See: Fourie, F.C.v.N. (1991): The nature of the market: a structural analysis, in G. Hodgson & E. Screpanti, *Rethinking Economics: Markets, technology and economic evolution*, Edward Elgar, U.K. [*This is the original, more complete manuscript than the published version.]

The nature of the market: a structural analysis[1]

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1. Introduction

A rethinking of economics must include new thinking about the intrinsic nature of the market. Although the market is at the core of conventional economic analysis, the question `what is the market?' has hardly been satisfactorily answered. At most the question has received indirect or implicit treatment, primarily in discussions of the nature of competition, most often atomistic or perfect competition between individualistic agents.

Notable efforts to rectify this oversight are recent contributions by Moss (1981; 1984), Hodgson (1988) and Sawyer (1989). Moss provides a theory of the structuring of the interior of the market, with particular attention to the institutions that fulfil the role of intermediaries `inside' markets (1984 p.80). In this way the configuration of markets becomes endogenous, unlike in conventional theory (1984 p.108).

Sawyer (1989 pp.4-5) points out that the conventional theoretical conceptualisation of the market appears to be similar to that of the firm, i.e. that of a mental construct not intended to correspond to real world markets, but rather to help generate predictions (or explanations). Consequently many examples of economic interaction and exchange do not correspond to the theoretical model. Moreover, there is the uncertainty as to what is meant by market in the real world, in addition to what is denoted by market in theory and the correspondence between the two (Sawyer 1989 p.6).

Hodgson (1988, especially chs. 7-8) offers building blocks for an institutional analysis of the market by defining it, and the reasons for its existence, in relation to a wide set of social institutions, e.g. legal institutions, customs and practices of exchange, property rights, transportation and communications institutions, and so forth. A central element is the economic activity of exchange.

2. The market, exchange and institutions

This contribution is concerned with the following question: what is the distinctive or typical nature of the market as societal phenomenon? What is market and what non-market? For example, the market

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has something to do with exchange, but not all exchanges are market exchanges. And is the market a real thing, or merely a `behavioural relation', an abstraction, or just a figure of speech?[3]

Methodologically the idea of uncovering a typical or intrinsic nature of the market is based on the following reasoning. Actual markets can and do occur in a variety of forms - different types of markets, in different contexts and configurations, in different places and economic systems, in different historical periods, and so forth. Yet all these varieties of markets are observable, recognizable and identifiable as markets. This suggests that they must have something in common. Amongst the variety all still are markets, and therefore must possess some constant, common element. To ascertain that common element of markets is the objective of this contribution.

While the implications of identifying this common element will be discussed below, it has to be said that the idea of such a common nature must not be understood in the sense of an ideal type towards all existing forms must strive, or against which they must be measured.[4] Its significance is that, as a common element in all markets, it may be the clue to something intrinsic or generic.

The implicit theoretical point of departure is the existence and nature of a differentiated society: a society where identifiable, and identifiably different, kinds of communal structures are intuitively observable - where the term communal is used as a collective term to include all kinds of organizations or institutions or collectivities or societal units.[5] In a modern differentiated society these normally include families, churches, the State, schools, universities, business organizations, sport clubs, and a variety of other voluntary associations (e.g. trade associations; labour unions). It is due to this conception of `structural pluralism' that the analysis presented here can be called a structural approach. In this analysis a key concept, directly linked to the idea of a typical nature, is that of a `structural identity principle' (SIP).

This structuralist point of view implies a rejection of an individualist conception of society, in which society is regarded as merely a multitude of individuals-in-interaction, often in contractual fashion, with organizations or communal structures being mere fictions.[6]

Given these points of departure, the crux of the argument is that the market as societal phenomenon cannot be understood without acknowledging and explicating two essential features:

(a) That the market, and the exchange relations concerned, are typically economic relations (amidst having other, non-economic dimensions as well).

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[3] Paul Auerbach has stated (1988 p.122), that markets are largely figures of speech in economics. He argues that `a market is not a thing but a behavioural relation' which is made into a thing, in conventional theory, by a process of `reification'. Sawyer (1988 p.6) remarks that this merely reinforces the definitional difficulties.

[4] Such an interpretation would be mistakenly to identify this approach with that of Essentialism.

[5] It is important that the term as used here not be understood from an individualistic world view, in which case it may well be argued that a firm, for example, is not `communal' but an aggregate of different agents with sometimes common and sometimes conflicting goals. However, once one truly moves away from the one polar extreme of an individualistic conception of organizations, the term communal does not necessarily denote the other polar (universalistic) extreme; it can then be understood less restrictively, and thus not necessarily as conveying the idea of a strict organic or functional cohesion. As used here the term only denotes a societal structure that is not `interacting individuals only', not non-integrating, not a mere aggregate of discrete individuals. In this sense both organised institutions (organizations) and natural entities like families can be described as communal.

[6] See Fourie (1989a) for an internal critique of the ultra-individualist transactions and contracts approaches to the nature of the firm, notably Alchian & Demsetz and Jensen & Meckling; he demonstrates the internal unsustainability of such a viewpoint, which requires the acceptance of firms as institutional and societal wholes, as solidary identifiable units within which individuals function (although not exclusively, being similarly involved in other structures, e.g. the State (as citizen) and the family). Also see Hodgson (1988 ch. 3).

(b) That the market is inextricably interwoven with various societal organizations and communal structures (firms, families, the State, schools, churches, clubs, and so forth).

To state the same points differently: if the market is conceived of (a) in an entirely `neutral', non-qualified or character-unspecific sense, and/or (b) in an entirely individualistic, isolated or detached fashion, its typical nature and role in society will be lost sight of.

2.1 The structural identity principle of an economic exchange

That markets and related exchanges are economic phenomena may appear to be obvious. However, what actually makes an exchange identifiably an economic exchange? What determines its character specificity?

Hodgson (1988) tries to pin down a sensible, circumscribed understanding of the term exchange. He positions himself against an excessively wide, `meaning undermining' conception of exchange that also includes a bee depositing pollen `in return for' gathering nectar, or production as an `exchange with nature' (1988 pp.148-9). He identifies the transfer of property rights as an important qualification and method to narrow down the concept. This is helpful, but I do not think sufficient. While most economic transactions may involve a transfer of ownership titles, an exchange of gifts also involves a transfer of property rights. In addition many market transactions only involve a transfer of the right to access to, or to the use/utilisation of, a commodity or service (although this is perhaps conceivable as a `property right to use').[7]

An important characteristic element of economic exchange is the idea of quid pro quo - `something for something'. While in some societies the giving of gifts may imply a converse social obligation on the recipient, it is not an essential element of the general phenomenon of gifts. On the other hand in economic exchange or interchange the presence of a mutual understanding of reciprocity is essential, a necessary condition.

Secondly, the obligation is for a counter-offering at an agreed upon exchange ratio or price. Prior agreement on, and making the terms of the quid pro quo explicit, is something absent from, for example, and exchange of gifts.

