THE ARCHITECTURE OF MARKETS

THE ARCHITECTURE OF MARKETS

AN ECONOMIC SOCIOLOGY OF TWENTY-FIRST-CENTURY CAPITALIST SOCIETIES

Neil Fligstein

PRINCETON UNIVERSITY PRESS PRINCETON AND OXFORD

1

Bringing Sociology Back In

MARKET SOCIETY has produced more income, wealth, goods, and services than any other form of human social organization. It has done so by creating the conditions for social exchange between large groups of human beings, often separated across large geographic spaces. For most observers, the driving forces of this wealth creation have been technology and competition. Opportunistic entrepreneurs find a new market for some good or service. This new market often results from a technological breakthrough. Then, others see the opportunity to enter the same market. This creates competition that forces producers to make products more efficiently and at lower cost. The winners of this battle are those who figure out how to deliver the best goods at the cheapest cost.

But even the winners eventually face obsolescence. Someone comes along with a different way to do things and produces new products that simply transform the market. Occasionally, these new products unintentionally reconfigure large parts of the economy by creating entirely new opportunities to produce wealth. So railroads, electricity, telephones, automobiles, pharmaceuticals, and computers have changed the economy by opening up possibilities for people to make new markets.

There is much that is admirable about this story. It explains in a simple way something important about the dynamism of modern market society. The main problem with the story is that it is partial at best. As soon as one observes the formation and operation of real markets, it becomes obvious that none of this dynamism is possible without deep involvement by entrepreneurs, managers, workers, firms, and governments. The people who run firms have to conceptualize opportunities, figure out ways to exploit them, and motivate others to help attain those ends. They have to obtain funding, secure raw materials, and build an organization. They have to figure out ways to stabilize their interactions vis-à-vis their principal competitors. Finally, the conflict between owners and those who work for them is under constant negotiation.

Moreover, firms operate against an extensive backdrop of common understandings, rules, and laws. These are most often supplied by governments. One cannot overestimate the importance of governments to modern markets. Without stable, more or less non-rent-seeking states, modern production markets would not exist. War, plunder, and mercantilism would

dominate and swamp entrepreneurs. So, for example, patents granted by governments and enforced by courts allow firms to have a legal monopoly to exploit a particular product and gain returns from it. Other laws limit firms' ability to behave opportunistically and exploit others. Rules and laws exist in all of the advanced industrial societies to protect not just producers, but also consumers from shoddy goods and services, and workers from unsafe working conditions.

These social structures, social relations, and institutions have not been created automatically in market society. They have been long-run historical projects ongoing in all of the industrial societies that have worked through waves of crisis (sometimes violent). Solutions that have been crafted required social experimentation during specific market crises and more general economic depressions (not to mention during upheavals produced by war and conquest). These events have pushed people to think about the ways that they needed to organize in order to make and take advantage of market opportunities.

The purpose of this book is to begin to systematically understand how the dynamism of technology and competition is situated in, defined by, and structured through the production of firms, their social relations with each other, and their relations to government. Put simply, the dynamism of market society is made possible by this extensive social organization. Competition and technological change are themselves defined by market actors and governments over time. These forces are not exogenous to market society, but endogenous to these social relations.

Technological change certainly can have independent effects on social structures. But technological change can have these effects only where the social organization exists that makes technology relevant. So, for example, a hunter-gatherer society has little use for highways and telecommunications. But a society in which lowering the costs of transportation and communications makes it easier for firms to move goods and services to where there are opportunities to sell them gives huge incentives to firms that can figure out how to lower those costs.

The creation of new technology is often viewed as resulting from the scientific manipulation of reality. The discovery of new technologies is often led by the perception that a solution to a particular problem would yield large monetary gains. But this is only part of what technology is. Technologies involve figuring out how to make goods and services that can be delivered, that are reliable, and that someone can be convinced to buy at prices at which they can be produced. In order to make products to make new markets, extensive social organization has to come into existence.

Many technologies require entrepreneurs to figure out what the technology is good for. At the turn of the century, few observers believed that the automobile with an internal combustion engine could find a mass market. This was because autos were expensive and difficult to make and maintain. Moreover, there was a lack of roads and no system of distribution for gasoline. But by 1915, Henry Ford was convinced that creating such a market was possible. The social technologies involved in producing the supporting structures for that market were as fundamental as the "narrow" technical aspect of building the internal combustion engine.

Similarly, competition produces social-organizational responses as well. Firms try to find ways to control the worst aspects of competition in order to continue to exist. Much of the market-making project is to find ways to stabilize and routinize competition. Much of the history of the largest corporations can be read as attempts to stabilize markets for these firms in the face of ruinous competition and economic downturns. They have searched for nonpredatory ways to compete. Firms can avoid direct competition by pursuing different market segments (i.e., high or low quality) and by diversifying product lines into related products. They can also use social relations, that is networks, to co-opt suppliers and competitors and attain legitimacy with governments and the financial sector.

In the nineteenth century, the frequent booms and busts of the most advanced market societies resulted in part from forms of predatory competition. Firms overbuilt capacity, sold goods and services under cost, and eventually drove one another into bankruptcy. This caused the economy society-wide to lurch from boom to bust. Finding ways to compete that do not revolve around price competition alone has proved pivotal to producing stability for firms in all advanced industrial societies.

In order to take advantage of new technology, firms need to establish stable relationships to their suppliers, workers, and principal competitors. The ability to establish these relationships is itself dependent on the production of stable societal institutions such as governments and law. In every advanced industrial society, governments, firms, and workers have solved their collective problems by producing rules to help stabilize their interactions. These solutions have varied historically and across societies. They depend greatly on the relative power of different groups to produce the modern state. Modern states have produced social welfare systems, money, and the rule of law and have worked to find solutions to the conflict between labor and capital. They have promoted competition, protected workers, and provided opportunities for basic research, thus developing new technologies. Stable, non-rent-seeking governments make the difference between societies where markets are possible and those where they are not.

This dependence of technology and competition on social factors implies that making sense of economic growth requires we think more systematically about these factors. Economic growth depends on governments, institutions, and the social technologies by which firms are created,

class struggle is routinized, and competition between firms is mediated. The purpose of this book is to provide some tools to analyze how and why social factors matter.

I want to use those tools to consider some of the most important political-economic questions of our time. In this book, I provide analyses of contemporary American capitalism to understand the evolution of the "shareholder value conception of the firm." I also provide some conceptual tools to unpack the phenomenon called "globalization." I suggest how to study globalization and consider the degree to which what we know about "globalization" fits our stylized accounts. In particular, I am interested in showing that globalization does not explain the fiscal crises of contemporary welfare states, particularly in Europe. In the last chapter, I consider how the approach developed in this book might analyze the current transformation in industry due to information technology.

My overall goal is to provide scholars and other persons interested in policy with analytic tools to make sense of such phenomena as globalization. Ultimately, my analyses suggest that governments and citizens are part and parcel of market processes. The evidence shows that very different systems of relations among workers, firms, and governments have produced economic growth. The frequently invoked opposition between governments and market actors, in which governments are viewed as intrusive and inefficient, and firms as efficient wealth producers, is simply wrong. Firms rely on governments and citizens for making markets. Their ability to produce stable worlds depends greatly on these relationships. The analytic frame proposed here explores when these relationships produce positive and less positive outcomes for all members of society.

