhibit different degrees of 'marketness' which are in turn characterised by differences in the degree to which the above criteria are realised (Block 1990). Consequently, an economy is not composed of markets on the one hand and non-market exchange situations on the other, but may include a variety of exchange situations from wholly unstructured singular exchanges at one end of the spectrum, through to 'idealtypical' markets at the other.

In a similar vein, not every market economy exhibits the same degree of 'marketness' across time and space. Neither is the number of markets in an economy constant over time, nor is its number equal to that in other economies. The concept of degrees of marketness is thus similar to the neoclassical notion of market perfectness in that perfectness too is not a dichotomous criterion. In contrast to the neoclassical understanding, however, the present account does not focus on the extent to which agents can influence relative prices but on the existence and suitability of prices and quantities as the subject matter of economic analysis. Obviously, a lower degree of marketness reduces the extent two which prices and quantities can become the objects of analysis.

5 Markets, Institutionalisation, and Information

In section 4, I have introduced and defended three broad criteria by which markets can be distinguished from other exchange situations. Let me repeat the main points. Voluntary and specified exchange as well as competition would appear to be quite straightforward criteria; the first in order to discriminate between forms of exchange that are open-ended, as it were (e.g. gifts, marriages), and exchanges that are more specified and thus involve a price; the second in order to exclude forms of exchange that are motivated by reasons which have to do with the identities of the trading partners rather than the opportunity for exchange he or she offers (the latter aspect also excludes familial relations from the province of the market). Moreover, both bargaining processes and central planning are characterised by the absence of competition. Typification and regularity, finally, are imposed in order to bound the range of exchanges, both cross-sectionally and intertemporally so as to clarify what exactly (which observed exchange) is to constitute the focus of economic enquiry.

5.1 Routines and Institutions

Note that typification and regularity can also be seen as the most basic elements of the institutional character of markets, if one conceives of institutions, in the most fundamental sense, as routines (cf. Lawson 1997). That is, markets constitute institutions because they involve certain routines (typical exchanges) that are repeated over time (regularity). In this respect, the present approach adopts a broader understanding of institutions, which is not confined to institutions as sets of rules with or without enforcement mechanism (North 1990). Rather than investigating the institutional <u>framework</u> of exchange, the present account thus emphasises the institutionalised <u>form</u> of exchange.

Clearly, many markets can also be regarded as institutions in a more specific sense in that market clearing and the determination of prices follow (procedural) rules or in that there is a number of auxiliary institutions and/organisations which facilitate certain types of exchange. This, it would seem, is the view Hodgson adopts (cf. Hodgson 1988). It is at this point, therefore, that the social and cultural embeddedness of economic interaction has to be considered in more detail. For Hodgson's auxiliary institutions or organisations, which serve to overcome problems relating to moral hazard, trust and asymmetric information, are likely to be shaped by the social and cultural setting. There are no reasons to suggest after all that similar problems are always solved by using the same set of institutions. In fact, the available evidence on modern capitalist societies indicates that there is not only a wide range of institutional forms in use (e.g. systems of corporate governance and finance, cf. Grosfeld 1994; Zysman 1983), but when it comes to addressing specific problems within the economic sphere, there is also a tendency to adopt institutional or organisational forms which originate outside the economic system and which have to do with the culturally impregnated 'Wirschaftsstil' (Schefold 1994) of a society. The German habit of seeking consensual solutions to social conflicts is perhaps a case in point.

Clearly, the impact of cultural factors varies across societies. At one extreme, certain forms of exchange are tabooed or so heavily overshadowed by cultural influences that economic factors can hardly be detected, at the other extreme culture provides little more than the background of transactions in the form of general norms of behaviour. From this perspective, Polanyi's 'Great Transformation' (Polanyi 1995) can be interpreted as a process whereby cultural factors are pushed to the rear while letting 'market forces' play a more prominent role.