But this is not the whole story. An essential element of what makes an exchange an economic exchange must simply be that its qualification is economic. Although an economic exchange always has many other dimensions (social, historical, symbolic, ethical, legal), the economic aspect can be seen to be the dominant, qualifying or leading aspect, impressing its indelible stamp on the way the other aspects are realised or actualised.[8] This is what makes the parties to an economic exchange buyer and

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[7] The role of property rights in exchange needs further investigation. One question is whether property rights are necessary for economic exchange, or whether it simply is that property rights are conducive to exchange, or highlight incentives for exchange.

[8] A similar idea is contained in Hodgson's `principle of dominance' and `impurity principle', (1988 pp.167-71), i.e. that in addition to a predominant aspect, each system or subsystem contains `impurities' which are not typical of the whole, but which are nevertheless necessary for the system to function. For example, `all so-called "economic" exchanges exhibit "social" aspects to some degree' (Hodgson 1988 p.169). This also suggests that something like `pure' exchanges or markets, in the sense of involving only contractual elements (Hodgson 1988 p.167) is not possible, if only because the contractual element already is a legal aspect functioning under the qualification of the dominant economic aspect. Also, the view of `pure' markets implicit in general equilibrium theory (see Sawyer 1989 p.2), where the only contact between parties concerns exchange, actually is impossible. There always is more involved than pure exchange relations, e.g. trust relations. As Sawyer argues, the analysis of market economies cannot be adequately undertaken solely in terms of arms-length exchange transactions (1989 p.30).

seller. (In comparison a social exchange act, for example an exchange of words, also has an economic aspect - related to verbal excess, for example - but this is but a secondary aspect and not the dominant or qualifying aspect of what is primarily a social act.[9])

One can distinguish a variety of aspects of exchanges or markets, e.g. numerical (number of buyers/sellers); spatial (geographical space; product space; market share); physical (the idea of market equilibrium; dynamism); biotic (market growth, product development and differentiation; competition as a process); psychical (market sensitivity; elasticity); historical (process of market creation/formation; market power and control); symbolic (prices, product image); social (economic intercourse; fashionable products); juridical (exchange contracts; justice in exchange; a justified or legitimated price) and ethical (honesty; trust; fairness). In each case the actual form and functioning of an aspect is decisively `coloured' by the dominant economic aspect: the concept of `product space' clearly is an economically qualified spatial concept; the concept of `economic intercourse' is obtained by economically qualifying the idea of social intercourse, and so forth.

Thus, although the eventual value of commodities to a buyer, say, may derive from his concern with e.g. his household, in the economic exchange itself - the actual (market) interaction between buyer and seller - the guiding factor can be seen to be the economic value of the commodity, and not its social value (e.g. as status symbol), symbolic value (e.g. a memento of an overseas trip) or ethical value (e.g. a gift to a spouse).

This means that what could be called the character specificity or structural identity principle (SIP) of an economic exchange relation can be formulated as follows:

> *An economic exchange is an economically qualified purposeful interchange of commodities on the basis of a quid pro quo obligation at a mutually agreed upon exchange ratio.*

Where the term commodity is understood comprehensively so as to include services and the utilisation of commodities and, of course, money; in most cases an exchange of property rights may be involved.[10]

The idea captured in this SIP appears to be central to, and decisive for, the distinctiveness of the phenomenon of economic exchange in all its appearances and forms (and therefore eventually also of the market). On the other hand it has no pretensions to be a complete description, for that would involve other, secondary (including non-economic) aspects, and in practice would depend decisively on historical and institutional context (see Hodgson 1988 ch. 7.1; the distinction between a structural identity principle and a definition of the market is discussed in section 2.6.). The idea is to capture the

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[9] The context of a spectrum of differentiated inter-individual or inter-communal relationships deepens one's understanding of what the economic qualification of (market) exchange really signifies. It gives an indication of what a market exchange relation is not, of the character specificity of that which it is differentiated from. By contrasting an economic exchange relation with relations with a clearly different dominant character - social relations, friendship relations, neighbour relations, love relations, family relations, legal relations, teacher-pupil relations, trust relations, political relations, international political (interstate) relations, and so forth - its intrinsic difference in being typically economic, or in being not non-economic, is readily apparent (if not necessarily easily to explicate or formulate).

[10] Labour markets may present a snag here, for the idea of an agreed upon exchange ratio is problematic where the work to be done by an employee is not specified in advance (i.e. an open contract). I would suggest that it still is a moot question whether labour should be regarded as being traded in markets, just as another commodity. Being employed can alternatively be regarded as becoming a member of a firm (cf. Fourie 1989a), in which case a different analytical framework may be applicable.

kernel or nucleus of the distinctiveness of economic exchange in contrast to otherwise qualified exchanges or interaction.

There is a particular contrapositioning of interests (or the way interests are served) in an economic exchange. Typically exchange implies the voluntary participation of two parties that do not act within the context of one communal structure with a common purpose; rather, they act with more or less independent and even incongruous considerations in mind, i.e. with diverse or contrary interests. Also, the determination of the terms of exchange (the exchange ratio or price) affects the interests of the parties diametrically - e.g. a higher price favours the seller at the expense of the buyer.

On the other hand this diametry typically does not constitute an absolute divergence or antagonism. The two parties to an exchange are, for the moment, dependent on one another; therefore the contrapositioning can be described as `mutualistic' (compare section 2.3 below). Moreover, despite the intrinsic elements of contrariety, mutual benefit from a voluntary exchange is of course not precluded.

On the other hand the idea that the rate of exchange is agreed upon should not be regarded as implying that all exchanges therefore are `good' or fair, or that the contrapositive, diverse interests of all are served equitably.[11] Although there is equivalence between the price of a commodity and the money paid for it by a buyer, in many exchanges a buyer or seller may have strong reservations about the real economic value of the commodity he is buying or selling. Nevertheless, if an actual exchange takes place it does mean that buyer and seller have agreed to some `exchange value' or price, and that both have decided to engage in this transaction.

In a monetary economy price acts as a symbolic expression of the `consensus' exchange ratio implied by a completed economic exchange. A price can exist if and only if there is an agreed upon exchange ratio. Therefore the phenomenon of price is peculiar to economic exchange - it captures and symbolises the specifics of the quid pro quo. (Other functions of prices are discussed in section 2.5).

2.2 The institutional context of exchange - `In the beginning there were markets'?

What is the relation or difference between economic exchanges and markets? Why and when do exchanges become markets?

The market has to be seen in its institutional context, i.e. in relation to the entire spectrum of societal organizations and communal structures, notably firms, households, and the State. This institutional context appears in various ways.