A Critique of the Existing Literature in the Sociology of Markets

Economic sociology is the study of how the material production and consumption of human populations depend on social processes for their structure and dynamics. The past 15 years have witnessed a huge expansion of empirical work in the field.[1] This book limits itself to considering the structuring of production, that is, the sociology of markets. In this area two related literatures have emerged. One version has focused on macroprocesses, for example, comparing the organization of national capitalisms, trying to understand the development of Third World societies, examining the processes of globalization, or studying the market transitions from socialism (this can be called a "political economy" approach). Another body of work focuses more narrowly on microprocesses, the formation of a particular market or industry and the emergence of social structures that affect

firms' strategy, structure, or labor market practices (a "firm- or industry-level, approach).

Common to both literatures is a critical analysis of neoclassical views of perfectly competitive markets.[2] The literature in economic sociology has demonstrated repeatedly that different aspects of the social relations between market actors are significant for the survival of those actors' firms and the output and functioning of the market (Baker 1984, 1990; Burt 1983; Fligstein 1990; Abolafia 1996). The relative economic performance of different markets across societies and the differing organization of those markets have led scholars to consider why multiple social structures exist and how they can produce successful economic outputs for societies (Hamilton and Biggart 1988; Lincoln, Gerlach, and Takahashi 1992; Whitley 1992; Aoki 1988). This body of research shows that market structures include a wide variety of elaborated social structures. These relations are shaped by how and when markets were founded, who dominates them, and the social relations among producers and their suppliers, customers, and governments. In contradiction to theories of competitive markets, many markets have complex and stable social structures based on repeated interactions of buyers and sellers and on the status and reputation of market participants. It is also clear that firms have very different internal configurations that reflect these social processes.

Large firms (the focus of many of our studies) participate in many markets and have extensive relations to suppliers, competitors, and customers. We now have a rudimentary understanding of how large American firms have been transformed in the past 125 years (Fligstein 1990; Roy 1997). We have also accumulated evidence on comparative market organization, and we have excellent studies of large firms in Europe, Asia, and to a lesser degree Latin America (Whitley 1990; Hamilton and Biggart 1988; Evans 1979; Lincoln and Kalleberg 1990; Gerlach 1992; for a review, see Fligstein and Freeland 1995). We are also beginning to get good studies of the societies moving from socialism to markets (Stark 1996; Nee 1996; Guthrie 1997, 1999; Szelenyi 1994; Burawoy and Krotov 1992; Eyal, Szelenyi, and Townsley 1998; Wank 1999). These studies have not been done by sociologists alone, but by anthropologists, business historians, institutional economists, and scholars in business schools who study macro-organizational behavior.[3]

Modern economic theory claims to be a general theory about how people interact in order to materially reproduce themselves (i.e., how they allocate scarce resources to different ends), and, therefore, it is assumed to be applicable to all societies at all times. The sociology of markets has a long and distinguished history of questioning this assumption. Three of the most important sociological classics, Karl Marx's *Capital*, Max Weber's *Economy and Society*, and Emile Durkheim's *The Division of Labor in Society*,

view the modern market economy as an outcome of the deeper social processes that generated modernity. Karl Polanyi, an anthropologist, built on these understandings to consider how markets became the dominant form of social organization to structure material reproduction. These scholars distinguished between the material reproduction of human beings and the organization of that material reproduction.[4] All societies had to solve the problem of material reproduction, but the exact form of economic organization varied from society to society.[5]

One can recognize the influence of classical sociological theories, particularly Marx's and Weber's, in much of the new work in the sociology of markets.[6] However, in general, the work borrows unsystematically from their ideas. Unlike the sociological classics, the modern sociology of markets rarely connects its theoretical ideas to a broader vision of society or societal change. Instead, most studies focus on their empirical object and the literature in which it is embedded. The element that holds the field together is its opposition to the neoclassical model of perfect competition.

Most economists ignore, or are unaware of, how noneconomists think about economic processes. One reason is the clear disciplinary boundaries. Economists have claimed modern markets as their intellectual terrain, and their prestige in the academy and their overwhelming influence on social policymaking, particularly in the United States, make it unnecessary for them to recognize outsiders.

But there is an even more important reason why economists ignore the body of noneconomic work. Put simply, it is because the work has failed to provide alternative theoretical tools to make sense of economic processes. Scholars have demonstrated that market processes are shaped by social structures. Yet we have done little to generate systematic theory about what we mean by structure and how, why, and which structures are consequential for market organization. This is because sociological approaches lack a broader, organizing frame to understand economic processes as generic social processes operating in a particular institutional situation, that is, the construction of markets. In essence, the sociology of markets lacks a theory of social institutions.

Moreover, noneconomists have been fixated on a stylized reading of the neoclassical view of perfect competition. Current economic thinking about the structure of firms and markets contains some sophisticated notions about the role of social relations in markets. Economists have come a long way in their views about rational action and perfect information. They use ideas of incomplete contracts, agency theory, asset specificity, strategic use of information, and repeated games to characterize the structures and interactions of firms in markets. These ideas are used by economists to account for many of the features of markets that noneconomists think are out of the purview of economics, such as the structuring of ownership relations, the role of financial markets in firms structure and strategy, contracting relations, networks, status systems and the role of reputation, and internal organizational arrangements.

A key focus of economic theory is the efficiency of current arrangements.[7] This concern links the social organization we observe in markets to the broader question of whether resources are being efficiently utilized. For economists, social-structural mechanisms help produce efficient outcomes under varying kinds and conditions of uncertainty. One important implication of a lack of theory in the sociology of markets is that the empirical literature has little to say about whether complex market arrangements utilize resources efficiently. Some sociologists seem inclined to the view that social relations are efficient (Granovetter 1985; Uzzi 1996, 1999; Gulati and Gargiulo 1999), while others are prepared to see efficiency as a social construction (Meyer and Rowan 1977; Fligstein 1996).

Economic theories start with the premise that social institutions would not persist if they were not efficient. In the "new" institutional economics this assumption is not meant to be tested. Instead, the general research tactic is to examine situations where different amounts or sources of uncertainty exist and then predict whether or not one will observe a certain social relation. A relation between uncertainty and social structure is confirmation that these institutions in fact enhance efficiency.

Sociological theories are more descriptive and usually agnostic or skeptical as to the ultimate effect of social structures on efficiency. I, too, doubt that all social structures are efficient. However, without a perspective on the question of efficiency, the sociology of markets finds it difficult to make normative arguments about whether current arrangements should be allowed to persist. Economic analyses of social structures' effect on the efficient allocation of resources have obvious policy relevance. Most sociological analyses of social structures have none.

My criticisms lead me to the following conclusion. To have more impact, the sociology of markets needs to be clarified theoretically. The rest of this chapter gives the reader an overview of how I think this should be done. I begin by considering what questions a sociology of markets should consider in its purview. A subfield should contain a small number of common questions that focus research and get scholars to pay attention to one another's work. This does not mean that scholars must agree on what theories answer these questions. But the questions that organize the field point to what social factors are relevant to making sense of different market situations.