5.2 Prices and Information

Importantly, institutionalised exchange as routines is a precondition for prices to fulfil the informational role which figures so prominently in the works of Hayek and other Austrians (cf. Hayek 1945; Kirzner 1997). For unless exchanged commodities exhibit an adequate degree of similarity, the range of prices at which this commodity is traded is likely to be too large to convey any information to other economic agents. By the same token, prices must display a certain degree of stability over time (across exchanges) in order for price <u>changes</u> to embody significant information, notwithstanding any information possibly contained in the phenomenon of volatility or dispersion itself (see below). The more volatile prices, the less reliable is whatever information on demand or technology is encapsulated in any particular price or in any particular price change. Volatile or dispersed prices are thus less able to coordinate decentralised decisions. Thus in contrast to the Austrian approach, the present account argues that it is precisely because of the fact that markets involve specific, regular and typified exchanges that market prices are able to provide the information, which individuals then acquire, store and use as economically relevant knowledge. This is partly acknowledged, if only implicitly, by Hayek when he refers to tin, i.e. to a homogeneous commodity, and similar commodities with one price, in order to illustrate his point about the informational role of the price system, and when he talks about an apparently permanent increase in the price of tin rather than short-run fluctuations (Hayek 1945). However, Hayek does not discuss how prices of heterogeneous commodities can convey information in a similar manner. Hence, by failing to fully acknowledge the connection between the degree to which exchange is institutionalised or routinised and the informational content of prices, this version of the Austrian approach is prone to overstate the informational role of the price system. A corollary of this view is that not every observable price conveys the same amount of information to producers and customers.

There is of course another sense in which the informational role or the price system can be understood in Hayek's work (cf. Kirzner 1992). Accordingly, prices do not only coordinate economic activity because they are already so adjusted that decisions on their basis become self-enforcing (equilibrium prices), but also because disequilibrium prices reveal to market participants that altered decisions may be advantageous in the future. Thus disequilibrium prices provide incentives to agents to modify their behaviour so that, potentially, prices approach equilibrium values (Kirzner 1992). Note though that there are no immanent reasons why disequilibrium prices should be uniform if trading takes place in a decentralised fashion. This brings us back to the methodological issues discussed above. Since there may be a multitude of wrong prices, there is no stylised fact or demi-regularity which could become the subject matter of analysis in the same way as (uniform) equilibrium prices can.

6 Concluding Remarks: In Search of Markets

If one adopts the above elements of markets, then the examples outlined in the introduction indicate that the term 'market', as it is used in these examples, refers to particular components of markets (sellers, buyers) or to certain characteristics of markets (competition, exchange). But to assert that a market in the fuller sense of the term does indeed exist in each case would mean jumping to conclusions. For instance, to claim, as Gary Becker does, that a market for marriages exists (cf. Becker 1976), obscures the fact that marriages are largely un-specified exchanges and hence violate the condition of specificity. In a similar vein, it does not make much sense to talk about a market for dams or fighter aeroplanes (but perhaps radar components or generators), since many of these exchanges are neither standardised nor (as in the case of military equipment) always subject to competition. Of course, this critique applies <u>a fortiori</u> to authors who endorse (without further elaboration) the existence of a <u>religious market</u> on the grounds that individual denominations function as religious firms and thus collectively constitute a religious market (cf. Iannaccone 1998).

While these examples seem largely uncontested, there is another case where speaking of a market proper or of a collection of markets seems doubtful. The example I have in mind is the labour market. We may not only question the existence of a labour market because, as some post-Keynesians argue (cf. Lavoie 1992), wages and working conditions are predominantly determined by social customs and norms rather than demand and supply conditions. There are also reasons to suggest that labour markets fulfil only in part the criteria for markets which I have developed above. While competition, regularity and typification would seem common features of many segments of the labour 'market', both voluntarity and specificity are more problematic. As to voluntarity, it is clear that the opportunity costs of <u>not</u> accepting an exchange offer (job) can be extremely high, at least in the absence of unemployment benefits or similar means of subsistence. Furthermore, labour contracts are prime examples of relational contracts (cf. Goldberg 1998) in that, due to their long-term nature, it is impossible to specify <u>ex ante</u> all rights and duties in the contract. At the same time, employer and employee may make specific yet unpredictable investments in the course of their relationship which change the content of the work done. Hence, while both the wage and basic features of the job are usually known in advance to employer and employee, many other aspects of their relationship will only become known much later, contingent as they often are upon external circumstances and events. Consequently, if both parties to the exchange have only incomplete knowledge about the nature of one commodity then the commonplace understanding of a price as the relative amounts of two commodities (one possibly being money) as well as the notion of a market for one type of commodity is called into question.

This is not to say, of course, such exchanges are economically insignificant, nor that they could not be analysed. The point is that methods of analysis which presuppose specificity because they seek to explain prices and/or quantities seem inadequate.

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Tab. 1: The market in contrast to other social forms

	Market	Firm / Organisation	Central Planning	Bargaining	Casual Exchange	Gifts
Voluntarity	Yes	Yes	No	No	Yes	Yes
Specificity	Yes	No	Yes	Yes	Yes	No
Regularity and Typification	Yes	Yes (mostly)	Yes (mostly)	No	No	No
Competition	Yes	No (or very limited)	No	No	Yes	No