Firstly, why do exchanges take place? Apart from the most basic biological needs of a human being, needs and desires cannot be understood outside the context of the societal structures in which individuals are involved. Needs arise from - commodities derive their value to a buyer from - his/her role within the concerned household, family, occupation, circle of friends, church, sports club, and so forth. Needs necessarily are socially contextualised and institutionally embedded (this has particular relevance for a theory of the consumer). Therefore an individual buyer typically does not act as an isolated person, but within the context of a societal structure. Individuals obviously are always involved, but never purely individualistically. The same is true of sellers.

Secondly, exchange is an inter-relation, a relation between two parties. Therefore commodity exchange relations cannot occur without being linked to firms, households, etc. (even if via individuals, as noted above). The market is not an isolated phenomenon. As I have argued in the context of the

[11] In general the fact that important normative issues are concerned, and that actual exchange situations may have various configurations, does not prohibit the analytic identification of a particular structural identity principle of a distinctive type of societal activity.

nature of the firm - when contrasting my viewpoint with the transactions and contract approaches (Fourie 1989a) - markets cannot produce. Firms produce. Markets presuppose the existence of firms (or other organizations) producing the commodities that merely are transferred and allocated by market transactions. Markets can thus only link already existing firms and/or other organizations.

Therefore exchange relations comprise inter-relations that link firms, households and other institutions externally. In a differentiated society exchange relations typically cannot occur without finding their counterpart in communal structures like firms and households. Exchange relations, being inter-individual or inter-organizational in character, cannot be correctly conceived of without explicit acknowledgement of the nodal interlacement between inter-relations and societal structures like firms and households (with their own internal relations and authority structure). Likewise there is an unbreakable correlation and interlacement between the internal relational structure of the firm/household and the external inter-relations in which it is involved.[12]

That there is an unbreakable correlation and coherence between communal structures and inter-relations, and that neither of these two kinds of societal forms can be conceived of without the other, appears to be a general structural principle. However, despite and amidst this structural interwovenness, each relation/structure retains its own identity. Despite the efforts of contractarians and other ultra-individualists (e.g. Demsetz, Jensen & Meckling) to depict firms as fictitious abstractions, as nothing but clusters of inter-individual market-like contractual relations (cf. Fourie 1989a), firms and markets remain distinguishable - although not separable. Neither can be reduced to the other; in addition neither becomes a part of the other. The interwovenness is external and `character-preserving'.

Being inter-relations, exchange relations are very different from the relations within organizations or communal structures - for example the internal relations between managers and workers in a firm. Inter-relations have the characteristic that the linking of individuals and/or firms does not unite them in any way. Whereas one finds a certain coherence, a certain inner unity of will and purpose within organizations like firms, inter-relations merely constitute an external, non-integrating contact (exchange, agreement) in order to reach typically different and often diverse goals.[13] Although the parties in inter-party relations are in a sense dependent on one another, their actions can interlock in several ways, in cooperation or in antagonism. But never does the interaction as such bound them together in a relatively solidary internal unit. The structure of these relationships typically is not confined within an organization or communal structure.

This difference in intrinsic nature also is apparent from the fact the an exchange intrinsically is a momentary phenomenon, while organizations or communal structures like firms typically display a significant degree of durability and an existence independent of the turnover of managers or employees.

This structuralist-institutionalist approach contrasts strikingly with the individualistic approach so common in conventional economic analysis. For example, Hodgson (1988 p.148) points out that in the conception of Von Mises exchange becomes a broad and universal category, also covering `autistic exchange' which is said to occur without the involvement of individuals (or organizations) other than a

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[12] Another important illustration of the unbreakable coherence between firms and markets is that the purposes intended in the formation of a voluntary association like the firm is necessarily dependent upon and directed towards the inter-communal market relationships in which it is involved.

[13] This characteristic of firms and other organizations does of course not exclude differences of opinion and purpose amongst members, nor does a quarrel between a husband and wife nullify the typical inner unity and coherence of a marriage - in contrast to the typical non-integrating character of interaction between foreigners, say. On the other hand the fact that persistent and irreconcilable differences actually threaten the continued existence of both marriages and firms just proves how integral this element is. (Also see footnote 6.)

Robinson Crusoe. This clearly is untenable: exchange is a bilateral, twin-party concept, whereas in `autistic exchange' there can be no mutual understanding of quid pro quo.[14]

This is but part of the problem of an entirely non-institutional and individualistic conceptualisation of individual behaviour - found, inter alia, in the so-called New Institutional Economics - where the denial of the existence of communal structures and institutions repeatedly leads the analysis into inconsistencies and problems.[15]

In general it becomes apparent why the Coasean or Williamsonian approach that `in the beginning there were markets' is invalid - logically as well as historically. Apart from the fact that one can argue that markets can only exist if there are products to trade, i.e. if firms already exist (cf. Sawyer 1989 pp.8-13; Auerbach 1988 p.121), the presumed relation between markets and firms is contrary to the historical development process (see Fourie 1989a).[16] But the real point is that it is futile to engage in this kind of chicken-and-egg argument. The existence and development of firms and markets are unbreakably correlated.

An important disclaimer is necessary here. While much of the argumentation here is set up in opposition to the purely individualistic approach, the intention is not to replace an `individuals only' approach with a `structures or institutions only' approach. A very important principle of the `structural' analysis presented here is that individual persons always are involved, but never individualistically or discretely, rather always in a context of simultaneous interwovenness with a variety of communal structures of which individuals are part. A structures only approach would be equally fallible and unsustainable (a notable example being where the entire life of individuals are regarded as being enveloped in one universalistic `organism'). Going from one polar extreme to the other is no solution.

2.3 From exchange to market relations: the structural identity principle of the market

The exchange relation, interwoven as it is with communal structures like firms and households, is not the only inter-relation that constitutes a market. Market relations typically entail much more than exchange. While exchange is central, the market appears to be a layered and structured set of relationships, only some of which are exchange relationships. Although the degree of complexity will depend on how developed the market is (section 2.4.2 below), some basic distinctions can be made.[17]

Non-exchange relationships come into existence when multiple sellers and/or multiple buyers are present, explicitly or implicitly. These are (i) the relation between different sellers of a product, and (ii) the relation between different buyers of a product. Following standard terminology, these two types of

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[14] As noted above, in Hodgson's view (1988 p.148) the absence of an exchange of property rights is the main problem in this conceptualisation.

[15] One illustration derives from those cases where economic exchange involve the transfer of property rights. In a differentiated society the institution of property only makes sense in a public law context, which necessarily implies interwovenness with the State. (In a traditional sib or clan context, property involves the sib or clan as non-differentiated community. But still it is not a case of autonomous individuals.) Also, much property is owned not by individuals, but by organizations, e.g. firms. Property necessarily involves societal organizations or communal structures (cf. Hodgson 1988 pp.149-50). For other examples of the unsustainability of purely individualistic approaches, see Fourie (1989a).