The questions relevant to a sociology of markets also help define its relation to various versions of economic theory. I argue that by focusing on a set of key questions, the sociology of markets can make contributions beyond pointing to the presence of social structures in most markets. It

may turn out that, for some scholars, the economic and sociological perspectives are more complementary than contradictory.[8] My version of the sociology of markets suggests that there are real differences in theoretical assumptions and that these differences make the perspectives more adversarial, particularly in their implications for policy.

Theoretical Questions for a Sociology of Markets

Defining the boundaries of a field is, perhaps, a foolish objective. A narrow definition risks excluding issues that should be included. Too broad a definition, on the other hand, risks absorbing research problems that are just too tangential. In either case, of course, scholars can choose to ignore your definition. There are several ways one can proceed. One tactic is to focus on which scholars define themselves in the field. The problem with this approach is that the field of the sociology of markets is sufficiently diffuse that there may be multiple communities of scholars with differing concerns contained within it. Even if one could draw a circle around the field, one would still not understand what its focus or questions were. The opposite strategy is to impose a theoretical definition of the field. This approach has the advantage of focusing on a theoretical perspective, presumably of interest to a wide number of scholars. But one is likely to leave out scholars and issues that are of relevance to the field. You may quickly reduce your audience to those who agree with you.

This brings me to the third strategy, which is to pose a set of core questions of interest to scholars in the field with varying theoretical perspectives. A common set of conceptual concerns may unite scholars who can view themselves as part of a community answering related theoretical questions. This approach may also narrow the field by excluding relevant fields of endeavor. But it has the advantage of getting scholars with different theoretical approaches to orient themselves to each other because they are trying to make progress on the same set of theoretical questions. This is the approach I choose to follow.

I propose the following five theoretical questions to define the terrain of a sociology of markets in modern societies. Here I justify these questions for their theoretical importance and their empirical relevance.

> 1. What social rules must exist for markets to function, and what types of social structures are necessary to produce stable markets?

There are two types of social relations scholars use to understand how markets work. First, there are the actual relationships among producers, consumers, suppliers, and governments in a given market. In the current literature, these are often discussed as *networks*. Most empirical studies that

use the term networks specify the ways in which the content of these relations is pivotal for what goes on in a particular market. Networks usually are a stand-in for other sociological variables such as resource dependence (Burt 1983), power, often ownership (Mizruchi, Stearns, and Brewster 1988; Lincoln, Gerlach, and Takahashi, 1992; Palmer et al. 1995), information (Davis and Stout 1992), trust (Uzzi 1996), or status (Podolony 1993). Scholars who use networks as an independent variable view themselves as working within a tradition. They have not tried to present a theoretical focus uniting their ideas.

Second, societies have general rules, both formal and informal, about organizing economic activities. These rules provide the social conditions for economic exchange and allow for the production of new markets. Markets need definitions of property rights, governance structures, and rules of exchange (Fligstein 1996; Campbell and Lindberg 1990; North 1990). In all advanced industrial societies formal laws regulate incorporation and patents to protect and define property rights. Laws also define legal ways to control competition and require that in economic exchange the parties receive the goods and are properly compensated. Informal rules define what organizations "should" look like and how interactions should be structured. Formal and informal rules affect an organization's chances of survival (DiMaggio and Powell 1983; Meyer and Rowan 1977). Work that focuses on formal and informal rules is often identified with the "new institutionalism in organizational theory" (DiMaggio and Powell 1991).

Both approaches suggest that the purpose of social structures in the creation of markets is to produce stable outcomes (i.e., survival) for the firms that use them. This idea is termed *effectiveness* and has its roots in organizational theory (Thompson 1967; Scott 1995). A set of arrangements is thought to be effective if a given organization survives from period to period (Hannan and Freeman 1977, 1984). The approach is agnostic about the optimal allocation of resources in a market, instead focusing on organizational survival.

> 2. What is the relation between states and firms in the production of markets?

The model for perfectly competitive markets is a bazaar, a place where individual buyers and sellers meet to trade (White 1981). The reality is, of course, more complex. Modern production markets require, at the very least, investment in physical plant; the building of organizations; legal, social, and physical infrastructures (i.e., forms of transportation, finance, and communication); complex chains of supply; labor markets and the training of skilled personnel; regulation of fair and unfair competition; and methods to enforce contracts. Neoconservative theorists can do a thought experiment in which private agencies provide all of these services. Historically,

however, governments have been involved in providing for these market-building services and structures.

Most discussion of modern governments has focused on either war-making or social welfare functions (Skocpol 1992; Tilly 1975). But governments have also been intimately involved in their economies. I argue that one neglected part of modern state building has been modern economy building. This is not to say that everything that goes on in markets requires or revolves around governments. One can examine already existing markets and their dynamics without reference to governments. New markets can emerge from the production of new opportunities.

But much of what we are most interested in—market formation, stability, and change—can be connected to the intentional or unintentional relations among firms, markets, and governments. For instance, the phenomenon of the Internet is thought to demonstrate the independence of firms and technologies from government control. But it is well known that the government set the Internet up to ensure communications in the event of a nuclear war. Moreover, government agencies have provided extensive support for its development and even now are providing funds to produce versions of the web that will be faster.

Even where changes in a market appear to be caused by invader firms, or firms within the market reorganizing themselves, governments often are in the background. Governments underwrite technology, regulate competition, and adjudicate between competing firms. Because of existing government-firm understandings about firms' behavior, certain courses of action are unavailable. In any context, we need to be aware of what governments are doing in different societies and at different times.

Marxist approaches to markets focus on the organization of economic elites and usually see them as controlling a given market or capturing Congress or regulatory agencies (for instance, Useem 1984; Mizruchi 1989; Mintz and Schwartz 1985). The organization of elites and their ability to co-opt political actors should not be underestimated. But one of the biggest problems of this approach is explaining disunity or conflict within elites. As markets come into existence and are transformed, economic elites frequently come into conflict with one another. One elite with a very different conception of doing business can overthrow other elites. A good example of this was the merger movement in the United States in the 1980s. Managers of many firms were thrown over by hostile management teams who bought the firm. In such circumstances the antagonists often ask the government to negotiate their conflict. The government has to decide whether to choose sides or to let the economic chips fall where they may. These conflicts can profoundly change the nature of business (Fligstein 1996).

Governments develop a great number of rules or institutions oriented toward governing markets. Policies define state regulatory styles (Dobbin

1994), methods of intervention in market crises, and modes of organizing for firms. In this way, rules are path dependent and binding (Pierson 1994). They also can give government officials power that is autonomous from economic elites, particularly when those elites disagree. Governments support these rules by direct intervention in markets, by owning firms, and by the use of courts and regulatory agencies.