[16] Historically more individualistic inter-individual or inter-communal relationships followed on periods where communal relationships (sibs, ancient villages and medieval cities, guilds or religious communities) dominated society

[17] While the entire spectrum of societal entities (and individuals involved in them) can and do take part in market transactions, for exploratory purposes the analysis will be in terms of the conventional, prototype seller-buyer pairing of firm and household.

inter-relations can be viewed as horizontal relations, in contrast to the exchange relation as a vertical relation (being between successive steps in the economic production and distribution process).

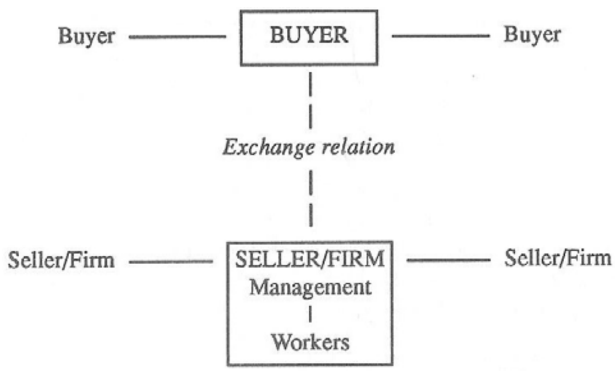
Although the horizontal relations in the market also are inter-relations, and also economically qualified, they differ intrinsically from the exchange relationship - first of all because *quid pro quo* is critically absent. More specifically, the nature of selling is mutually exclusionary or substitutive: selling by one agent excludes another from that particular act of selling. In contrast to *quid pro quo*, the substitutive between-seller relationship can be indicated by the Latin phrase *alterius loco* - `one in the place of the other'.[18]

Fundamentally this is why between-seller relations inherently are competitive or rivalrous: the contrapositioning of interests is mutually exclusionary and adversarial (in contrast with the "mutualistic" contrapositioning between a buyer and a seller - in an economic exchange relation each party is dependent upon the other; see section 2.1 above). This does not exclude the formation of cooperative or collusive agreements between sellers - such agreements indeed presuppose the prior existence of a rivalrous relation.

The same analysis applies to between-buyer relations, since buying also is mutually exclusionary - although in practice inter-buyer relations often are less competitive or interactive.[19]

Diagrammatically one can depict the set of inter-relations as in figure 1. The market relations are illustrated together with the correlated internal relational structure of the involved firms. Of course the buyer usually is not just an individual, but is either another firm (or different type of organization) or a member of a household on whose behalf he is buying (and in whose internal relational structure he is involved). In addition the existence of horizontal relations implies that multiple exchange relations can occur, either in parallel or transversely. These are not shown.

Figure 1: The basic relational structure of the market



The important points are twofold: (i) exchange is at the core of the market, but (ii) the market is more than exchange, and indeed is a layered cluster of both exchange (*quid pro quo*) and rivalry (*alterius loco*) relations. It is a complexly interwoven array of different economic inter-relations, all of which are nodally linked, often via individuals, with entities like firms and/or households. The market is not one relation, nor a thing/entity in the sense of being an organization or communal structure like the firm. It

18 This is shortened version of *alter loco alterius*. An equivalent phrase is: *quis loco cuius* (somebody in the place of another); alternatively one can refer to an *aut-aut* (either-or) relation.

19 That buying typically is mutually exclusionary does not necessarily imply mutual exclusivity in consumption, as the public goods case illustrates.

is not an identifiable unit or societal whole. It is a collection of inter-relations linking individuals and communal structures, but always in a non-collective, non-communal, independent sense.[20]

The vertical and horizontal relations perforce are linked and correlated. The emergence or existence of an exchange relation necessarily implies the existence of correlated horizontal between-seller and between-buyer relations (at least implicitly). Together the three types of relations can be seen to constitute the kernel of the idea of a market.

Since the economic exchange relation is at the core of the market phenomenon, it is foundational to the other relations in the market. Thus its relationship to the two horizontal relations can be described as a foundational interwovenness.

One can thus formulate the structural identity principle (SIP) of the market as follows:

> *The market is a structured and interwoven cluster of economically qualified exchange and rivalry relations foundationally interwoven with, and centred around, the economic exchange relations, all externally (or nodally) interwoven with firms and other communal structures.*

Above is was noted that exchanges intrinsically have only a momentary existence. Despite this, it appears that markets - as the wider relational context within which exchanges are embedded - do tend to exhibit a relative continuity and significant elements of stability and cohesion. What explains this, and why is there no disintegration into discrete exchanges? That is, why do markets actually exist and endure?

Interwovenness provides the clue. The relative structural stability of a modern differentiated economy is founded not in the nature of the inter-personal or market relations themselves, but in the interwovenness with the organised institutions and natural communities. The intrinsic durability of, first of all, families and households, and then also of firms themselves, provides the stability and relative continuity of markets. Since these institutions do not exist in isolation, but in linkage with external relations, they impute a certain `durability' onto markets.

In addition there has been a tremendous increase and differentiation in the individual person's needs, and thereby in his reliance on others. The mere increase in the number of buyers and sellers in modern society also provide a foundation for continuity. (In addition non-economic bonds may also provide integrating forces.) Nevertheless any market continuity is very different from the integrated durability and unity found in a communal structure like a firm.[21]

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[20] There is the question whether or why an economic exchange is not sufficient to constitute a market. Although this may be a moot question, theoretically it does make sense to distinguish analytically between exchange as such and the market, as the analysis above does. However, in the context of an actually existing differentiated economy I would be hesitant to say that an apparently isolated economic exchange is not part of any market (something argued by Hodgson 1988 p.177). Except in the most hypothetically isolationist situation, an exchange - even between a monopsonist and monopolist - always takes place in awareness of some alternative buyer or seller options, so that some direct or indirect interaction or independence is implied - i.e. sufficient interrelatedness actually to constitute a market context. Although the horizontal relations in the market may have a very specific actual form, they still exist. So I would prefer to see this market as very simple, narrow or `unextended'. Similarly a habitually renewed contract or regularized exchange cannot entirely be dislodged from the market context. Again it only is a very peculiar actualised form, in a particular circumstance, of the structural identity principle of the market. (Also see section 2.6 on the distinction between a structural identity principle and a definition or description.)

[21] Of course markets can be formally institutionalised, as in organised farmers markets or stock markets. In this case the structural picture is somewhat more complicated, for it involves the formation of an organization to provide the facilities in which market transactions can take place. It is an example of structural interwovenness,

This also reflects on the question as to the reasons for the existence of markets, specifically in the sense of a inter-relational complex with some continuity. Compared to fragmented or isolated exchanges, markets provide a basis for the reduction of transactions costs: `All the reasons that are cited by Coase to explain why market arrangements are more costly than the firm, serve perfectly well as reasons why the market is less costly than atomized exchange' (Hodgson 1988 p.181). Consequently, markets often are constituted so as to economise on transaction costs (often via specialised intermediaries, as highlighted by Moss). Such reductions in transactions costs depend critically on the horizontal relations in markets, and therefore on the degree of market extension. (This is even more so in the case where between-market relations are substantially developed; see section 2.4.2 below.)

Note that it is precisely because of the economic qualification of market relations - the dominance of the economic aspect - that costs are so decisive in the way actual markets are constituted. The same is true of the positive form in which a firm is constituted - in contrast to, for instance, a family, where economic considerations appear to be non-dominant (although present).

Lastly, a notable characteristic is that actual, existing markets, like firms, are a product of human activity. Markets are not natural phenomena: `If markets too are social institutions which have evolved through time then the naturalistic or ethereal view of the market is flawed' (Hodgson 1988 p.178). Market relations generally form part of, or depend on, the historical formative and organizational activities of people, including the organization of firms. It is part of the historical actualisation of societal relations and structures. In this sense the market can be said to have a historical foundation.

2.4 The structural complexity of developed markets

The phenomenon that relations in a market are differentiated, interwoven and layered, is inescapably implied by the idea of a differentiated society, and vice versa. The differentiation of the market into a complex bundle of relations implies and presupposes the existence of corresponding and correlated organisations (communal structures).[22] Similarly the existence of a differentiated variety of producing, distributing and buying institutions necessarily imply the existence of a complex set of market inter-relations.[23]

From the formulation of the structural identity principle two additional things are apparent. Firstly, the dichotomy between free markets and constraining institutions must be rejected, as Hodgson (1988 p.178) has argued. Markets typically do not and cannot exist without being interwoven - often in rather complex ways - with institutions, organizations and other communal structures, many of which are of an intrinsically non-economic nature. This also explains why `the market has ineradicable social and "collectivist" aspects' (Hodgson 1988 p.178). (The involvement of the State in particular is discussed in section 2.4.1 below.)

This does not imply any normative judgment on the form of such involvement in real market relations; merely, that it is not useful - perhaps especially for normative purposes - to start with a `structurally separatist' conception of a `pure', detached, individualistic market.

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as discussed below. Still, the intrinsic nature of the market relations that are actualised within this organizational context, is unchanged. Each societal relation or structure retains its individuality amidst any interwovenness.

[22] Moss (1981; 1984) has demonstrated how modern, intermediated markets are filled with institutions operating at different levels of the economic process.

[23] This explains why Auerbach can argue that firms have been at the same time devices for the avoidance of the market mechanism as well as for its extension: `The option of avoiding internal organisation by the use of the market is only possible if other entities have been organised in sufficient depth that a "market" appears for the services at hand' (Auerbach 1988 p.121).

Secondly, it is not helpful to think in terms of a perfect or pure case - perfect markets, or perfect competition, for example (Sawyer 1989 p.2). While the correspondence of actual markets with the structural identity principle of the market may possibly be used as the foundation for a normative evaluation - and this would be no simple issue - there is no such thing as a perfect form of a market. In particular, the structural identity principle of the market can be actualised in a variety of ways, all of which still reflect - perhaps with less or more distortion - the intrinsic or generic structural identity of the market as societal institution. (Of course this reminds one that a common character-specificity does not imply that all markets are identical.)

2.4.1 Variations in the positive form of the market

Generally the positive form and operation of markets can vary according to (a) the positive form of the vertical and the two horizontal relations, (b) which of the three types of relations is dominant in a particular situation; both of these may in turn depend on (c) the degree and actual nature of the interwovenness of firms and other organizations, in particular the relative economic power of participants in these relations (section 3 below).

Clearly the factual nature of market relations will be strongly influenced by firms and their objectives. On the other hand market relations often can be markedly determined by non-economic societal organizations with which they are interlaced, e.g. the family, trade associations, or the State. Relative dominance by a communal structure - for example a (large) firm or the State - can project an indelible imprint on the actual form of the market relations.

This has bearing on the distinction between socialist and capitalist economies/markets. In both cases, and in the various intermediate forms, one usually still can distinguish markets as markets, i.e. as actualisations of the structural identity principle of the market. Nevertheless, the actual form can vary dramatically because of different (dominant) interlacements. For example, in the centrally planned socialist economy model, the interwovenness of the State can manifest itself in such a dominating manner that it distorts the market almost beyond recognition. (In many cases the market is entirely enveloped or, even, displaced.) The same can happen where private firms are dominating.

More generally the nature of the `economic system' must be understood, inter alia, as a reflection of the positive form of the market, notably the extent to which the State is interwoven with the market, or to which market relations are dominated by large firms. Obviously this can occur in various degrees and in a rich variety of ways. This has important implications for the systems debate which has been ignited anew by the political-economic changes in Europe (see 4.2 below).

This reinforces the argument above that one must not think in terms of pure forms, in this case the polar extremes of a decentralised pure market economy or a centrally planned economy. Concerning the former option one should note that the market is inextricably interwoven with the State, although the latter is a typically non-economic institution.

Especially two structural linkages must be noted. Firstly, the State is pivotal in the establishment and upholding of a public legal order. One part of this is the function of the State juridically/legally to protect and guarantee the civil law sphere, within which private economic exchange relations are carried out (and contractually enforced). In this way private economic inter-relations perforce are interwoven with the State.[24]

[24] The other part can be found in the public law sphere, in which relations between citizens/subjects and the government are legally governed, protected and guaranteed. The existence of these different spheres of law, in turn interwoven with each other, is an integral element of differentiated society. For an elaboration of the implications of this kind of analysis for the role of the State in the economy, see Fourie (1989b). On this point also see Hodgson (1988 p.153).

This indicates that the idea of a separation of the `sphere of the market' and `the sphere of the State/politics', as in the theory of limited government, is not sustainable. The market and the State are inextricably interwoven, albeit in a very specific manner.[25]

Secondly, and fairly obviously, the State acts as buyer and seller of commodities and services. Thus the internal relational structure of the State - between government and citizens - is nodally (i.e. externally) linked to the market and thereby with, notably, selling organizations (firms).

2.4.2 A stylized history of markets: an `unfolding' process?

Given the unbreakable correlation between communal and inter-communal relationships, changes in the form of the market may also be described in the context of a differentiation process - i.e. as part of the historical transition from undifferentiated to differentiated society. As communal relationships like firms became (and become) differentiated in society, the associated inter-communal exchange relationships necessarily appear(ed).

The continuing differentiation and specialisation of both non-economic and economic institutions - including market intermediaries, financial institutions, and so forth - imply an increasingly complex network of economic exchange and non-exchange relations (in turn interwoven with an increasing variety of types of communal structures).[26] In this process it appears that the horizontal (often rivalrous) relations and tendencies gain in importance relative to the vertical exchange relations, impacting on those exchanges and affecting their actual form and realisation.