Finally, governments can take actions that intentionally or unintentionally force the reorganization of markets. I have shown, for example, how antitrust laws pushed American managers to diversify the number of products their firms produced (1990, chap. 7). The intention of these laws was to prevent the concentration of production in a few firms within an industry. But their unintended effect was to close off that option and encourage firms to merge with firms in related markets. There is a great deal of agreement across the empirical literature that government-firm relations are pivotal to market stability.[9]

3. What is a "social" view of what actors seek to do in markets, as opposed to an "economic" one?

Economic theory begins with the idea that individuals are profit maximizers. Neoclassical theory adds the notion of actors who possess perfect information and uses these two ideas to derive why perfectly competitive markets produce the most efficient allocation of societal resources. Economics and managerial economics (i.e., theories of teams and incomplete contracting, agency theory and transaction costs analysis) have made theoretical gains by relaxing the assumption that actors have perfect information (see for instance, Jensen and Meckling 1976; Kreps and Wilson 1982; Milgrom and Roberts 1982). Social structures in markets are viewed as methods actors use to protect themselves from incomplete information, as it would affect their ability to maximize profit.

For noneconomic models to have similar power, they must have some model of action. Without a model of action, one cannot make an argument about the conditions under which a particular social structure is or is not important to firms. Actors' goals need to be theorized and their cognitive and social constraints made more explicit.[10] Doing so will explain some of the variation we observe in the social structuring of markets. The sociology of markets has accepted the idea that actors are rational (i.e., use means to attain their ends) and that they are trying to produce profits (Granovetter 1985; White 1981). From this perspective, a social structure in a given situation is organized to attain profits.

The problem with this view is that it moves sociologists much closer to institutional economics. If social actors are profit maximizers, then their social relationships are, by definition, efficiency enhancing (Uzzi 1996). Some sociologists disagree with the idea that social structures in markets

produce efficient outcomes. If they are right, then an implicit model of action can be developed for the field. Very little work has explicitly considered this issue, one that must be clarified for the field to have an existence independent from economics.[11]

4. What are the dynamics by which markets are created, attain stability, and are transformed, and how can we characterize the relations among markets?

Most of the empirical work done in the sociology of markets attempts to provide examples of actual market processes (for example, the exemplary work of Baker, Faulkner, and Fisher 1998; Uzzi 1997, 1999; Thornton and Ocasio 1999; Haveman and Rao 1997). So far, little progress has been made in abstracting away from specific markets to a more general view of these dynamics. There has been little systematic attempt to characterize the social relations within markets generally (for a preliminary attempt, see Granovetter 1994). The main observation we have that characterizes one market's effect on another is to note that one market depends on resources from other markets (Pfeffer and Salancik 1978; DiMaggio and Powell 1983). Even less consideration has been made of where new markets come from and how existing markets affect the origins, stability, and transformation of other markets.[12]

The most sustained analysis of competition in the sociological literature is available from population ecology (Hannan and Freeman 1989). But so far this view has not been well integrated into the literature that examines social relationships in markets. Scholars have done some empirical work on this issue (Stuart 1998; Stuart, Hoang, and Hybels 1999), but without much theoretical integration. The theoretical answer to this fourth question certainly depends on how one answers the first three questions.

5. What are the implications of market dynamics for the internal structuring of firms and labor markets more generally?

A great deal of empirical work looks closely at the link between the external conditions surrounding organizations and their internal structuring. There are two perspectives at work in the sociology of markets. First, some research suggests that the internal structure is often institutionalized at the founding of the organization. This view implies that an industry converges around a small set of practices because those firms that survive are selected by characteristics of the environment (Hannan and Freeman 1977, 1984). The opposite point of view agrees that local environments affect the practices of firms. But, this point of view suggests that adaptation is possible and that organizations make constant internal adjustments to environmental conditions (see Donaldson 1995 for a spirited defense of contingency theory).

Much work in organizational theory takes the perspective of management in generating its theory of firms' structuring of labor markets (Williamson 1975; Hannan and Freeman 1984). But these labor markets are affected by other factors, such as unions, the professions, and government rules. Some have described firms' internal labor markets as "truces" (Nelson and Winter 1982) or as political coalitions (March 1962; Fligstein and Fernandez 1988). Part of the effort here will be to make some of these distinctions more theoretically explicit.

This universe of substantive questions unites many of the literatures in the sociology of markets. I think these questions bring together scholars who study organizations, firms, organizational change, economic and political elites, political sociology, economic development, labor markets, comparative capitalisms, and the law. If these questions do define the field, then scholars who start out narrowly focused on one of them may gain insights from other scholars' work that at first glance seems far afield.

A Political-Cultural Approach

I want to develop a particular answer to these five orienting questions by using a general approach to understand institutions in modern society, what can be called the political-cultural approach. The key insight of the approach is to consider that social action takes place in arenas, what may be called *fields*, *domains*, *sectors*, or *organized social spaces* (Bourdieu 1977; Bourdieu and Wacquant 1992; Weber 1978; Scott 1995; DiMaggio 1985; Fligstein 1996, 1997a; Fligstein and McAdam 1993). Fields contain collective actors who try to produce a system of domination in that space. To do so requires the production of a local culture that defines local social relations between actors.

These local cultures contain cognitive elements (i.e., they are interpretive frameworks for actors), define social relationships, and help people interpret their own position in a set of social relationships. Interpretive frameworks allow actors to render meaningful the actions of others with whom they have a social relationship on a period-to-period basis. Collective actors who benefit the most from current arrangements can be called incumbents and those who benefit less, challengers. Once in place, the interactions in fields become "games" where groups in the field who have more power use the acceptable cultural rules to reproduce their power. This process makes action in fields continuously conflictual and inherently political.

The theory of fields focuses on the opening of new social space, how it becomes and remains stable (i.e., becomes a field), and the forces that trans-

form fields. States and markets are types of social orders that contain fields (Weber 1978, 42). The social order of the state is a set of fields or policy domains where actors claim the power to make and enforce rules for all of the other actors in society (Krasner 1988). In modern societies, these orders are governed by formal (constitutions and laws) and informal (practices) rules that create and limit which arenas can be collectively dominated, who gets to be a player, and how rules are made in the domain.

State building can be viewed as the historical process by which groups outside of the state are able to get domains organized by the state to make rules for some set of societal fields. These rules reflect the interests of the most powerful groups in various fields. Politically oriented social movements, are, by definition, outside of some established field of a given state. They are oriented toward either creating a new domain where they will have power, or taking over and transforming an existing domain or even the entire state. At any given moment, there are political projects in the fields that make up states (i.e., "normal politics") and social movements oriented toward altering incumbents' ability to set rules (Gamson 1975).

By applying the theory of fields to markets, one produces an account that provides an alternative to economic views of how actors behave and why markets have social structures. Local market orders refer to a set of firms that take one another into account in their actions and, in so doing, are able to reproduce themselves on a period-to-period basis. All markets, whether organized in a city, a region, or across societies, can be analyzed from this perspective.

Market orders are governed by a general set of rules. These rules are the common understandings and laws that allow capitalist firms to exist. General ideas of market orders are embedded within a particular society and a government and reflect the society's peculiar history. The dominance of different groups in society means that those rules tend to reflect one set of interests over another. Increasingly, these rules are being established on a transnational basis, as in the European Union, the World Trade Organization, or NAFTA (North American Free Trade Agreement). But there are still national styles of ownership and regulation. Unique labor market institutions within societies reflect the power of various groups to control and define that market. Work and occupations are themselves the outcome of different traditions of development.