Although the historical development of societal structures does not exhibit a simple linear progression - in a modern economy firms and markets in all stages of development can be found - it is helpful to conceptualise a `stylized' evolutionary history of markets. Beginning from simple exchange relations or simple markets involving simple trade between e.g. craftsmen/firms and households, one can perceive the increasing differentiation of all the types of market relations (vertical and horizontal, exchange and non-exchange). This process is inextricably linked to a coincident differentiation and development of the societal institutions - notably firms - taking part in these economic inter-relations.

Given this depiction, the change from simple (embryonic) markets to sophisticated, differentiated markets in modern society can be described as an unfolding process - a process progressively realising the latent structure and characteristics of the market as societal phenomenon. In this process the market's structural and institutional content, and particularly its interwovenness with other institutions, may vary considerably.

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[25] This explicates, in a structural way, Hodgson's point that in any developed system of commodity exchange there must be an appropriate legal system enscribing and protecting property rights, and so forth (1988 p.150). It also becomes clear that the implicit or explicit contractual aspect of market transactions is an inseparable element thereof. Also, that the extension of property rights and commodity exchanges to more commodities and areas of social life (as propounded by free marketeers), does not reduce the role of the State, as intended. As Polanyi has observed, increased transacting and contracting in freer markets necessarily imply greater State involvement (`intervention') in guaranteeing relevant rights and legal interests, and in providing the infrastructure for potential litigation (see Hodgson 1988 pp.152-3).

[26] Empirical data on actual market (and firm) evolution, involving differentiation processes like these, can be found in, for example, the historical studies of Chandler (1977) or Hannah (1983).

2.5 The horizontal and vertical roles of prices

As noted above, one function of price is as a reflection or symbol of the exchanged value in an economic exchange. In the context of a market, where an exchange does not occur in isolation, additional functions can be distinguished.

One can distinguish between the vertical and horizontal roles of price: the former refers to its symbolic function as a manifestation of the exchange ratio in a single economic exchange, whereas in the latter case it functions as a transmitter of information between multiple exchanges in a market. This explains the observation by Hodgson (1988 p.174) that the market is a forum in which consensus over prices can be established - something absent in isolated transactions.

This horizontal function of price is founded in and presupposes the vertical, exchange-specific function of price. In addition it presupposes the inter-relational involvement of firms and other communal structures in market relations. Therefore this function of prices is a necessary counterpart of the societal and economic differentiation process (part of which involved the replacement of barter by moneyed exchange).

The differentiation of societal institutions in the modernization process also explains the appearance of another class of (horizontal) inter-relations. With the multiplication of firms and traded commodities, markets (and the firms producing the commodities) became specialised and differentiated, simultaneously becoming increasingly interlinked. In such a context buyer and seller knowledge of, and access to, specialised and differentiated markets bring horizontal between-market relations - likewise economically qualified - into play. Standard concepts like complementarity, supplementarity and cross-elasticity describe the nature of the inter-market relations that can exist between products, and therefore between the (buyers and sellers in) markets where those products are traded.

This inter-market context is where the allocation function of markets can be structurally located and analysed. Market allocation of resources between the different products is based on opportunities to channel buying power to alternative markets (and the sellers operating in them).[27] The allocation function of markets is founded in between-market relations.

The integral role of price can now be appreciated. Its horizontally extended, between-market information signalling role, founded in its vertical exchange-specific (symbolic) role, is central to the allocation function of differentiated markets. It also implies a differentiation (and deepening) of the role of price itself.

This differentiated role of price presupposes the presence or appearance of a variety of differentiated markets. The allocation function only is possible if sufficient social and economic differentiation has taken place, or only develops insofar as such differentiation occurs.

Therefore the exchange versus allocation functions of markets must be understood in the context of the historical unfolding process described above. Compared to the exchange function of markets, the market's allocation function - a `horizontal' function - emerges, and becomes more significant, only as

[27] Actually the allocation function of markets can be seen on two levels: one is within a market, where buying power is allocated between competing sellers in that market, allocating resources within that product sphere; the other is where buying power is allocated between different commodities/markets. Given the importance of the general problem of resource allocation in an economy, the theoretical debate has focused on the latter process, being more `macro' or `general/non-partial' in scope.

markets become more differentiated or relatively more sophisticated or mature (i.e. the process whereby horizontal relations gain in relative importance in the first place).[28]

This implies that while allocation is important, it is not the only or even primary function of markets, and not the only measure of effectiveness or optimality.[29] The question as to the (proper) role and functions of markets cannot be satisfactorily answered outside the contexts of a differentiated society and societal differentiation as a historical process.

2.6 So what else is new?

A comparison with the Moss and especially the Hodgson definitions of the market is instructive.
Moss (1984 p.10) defines the market as: `A set of mutually independent agents who produce and use a commodity together with all other mutually independent agents whose activities are required to get the commodity from its producers to its users.'

Hodgson (1988 p.174) 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.' He thus sees markets as `organized and institutionalized exchange', with stress on `those market institutions which help to both regulate and establish a consensus over prices and, more generally, to communicate information regarding products, prices, quantities, potential buyers and potential sellers'.

Both Moss and Hodgson appear not to distinguish sufficiently and systematically between the organizations in the market, the inter-relations at the core of the market, and the relationship between these. The term `institution' often is used too structurally undifferentiated or unspecified to enable finer distinctions - e.g. it could apply equally to inter-relations or to communal structures, or even to regularized behavioural patterns. In addition the typically economic character of all these phenomena are not really explicated. In general it appears that the theoretical grip on the nature of the complex of relations involved has to be tightened somewhat. Doing that in a systematic way is a central purpose of the `structural' analysis presented here.

However, what is clear - and here they are very correct - is that one should not attempt to define the market without explicit reference to the interwoven institutions and organizations.
Perhaps the issue here is a subtle difference between a definition and a structural identity principle (SIP). The latter is understood always to attempt to capture the characteristic kernel or nucleus of a phenomenon amidst and despite a variety of actual forms and actualisations and degrees of

[28] Also see the discussion of the role of prices by Sawyer (1989 pp.17;27-30) He also refers to Gerrard's distinction between the conductive, positional, strategic, financial and allocation functions of price - distinctions taking the idea of a differentiation in the role of price further. Suffice it to note that the relative importance or dominance of these roles may differ in, and may indeed determine, different factual situations, also historically.

[29] In this context the extension of the allocation function of markets to the level of the resource market, notably capital markets - a stage that can be can be described as a deepening of the allocation function of markets - is noteworthy. First of all, the development of capital markets presuppose institutional differentiation in the sense of the appearance of financial intermediaries to facilitate the channelling of funds. Secondly, the historical development of the capital-allocating function of markets presupposes another development or differentiation, i.e. of the corporate form of the firm (cf. Fourie 1990). Only insofar as the corporate form of the firm differentiated personal capital from firm capital (via the principle of limited liability) and allowed the holding of corporate stock by independent investors, could a capital market appear to form the basis for a capital allocation process. The correlation also applies conversely: the development of the corporate form of the firm was inextricably bound to the (legal) ability to enter into capital-acquiring relations with investors, i.e. the emergence of capital markets, albeit simple at first. The unbreakable coherence and interwovenness between the realisation and development of inter-relations and communal structures remains as a central, recurring theme.

differentiation or interwovenness with various institutions or organizations in different historical situations. Stated differently, the intention is not to describe existing markets, but to circumscribe or define conditions for being a market. In contrast, many `definitions' describe the configuration of actual, existing (often modern) markets. For instance, the formulations of Moss and Hodgson may make it difficult to distinguish between simple, `unextended' markets where the horizontal relations are relatively undeveloped and complex, horizontally `developed' markets. In this sense the definitions of both Moss and Hodgson seem too historically contextualised to capture the intrinsic, nuclear nature of markets in all phases of development (or even in different economic systems).

This does not mean that the intention is to avoid historical context. On the contrary. But a market in historical and institutional context is always seen as but a contextualisation and realisation of an underlying structural identity principle, i.e. of the intrinsic conditions for being a market. Context does not determine the intrinsic or generic nature of the phenomenon at hand, only the particular form it is given. An `empirical' requirement - and test - for a satisfactory formulation of the structural identity principle indeed is that the variety of actually existing market must be seen to be but different actualisations of the structural identity principle. In this particular way the theoretical conceptualisation - the structural identity principle - has a direct counterpart in real world markets; real markets provide the intuitive basis for the theoretical derivation of the structural identity principle.

3. Authority, market power and economic power

Market power is a sensitive subject in economics. Viewpoints range from absolute denial to uncompromising stress on the abuse of market power. Mainstream, neo-classical economics theory shies away from market power and largely limits the analysis to the existence of a sloping demand curve. In some transactions and contracts approaches, notably those strongly associated with the Chicago school approach of e.g. Alchian & Demsetz (1972), it is argued that participants in market transactions are on equal footing since there is no authority relation between them;[30] moreover, since transactions intrinsically are voluntary, there can be no abuse of economic power (cf. Fourie 1989a).

As stressed above, in the formulation of the structural identity principle of an economic exchange the idea of a quid pro quo at an agreed upon exchange ratio or price - especially with the essential voluntarism of exchange added - should not be taken to imply that exchanges therefore are `good' or fair, or that abuse of market power is ruled out per se. The mutually exclusionary nature of horizontal market relations (section 2.3) indicates that a sanguine conclusion regarding the market as a whole is even less warranted.

To explore this the institutional context of market power must be highlighted. The unbreakable interlacement between inter-relations (e.g. market relations) and the correlated communal structures (e.g. firms and households/families) is essential to the understanding of power and authority in economic relations. So is the fact that market relations are economically qualified.

Since this is a complex subject in itself, often shading into an analysis of competition, only a few indicative analytical comments are offered.

Firstly, authority and market power have to be distinguished. Whereas the existence of authority relations within durable organizations such as firms is clear, real authority is lacking in inter-individual or inter-organizational relations. Given the absence of a durable, solidary societal unit within which

[30] In the Alchian-Demsetz ultra-individualist contractarian framework, the argument usually is one of trying to prove the total absence of real power or authority within the firm by trying to show that the relation between a manager and a worker is similar to that between a client and a shopkeeper.

members are bound together, there is no foundation for a real authority structure in market relations (for a more detailed argument, see Fourie 1989a). This is where Alchian & Demsetz are correct.

However, while authority may be lacking, this does not mean that participants in such inter-relations are in positions of equality. On the contrary, market power is an inextricable part of the interwoven existence of communal structures and market relations:

(a) One or both of the parties to an exchange typically is not an individual, but a firm. Given the interlacement of internal and external relations, the internal economic power base of that firm cannot but have effects in external economic relations. This, inter alia, determine relative positions in economic exchange (compare the discussion of Moss below).

(b) The market power of an individual will always be misunderstood if the role of communal structures, and especially of those where economic power plays a significant role, is denied. Differences in individual economic position may to a large extent be due to the relative economic position of an organization with which a person is interwoven.[31] That is, the relative economic power position of an individual seller(agent) vis-à-vis a buyer, say, is decisively influenced by the economic power base of the firm with which he is interwoven. This is but another manifestation of the principle that communal structures or organisations have nodal effects and functions in external (inter-)relationships.

This suggests one reason for the failure of radically individualist theories to get an analytical grip on market power. In many a neo-classical conception of market relations, or in the typical transaction cost analysis of markets and institutions, markets are conceptualised in a purely inter-individual manner. The individuals participating in market transactions are viewed as discrete and disconnected (disembodied) from any institutional or organizational context within which they may actually be embedded.[32] Detached from the organizations and organizational context of which they are part and from which membership may derive a significant element of their economic power or status/position, individuals cannot be seen to have any economic power.

In addition individualism's effective denial of the existence of firms as organized societal units implies that neither their economic power foundation nor the consequent external effects can be discerned. This is why this view is inadequate for conceiving of any significant role for economic power in relative economic positions.

The importance of the economic qualification of market relations lies therein that particularly those organizations that are economically qualified and, more importantly, have an economic power foundation, can and do have important external implications in market relations. Compared to firms that are founded in and built upon capital/economic power, the intrinsic nature of other kinds of communal structures - e.g. families, which are not primarily economic and have a biotic foundation, say - provides a much weaker base for projecting inequality in economic inter-relations.

Put differently, disparities in position in economic inter-relations derive particularly from the presence or absence of an economic power foundation in the involved communal structures. This may explain why, whereas in an individualistic analysis an individual buyer and seller may appear to be on an equal footing in a transaction, the fact that the buyer acts within the context of a family and the seller in the context of a firm with a capital power foundation, puts a very different complexion on the situation. While the wealth of a family may of course also affect its market power, or at least its vulnerability to market power, it does not appear to provide a foundation for projecting power in external economic

[31] The relative position of the parties in inter-individual relations - both economic ones and non-economic ones like social rapport, friendship, neighbourhoodship - can be affected by a variety of factors, e.g. age, sex, class, profession, fortune, or political influence.

[32] This is a more or less inevitable consequence of the exclusive theoretical focus on, or absolutisation of, inter-individual relationships.

relations to the extent found in the case of a firm, which is an intrinsically economic organization founded in economic power. In the case of a family, the external economic impact basically is atypical and qualified or circumscribed by the intrinsic nature of the family as a `love relationship'. In the case of a firm it is an intrinsic part of the typical functioning - internally and externally - of a firm as economic producing or selling organization.

Of course the effective market power of a firm also is dependent on the economic standing of other, competing firms (equally with economic power foundations). The fact that the activities of firms are built on economic power foundations, albeit of varying depth/strength, also explains the potential intensity and typical character of competitive relations between selling firms. This typically differs from the complexion and relatively low intensity of market rivalry between e.g. buying families, where the economic dimension has less fundamental importance.