Economic theory assumes that the main mechanism that regulates this exchange is price competition. The theory of fields helps us observe these same social structures but interprets them quite differently. The main problem actors face is uncertainty caused by difficulties in finding suppliers and customers and in controlling their own firm. This uncertainty is manifested most acutely between competitors (i.e., firms who define themselves as sellers in the market) since all are trying to figure out how to reduce

those uncertainties simultaneously. Competitors naturally come to watch one another and undertake actions to reduce their own uncertainty. They often do this by directly attacking their competitors and undermining their attempts to do the same.

Using the idea of markets as fields requires one to specify what a market is, who the players are, what it means to be an incumbent and a challenger, and how the social relationships and cultural understandings that come into play create stable fields by solving the main problems of competition and controlling uncertainty. I accept the view that a market is a "self-reproducing role structure of producers" (White 1981, 517). A stable "market as field" means that the main players in a given market are able to reproduce their firms. In the literature, this has often caused scholars to focus on the producers in the market who watch one another's actions and use their observations to plot out their reactions. Incumbent firms are those that dominate a particular market by creating stable relations with other producers, important suppliers, customers, and the government. They exploit their position of domination by reacting to what other dominant firms are doing. Challenger firms fit into the dominant logic of a stable market, either by finding a spot in the market (i.e., a niche) or imitating dominant firms.

The sociology of markets that I am developing replaces profit-maximizing actors with people who are trying to promote the survival of their firm. There are four threats to a firm's survival. First, suppliers can control inputs, raise prices, and make firms who require their inputs unprofitable. Second, competitors can engage in price competition, take over market share, and eventually drive the firm out of business. Third, gaining cooperation from managers and workers in the firm presents problems of interpersonal conflict and politics that can jeopardize the ability to produce goods and services as well. Finally, products may become obsolete.

These problems are most acute under conditions of economic turbulence that occur most frequently at the beginning of a market, but that also can reflect a sudden downturn in the market. A firm's product mix and marketing strategies, organizational forms, and relationships with competitors, suppliers, customers, and the government are structured by its attempts to mitigate the possible negative effects of competition and internal political conflict. Social structures in markets and within firms emerge to help firms cope with competition and stabilize their various relationships.

It is important to be clear here about what I am arguing. I am not arguing that firms always find solutions to the problems presented to them by competition. One of the distinguishing features of market society is that new entrants into a market can appear and new technologies can be produced to make a given product obsolete. Moreover, just because actors look for ways to stabilize their environments does not mean that the methods they choose are successful. So, for example, patents may control competition in

a particular market under certain circumstances and fail under others. What I am arguing is that many of the actions taken by the owners and managers of firms make more sense if we understand the goal of those actions. Manager and owners are trying to enhance the survival of the firm by utilizing tactics oriented toward reducing the uncertainties they face due to the competition between firms.

I do not want to underestimate the creativity that market society has produced nor the creativity involved in producing a stable set of firms and markets. The opportunity to make money has motivated people to produce an enormous array of products and services. Sociology enters the equation in the problem of how actors produce a social world stable enough that they can sell those goods and services at a price at which their organization will survive. Managing people and uncertain environments to produce stability is a sizable task. Those who do it every day often demonstrate great skill and creativity as they lurch from crisis to crisis.

The theory of fields implies that the search for stable interactions with competitors, suppliers, and workers is the main cause of social structures in markets. The tactics we observe in business are oriented toward producing stable social relations, particularly between competitors. These relationships define fields. Once in place, firms signal one another about their price and product tactics. The relationships define how the market works, what a given firm's place is, and how actors should interpret one another's actions. Incumbent firms use the power of their position to undertake strategies that reinforce that position. To survive, challenger firms must find a place in the existing set of social relationships. I will discuss at length the types of tactics and social structures these interactions produce.

When successful, actors produce social relationships that have the effect of creating stable markets, that is, situations where incumbent firms who take one another into account in their behavior are able to reproduce themselves on a period-to-period basis. Markets produce local cultures that define who is an incumbent and who is a challenger and why (i.e., they define the social structure). They prescribe how competition will work in a given market. They also provide actors with cognitive frames to interpret the actions of other organizations. I have called these local understandings *conceptions of control* (Fligstein 1990).

Another form of creativity in markets is how actors in firms operating in other markets quickly become aware of prevalent conceptions of control. If conceptions of control are perceived as successful solutions to the problems of competition, actors in nearby markets copy them. The industry of management consultants, which has been growing at a fast rate in the past 30 years, is one of the important agents of the spread of successful solutions to problems presented by competition. Organizational learning oriented

toward reducing uncertainty for firms is an important process within and across markets.

The theory of fields also suggests how it is that governments as a set of fields interact with markets as a set of fields. Fields of the state contain organizations, some public and others private, that make, interpret, and enforce the rules of a given society. Competitive markets produce instability for both consumers and producers. As unregulated economic exchange increases and prices begin to be set by those exchanges, social relationships are up for grabs, and the firms with the most resources may be able to dictate terms to all others. Indeed, the theory of fields predicts that in order to stabilize the existence of a given firm, its owners and managers will do anything to control others.

This generic problem of attaining stable relationships for organizations that are both buyers and sellers pushes firms toward states. This explains why the economic transition to market society has been so socially disruptive and has usually ended with government regulation of economic activities. In these situations, unstable market relations threaten the survival of all firms. Governments intervene to produce rules to promote stability.

As the forms of fields created by states to intervene in markets respond to and reshape the fields that are markets, state building and market building go hand in hand. Once institutionalized, these rules both enable and constrain subsequent behavior. They constrain behavior by defining how competition and conflict can be legally regulated. They enable incumbent firms to survive and produce stable markets. They also enable firms to create new markets. New market crises bring forth new forms of state regulation. But the new forms usually follow the path of the old (Dobbin 1994). When stable markets become destabilized, it is natural for firms to appeal to governments for help.

One of the key strengths of the political-cultural approach is that it helps to unify micro- and macromarket phenomena. The theory of fields explicitly links the formation of markets and firms to the problem of stability and, in doing so, considers how markets become stable. This model has implications for the organization of market society in a wider way. If producing stability in multiple markets requires rules, then governments are deeply implicated in defining the various social structures that stabilize markets. At the very least, governments have to ratify firms' abilities to use various structures that mediate competition and conflict. At the very most, they directly intervene in market practices to produce stability. Which way and how far governments go depends greatly on the politics of a particular society and the crises that brought that society to modern markets.

Theories are useful to the degree that they provide novel insights into empirical facts. The political-cultural approach and the theory of fields do this in a number of important ways. First, studies show that the historical

transition to capitalism is an important moment in societal market formation. The political-cultural approach implies that the historical problems of the instability of markets for market participants, the formation of institutions to deal with those problems, and the configuration of economic and political elites are pivotal to setting up stable markets. Once established, they tend to reproduce entrenched interests and structure the emergence of new markets in that society.