Seen together this means that the phenomenon of market power is founded in the economic power foundation of economic organizations like firms, as well as the relative economic power positions existing in the correlated horizontal and vertical (economically qualified) market relationships. This also means that market power is a particular contextual manifestation of economic power; it is founded in economic means, and not in physical force or coercion.[33]

The coherence between the first two elements noted above is illustrated by the contribution of Moss (1981 ch. 8, esp. pp. 165-70), who identifies three sources of market power of a firm: production technology (in particular the relative degree of operating leverage of its suppliers, customers or competitors); financial strength (liquid reserves, borrowing capacity, and financial leverage relative to competitors); buyer or seller concentration (relative market share). Each of these sources of market power is founded in the internal structural characteristics and economic power of the firm as well as the external, relative, inter-relational elements. These two are interwoven, as is apparent from the fundamental dependence of the latter on the internal economic power base of the firms. All these forms or sources of power are economic in nature.

Especially the relative power positions existing in the horizontal and vertical market relationships will depend on the degree and nature of market differentiation that has taken place. Moss' (1981) analysis of the emergence and role of intermediaries inside the market demonstrates that the relations and exercise of power in markets depend on the historical interwovenness of institutions, notably intermediaries, and thus the extent and nature of the market differentiation and unfolding process, and so forth.

More generally one can conclude, as Moss appears to do, that there is no general argument to be made about the actual presence or form of tangible market power. In the framework developed here, it is apparent that the positive form of market power relations will depend on the relative importance of (and role of power in) different horizontal and vertical relationships, and on historical context and pattern of institutional interwovenness. The role of economic power is also different in the exchange versus horizontal relations, and also among the two types of horizontal relations. But once again these roles are interwoven: for example, the relative power of a seller vis-à-vis a buyer impacts on his position relative to his competitors, and vice versa.

To summarize: the phenomenon of market power inseparably is part of the structural interwovenness between firms and markets, and can only be probed by explicitly analysing that interwovenness. An

[33] All three these elements are reflected in, for example, Moss's definition of market power as: `The ability to inflict unacceptable consequences upon competitors, suppliers and/or customers'; therefore it is `the ability systematically to eliminate the positive net cash flows of competitors, suppliers and/or customers in so far as that cash flow derives from, or depends on, activities in the markets in which the holder of market power trades' (1981 p.163).

entirely individualistic approach cannot but misread the presence of market power. Secondly, market power is economically qualified power. As such it is not based on physical force, and is not a form of authority either. While this does not preclude the misuse of that power at all, it does necessitate analytical treatment appropriate to this intrinsic character.

For example, whatever inequality and diversity of economic position exists between different parties in economic inter-relations, this still has a non-integrating and non-integrated character, in contrast to the integrated inequality in the case of authority relations within an organization. Inequality in market power, and any exercise or misuse of that inequality, should not be mistaken for authority or analysed as such. Neither does the absence of authority imply the absence of market or economic power, or that exploitation cannot occur in market relations.

4. Conclusion

This paper has been concerned with two recurring themes: (a) the idea of the economic qualification and character specificity of market relations (among other societal phenomena), and (b) the idea of structural interwovenness between societal relations, inter-relations and communal structures.
In this analysis the idea of an underlying or generic nature of markets - of which the variety of observed forms are manifestations and realisations - is central. Indeed, it appears to be critical for a dynamic theory of society. Without some recognition of the structural identities of relationships and communal structures - without a conception of structural identity which captures an underlying constancy in the generic nature of the involved entities and relations - it is indeed impossible to identify any changes.

Two broad conclusions can be formulated, both concerned with proper regard for the intrinsic nature of the market.

4.1 On the propriety of markets and market analysis

Given the intrinsic nature of the market as societal institution, both markets and theoretical market analysis only are appropriate where exchanges or related societal interaction that are economically qualified, take place (also see Sawyer 1989 p.8; Hodgson 1988 pp.175-6). Therefore markets and market analysis are not applicable in all areas of social interaction or every instance where choices have to be made. Markets cannot regulate all social activities because not all these are economic exchanges.

On the other hand markets are the appropriate societal structures to facilitate economic exchanges. This should be acknowledged and appreciated - whilst continually bearing in mind that actual market configurations can be better or worse, more or less equitable, or more or less efficient, implying a clear need for an appropriate normative framework for evaluating markets.

Furthermore, economists should liberate themselves from the hang-up that both orthodox and so-called radical economics have over the concept of power in the market. Economic power forms the vital foundation for the internal operation of firms, and exercising it is imperative. Given the link between a firm's internal and external relations, such power must have external implications, i.e. for exchange and other market relations. Economic power is an essential element of economic life, and should be neither denied nor demonised. The question is not whether there is economic or market power, but how it is realised and exercised, and used or abused. This has to be accepted if good theoretical analysis is to follow.

4.2 On capitalism, socialism and the market

Following from the first conclusion, one thing that is wrong with both extreme free marketism and centrally planned socialism is that both distort the market as societal structure, inter alia by separating it from the complex and differentiated institutional interwovenness in which it is unbreakably embedded and which ultimately determines both its relative importance and relative unimportance. In addition its economic qualification and typicality - which again determine both the potential and the limitations of its applicability - are denied.

Ideological free marketism (and, it must be added, much of neo-classical economics) dislodges the market from its institutional interwovenness and conceptualises it in a institutionally disembodied, (methodologically) individualistic way. While this purportedly is aimed at strengthening the market by fortifying the `pure' or `free' market against `institutional contamination', the effect is the opposite: by severing the market from its structural-institutional context, it is reduced to nothing but inter-individual relations. In a modern differentiated economy context, this `mental construct' clearly is inapplicable. In any case such markets indeed are impossible, and any effort to actually institute such `insulated' markets can only result in the distortion of the various institutions and inter-relations, and in misguided policy. In addition the market is seen as a super societal organizer capable of regulating almost any societal activity or sphere. While this clearly overstretches the market, the economic role and impact of firms and, in particular, of non-economic organizations in markets and in society as a whole largely are denied.

In the centrally planned socialist economy model, State domination of the market leads to its distortion and denigration. Centrally planned socialism (and its supporting theory) absolutises one particular communal structure, the State, to the exclusion and distortion of the market and all the other organizations and linkages that the market is interwoven with in a differentiated society. In effect the market (and by implication all involved firms) is transformed into a subordinate part of the `State society' as larger whole.

Market relations and firms are equally constitutive and equally important in a modern differentiated economy. This is what is really meant by the phrase `keeping the market in its place'. By disregarding the typical and inherent nature of the market, both ideologies fundamentally distort it - conceptually, theoretically and in practice. As a consequence the distinctive nature and contribution of the firm (and other organizations) is denied.

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