The political-cultural approach explains why governments remain important in market society in general and why there appear to be so many national capitalisms. Later in this book, I provide evidence that national capitalisms do persist in the face of the so-called globalization of world markets. I show that markets are less globalized than some authors imply. I also show that national political and economic elites have a lot at stake in controlling "globalization."

Finally, since World War II, the developed world has managed to avoid economic depression. This 60-year period is unique in the history of modern capitalism. The political-cultural approach, with its focus on stability, presents some provocative hypotheses about why this might be. Firms have diversified their product lines since the depression of the 1930s in order to avoid markets that were declining. Economies have become diversified, and the relative size of developed economies has increased. The political-cultural approach implies that the connections between markets in large diversified economies may be weak. Thus, crises in particular markets do not spread very far. Taken together, these forces imply that we are likely to get recessions or rolling downturns caused by particular market interactions. But the overall diversity and size of large economies makes them stable.

Structure of the Book

The rest of this book is oriented toward convincing the reader that the political-cultural approach is a unified framework with which to understand the key dynamics of the sociology of markets in industrialized societies. The first part explicates the political-cultural approach in more detail. Chapter 2 takes up two issues: (1) important definitions for the political-cultural approach, and (2) the development of the social technology we call markets as a product of modernity. Chapter 3 considers the relation between state building and market building generally in modernity. I consider the role of history in producing unique state-market structures that define the relationship among owners and managers of firms, workers, and governments. I identify ideal typical arrangements that characterize some of the advanced industrial societies and suggest how they enable and constrain

patterns of market and state building. Chapter 4 presents a microanalysis of the dynamics of markets. I consider how markets are formed, remain stable, and are transformed. I provide several examples of these processes. I consider the relations between markets and suggest how to think about market crises and globalization.

The second part of the book takes up case studies and literature reviews that show the usefulness of the political-cultural perspective for analyzing important phenomena in contemporary economic sociology. I first apply the political-cultural approach to national employment systems. The next two chapters consider the political-cultural approach as an alternative to "power elite" theories of American corporations. I argue that the political-cultural approach accounts better for the historically specific ways in which firms make money and why these change. I demonstrate that during the 1980s a new conception of control came to dominate large American corporations, the shareholder value conception of the firm. I compare the unique history of the United States to some of its principal rivals. I demonstrate that national capitalisms still exist and suggest why they persist. I consider the implications of the political-cultural approach for study of the "globalization" of the world economy. I offer some data on the extent of globalization and its effects on governments. Finally, I consider the new information technology industries in light of the political-cultural approach.

Normative Implications of the Political-Cultural Approach to the Sociology of Markets

A sociology of markets should not just produce a conceptual framework to describe particular market situations or state-firm relations. It should have some predictive and explanatory power. It should also have a normative edge that has policy implications for policy communities and for political groups who are struggling with the stark anti-state prescriptions of neoliberal theory. What is the normative implication of the search for stability in markets, between markets, and among markets and governments? The ability to buy and sell freely creates a kind of social chaos as the supply and demand for a given good swings widely and produces pressure on suppliers, producers, and competitors. In the face of this chaos, self-interested actors propose to stabilize interactions by creating cultural understandings for themselves and others, and social links to one another. To the degree that these links buffer the core firms in a market, those firms prosper. To the degree that methods to protect firms exist, they spread to other markets. These complex organizing technologies, to the degree they succeed, are

creative uses of the individual's right to make money. These methods depend on government enforcement or ratification.

But stability for the incumbent firms in a market is not just a local affair. It requires other institutions to support it. Firms depend on local labor markets for workers, who mostly have invested in their own skills. Firms need roads, telecommunications, financing, property rights, and the enforcement of contracts to do business. They also need stable suppliers and customers who can pay and reliably play their part in market relations.

This stability is not just a local product, but a result of all of the people in society, the other firms and markets, and the government, which enforces some set of rules. Economics gets its normative edge from the idea that market forces are the principal way to efficiently allocate a society's resources. But if I am right, it is within a very wide set of social relationships that firms get their chance to become efficient producers. Without this wider web or nexus, and without legally accepted tactics to stabilize competition, the allocation of resources to efficient uses would be impossible.

This gives social structures an independent role in the process of market formation. General cultural understandings, the ability to mobilize financial and organizational resources, provide the conditions for the private accumulation of wealth. If one takes this perspective, one can consider normative arguments about the social structures within markets, among them, and among the people who live in the society. If market stabilization is about discovering ways to control competition, then the ability to do so is a privilege that a society allows. It helps privately constituted actors to gain advantage. It also reliably provides other people in society with goods and services that they presumably are willing to pay for. Now the customers ultimately pay for the narrowly defined costs of stability. But the ability to create a stable world is a cost borne by the more general society. Moreover, the society also bears the cost of providing infrastructure, public safety, and economic institutions that allow actors in firms to pursue stabilized markets.

A number of normative outcomes are implied by this analysis. First, if firms are effective and not efficient, then the claim that one form of market organization is always superior to other forms is probably false. If firms survive by stabilizing their relationships with their competition, then the social relations that are the outcome of this process are not maximizing the efficient allocation of resources for society. Society is prepared to allow individuals to reap profits by finding legal ways to stabilize social relations in markets because there is a general good being served (i.e., the reliable production of goods and services and the offer of employment). But the ability to engage in this form of control should have a price.

To the degree that costs of providing actors in firms with the right to stabilize markets are borne by others in the society, a given society should have the right to expect that firms obey certain rules and pay taxes as well.

Thus, a whole range of social expenditures and regulation is justified in principle. Economists often discuss how too much regulation and a focus on social justice can cause inefficiency in an economy. My point is that economic actors are totally dependent on social arrangements to make profits. It is clear that certain forms of extreme intervention in economic relations can cause inefficiency. But it is also clear that without laws, states, and the ability to find nonpredatory legal methods of competition, firms cannot exist.

The empirical literature on comparative capitalisms provides us with remarkable evidence that there is a wide range of social relations among workers, managers, firms, and states as regards the organization of firms and markets and the degree to which states are redistributive. Once we move away from the extremes (either confiscatory or predatory states), these various societal arrangements are compatible with sustained economic growth.

A sociological approach to market institutions makes us understand that there is not a single set of social and political institutions that produces the most efficient allocation of societal resources. The real issue for making markets is to create political and social conditions that produce enough stability so as to allow investment. Once these institutions are created, there are a great many ways to organize firms and markets that are compatible with making profits. Since the whole of society is enmeshed in market making, it is logical to argue that many possible interventions to produce a just and equitable society are in fact compatible with profit making. Indeed, one outcome of these interventions is to strengthen the legitimacy of market institutions.

PART I

2

Markets as Institutions

The modern nation-state is linked to the development of market society in myriad ways. The historical problem of producing stable capital, labor, and product markets eventually required governments and the representatives of capital and labor to produce general institutional arrangements (both laws and informal rules) around property rights, governance structures, and rules of exchange for all markets in capitalist societies. Within markets, cultural and historically specific rules and practices came to govern the relations among suppliers, customers, and workers (what I call conceptions of control).

Why do rules matter? Complex patterns of interaction that are stable require actors who share cognitive assumptions and expectations. To get such stability, people need either long experiences with one another, such that they settle into habitual patterns, or more formal rules to govern novel interactions. Rules based on experience or tradition or formally agreed to through negotiation then frequently become habitual in interaction (what in "institutional theory" is called "taken for grantedness" [DiMaggio and Powell 1991, chap. 1]). It is the instability produced by interactions in which actors do not share meanings that pushes actors to seek out more stable social conditions under which to interact (for example, see Haveman and Rao 1997; Dobbin and Sutton 1998).

There are two kinds of situations in which to study rules. In normal times rules are well known and taken for granted, and interactions are predictable as a result. There is conflict and contention between actors, but those conflicts are fought out under established rules, meanings, and practices. Analysts can identify who the players are, whether they are dominant or challengers, what their interests are, and what their actions mean.

In moments of the formation or transformation of political or market fields, actors become self-aware and engage in new forms of interaction to produce new arrangements. Because they try to forge new understandings, their interests and identities are in flux. They try to figure out what they want, how to get it, and how to get along with others who might want other things. The source of rules for new fields is often understandings brought from other fields. Actors modify these understandings in the practice of interacting with other groups and create new practices. But these new practices are often laid down along lines set by existing understandings.

Why the state? As the possibility for complex patterns of interaction in the sphere of economic exchange has expanded, actors have proven incapa-

ble of providing rules for themselves. Actors have two sorts of problems. First, in the case of markets, actors have to worry about keeping their firms alive. It is difficult to devote resources to making rules and simultaneously to do business. Second, in the face of uncertainty and difficult competition, firms find it impossible to solve their collective problems of competition. Sometimes firms find a way to eliminate or co-opt their principal competitors. But often this does not happen. These conditions cause firms to seek out help by approaching the government to legislate to promote "fair" competition.[1]

What about power? Rules are not created innocently or without taking into account "interests." If the largest firms are able to work under a set of rules that allows them to dominate the main markets of a society and keep workers disorganized, those rules enforce a system of power. In order to get analytic leverage on real systems of rules and power, it is necessary to think systematically about how government capacity and the relative power of government officials, capitalists, and workers figure into the construction of new market rules to define the forms of economic activity that exist in a given society.

The political-cultural perspective can provide generic analytic tools to understand what a particular set of market arrangements implies about the power structure of a society. Once these arrangements are understood, it is possible to predict how existing institutions will be used by powerful actors to frame subsequent crises. This gives leverage on understanding many of the most important political-economic dynamics within societies.

There are three parts to my exposition. First, it is necessary to define markets and the institutions necessary for them to function. The key insight is that markets are a kind of field, one that depends not just on the power of incumbents, but on more general rules in society in order to stabilize the power of incumbents. Then, it is important to consider how governments in modern capitalist societies have been constructed to deal with problems of market regulation. I argue that governments develop different kinds of capacities to intervene in their economies that are characterized by three dimensions: their ability to intervene, the form of intervention, and whose interests dominate the intervention. I then generate some general propositions about how rules produced by firms and governments produce stability in market economies.

Market Institutions: Basic Definitions

One of the core ideas that differentiates modern society from the societies that preceded it is the idea that social organization is a human product. This implies that people can make choices and attempt to construct social-organizational vehicles to attain their ends. This does not mean that people are all successful or have the same opportunities to be actors. It does mean that the entire apparatus of modern economies is, at least partially, an outcome of these social technologies of organization. These have been invented and, upon reflection by the actors who use them, intentionally refined.

The organizations and institutions that existed before modernity were obviously social constructions as well. But they were not generally conceived that way. They established who was an actor and what actors could do. As people have become more self-aware in the past 350 years, they have examined existing social organizations, learned what seems to be successful, and used this knowledge to create new social arrangements. Over time, people have found ways to systematically produce new social technologies to attain ends (for example, legal incorporation to organize firms).

Modern governments, social movements, democratic politics, firms, and markets were invented by people collectively attempting to find ways to attain their ends (Fligstein 1997a). Often these "inventions" were accidental or reflected compromises between groups. The relations between the people who produced these social-organizational vehicles was, and continues to be, murky. But once these inventions were in place, other persons became aware of the various ways to organize and self-consciously built on them. The theory of fields is a generic theory of social organization in modernity. Our ability to recover that theory is itself an act of historical self-awareness. By abstracting away from the common experiences of social actors vying for control over their social arenas, social analysts have begun to appreciate that generic social processes underlie the construction of fields across states, markets, and the private nonprofit sector.

The theory of fields assumes that actors try to produce a "local" stable world where the dominant actors produce meanings that allow them to reproduce their advantage. These actors create status hierarchies that define the positions of incumbents and challengers. Actors face two related problems when constructing these fields: attaining a stable system of power and, once it is in place, maintaining it. The social organization of fields broadly refers to three features: the set of principles that organize thought and are used by actors to make sense of their situations (what might be called cognitive frames or worldviews), the routines or practices that actors perform in their day-to-day social relations, and the social relations that constitute fields that may or may not be consciously understood by actors (Bourdieu 1977).

The cognitive maps individuals possess offer them conceptual tools to understand or interpret the moves of others (White 1992; Emirbayer and Goodwin 1994). They also provide actors with tools to create new fields.

Typically, the cognitive models that actors use are not included in conceptualizations of social organization. This is because human agency is typically undertheorized. Sociologists usually think that a person's position in a social structure dictates what the person does, while rational choice theories use interests as the main explanatory variable. Actors' common understandings are not assumed to be consequential to explaining their actions. But in the theory of fields, the skill of actors in interpreting their situations, constructing courses of action, and innovating on existing routines helps construct fields and maintain them once in place (Bourdieu and Wacquant 1992). While one can separate cognitive elements from social relations, social organization depends on both (Giddens 1981).

Social organization is the totality of what produces stable conditions for the privileged and not-so-privileged groups in society. It constitutes them as groups, defines their relations to one another, and maintains a certain order in existing fields. This discussion of the basic building blocks of fields is necessarily abstract. These building blocks contain no substance or, more precisely, "culture" (i.e., practices and local knowledge) (Geertz 1983). They do not tell us much about how a given field is going to be constructed and reproduced in reality because they do not specify what kind of field is being built (state, market, organization) nor the precise principles that structure the relations between the "players."

To apply the theory of fields to market society, it is necessary to define what kind of fields markets are, and what types of social organization are necessary for stable "markets as fields" to exist. Economic exchange ranges from infrequent and unstructured to frequent and structured. Markets are social arenas that exist for the production and sale of some good or service, and they are characterized by structured exchange. Structured exchange implies that actors expect repeated exchanges for their products and that, therefore, they need rules and social structures to guide and organize exchange. While the identities of their customers and suppliers may change over time, producers expect that they will continue to seek out customers and will need suppliers.

Actors in unstructured or haphazard exchange have little invested in the exchange, and participants may or may not interact again (either as buyers or sellers). While they may benefit from the exchange, the sellers' organizational survival does not depend on haphazard exchange. It is when the agents in exchange begin to view their own stability (i.e., reproduction) as contingent on stabilizing trade, that they turn to social-organizational vehicles. Exchange throughout human history has often been unstructured, but markets in the sense I use the term here preexisted modern capitalism. Markets (and this includes almost all modern production markets) are mainly structured by sellers looking for buyers.[2] A given market becomes a "stable market" (i.e., a field) when the product being exchanged has legitimacy with customers, and the suppliers of the good or service are able to produce a status hierarchy in which the largest suppliers dominate the market and are able to reproduce themselves on a period-to-period basis.

These actors produce organizations to make the good and create social relations between competitors to govern competition. Stable markets can be described as "self reproducing role structures" in which incumbent and challenger firms reproduce their positions on a period-of-period basis (White 1981).[3] The sellers generally produce the social structure in the market because their firms' existence is at stake if a stable market does not appear.[4] The particular problems of finding a stable market are the same for all sellers: they are looking to secure suppliers and customers and thereby find a way to reproduce themselves. The social relations between sellers in a stable market are such that one set of firms produces the dominant cultural meanings for the market and the other firms fall in line. This does not imply that the partners to any given exchange between buyers and sellers have to be the same actors. Sellers vie for customers, and customers may switch suppliers. The stability of the sellers, in the sense of their organizational survival, is what is important to the stability of the market. My operational definition of a market is the situation in which the status hierarchy and, by implication, the existence of the leading sellers are reproduced on a period-by-period basis.

For example, the steel industry in the United States, for much of the twentieth century, was a stable market in which firms had persistent identities and defined products. The largest firms reproduced themselves by being vertically integrated and focused on stabilizing prices even as demand shifted radically (Fligstein 1990). Since the mid-1960s, the identities of the suppliers of steel products have been transformed. Many of the largest producers disappeared, and new firms began to dominate the market. The market itself became differentiated between products that were basic commodities and higher-end, higher-value-added products. The newer firms were able to take advantage of these changes to form a new market. The field that once existed has disappeared, and two new market fields have taken its place (Hogan 1984).

I do not mean to obliterate the distinction between a market and an industry. A market is a social arena where sellers and buyers meet. But for sellers and buyers to exist, a product has to exist and someone has to produce it. A market depends on the buyers continuing to "show up" in a particular social space to purchase the product. But the sellers' firms and their status relations define what stability means in the market. They define what the market is about, and their relations define the local culture by which money is to be made and stability produced. While there is obviously an interdependency between buyers and sellers, the sellers' stake in the arena is one of survival.

In spite of elaborate social mechanisms and rules to guide market interaction, markets are inherently unstable from the point of view of sellers. One of the deep insights of economics is that market society makes it very profitable to create new markets. At the beginning of markets, first movers can often reap huge rewards. But as other economic actors realize the opportunity, they enter into the market and prices drop. Moreover, as markets slow down in growth (as they inevitably do), firms have incentives to go after more market share and to cut prices. These forces intensify competition. Products can be delegitimated, most often by being superseded by other products. It is these opportunities and problems that create unstable conditions for producers.

Even where seller relations have been stabilized, they can be upset. The "game" for the incumbent firms is to find a way to produce a market as a stable field. These stable markets contain social structures that characterize the relations between dominant and challenger seller firms. The social relations are oriented toward maintaining the advantaged positions of the largest seller firms in the face of their challengers. They define how the market works and how competition is structured. For example, two main firms dominate the soft drink industry in the United States: Pepsi-Cola and Coca-Cola. These firms compete over market share and use advertising, diversification of products, and price discounts to do so. Although the firms compete, they have produced an equilibrium whereby both survive by following the accepted tactics of competition.

As forms of social organization, market structures involve both cognitive understandings and concrete social relations. The cognitive understandings are of two sorts: general societal understandings about how to organize firms and markets and find stable ways to compete, and specific understandings about the way a particular market works. These specific understandings structure the interactions between competitors but also allow actors to make sense of their competitors' actions. The concrete social relations in a given market reflect its unique history and its dependency on other markets. The links to suppliers and customers play a role in creating stable markets. The constitution of these relations determines which firms are dominant and why, and their relations to challenger firms. The ultimate success of firms in producing stable fields (i.e., social structures to stabilize their relationships with one another) is dependent on the general principles of making markets in their society, and the ability to find a way to do this within a particular market.

The first problem for a sociology of markets is to propose theoretically what kinds of rules and understandings are necessary to make structured exchange (i.e., markets as fields) possible in the first place. There are four types of rules relevant to producing social structures in markets—what can be called property rights, governance structures, rules of exchange, and

conceptions of control. These categories are necessarily abstract. They refer to general types of rules that can appear as laws, understandings, or practices. They define issues about which actors who want to generate markets must create general understandings in order for stable markets to emerge. They need these rules whether they are aware of them or not. Failure, for example, to have property rights makes it difficult to have markets. If we do not know who owns what and who has the right to dispose of it, we are in the world of illegal trade and not the world of stable markets.

These four types of social structures have emerged historically as firms and governments have recognized certain generic problems in making markets work and then reflected on general solutions. Through understandings around these institutions actors produce social structures to organize themselves, to compete and cooperate, and to exchange with one another in a regular and reproducible fashion. Each of these types of social structure is directed at different problems of instability. Some are related to the general problem of creating a market in the first place, and others have to do with ensuring the stability of firms in a particular market.

Property rights are rules that define who has claims on the profits of firms (akin to what agency theorists call "residual claims" on the free cash flow of firms (Jensen and Meckling 1976; Fama 1980). This general statement leaves open the issues of the different legal forms of property rights (e.g., corporations vs. partnerships); the relationship between shareholders and employees, local communities, suppliers, and customers; and the role of the state in directing investment, owning firms, and preventing owners from harming workers. The holders of property rights are entitled to dispose of property or earn income from it. Patents and credentials are forms of property rights that entitle their holder to earn profits. The constitution of property rights is a continuous and contestable political process, not the outcome of an efficient process (for a similar argument, see Roe 1994). Organized groups from business, labor, government agencies, and political parties try to affect the constitution of property rights.

The division of property rights is at the core of market society. Property rights define who is in control of the capitalist enterprise and who has rights to claim the surplus. Property rights do not always favor the privileged groups in society. If, for instance, governments own firms and control investment decisions, their decisions can take into account different divisions of profits. Cooperative businesses or partnerships can allow for equal distribution of profits. Workers can receive part of their pay in profit-sharing schemes.

Property rights are necessary to markets because they define the social relationships between owners and everyone else in society. This stabilizes markets by making it clear who is risking what and who gets the reward in a particular market situation. A given firm's suppliers know who is the

responsible entity. Property rights thus function to produce two forms of stability: defining the power relationships between constituencies in and around firms, and signaling to other firms who firms are.[5]

Governance structures refer to the general rules in a society that define relations of competition and cooperation and define how firms should be organized.[6] These rules define the legal and illegal forms of controlling competition. They take two forms: (1) laws and (2) informal institutional practices. Laws, called antitrust, competition, or anticartel laws, exist in most advanced industrial societies. The passage, enforcement, and judicial interpretation of these laws is contested (Fligstein 1990), and the content of such laws varies widely across societies. Some societies allow extensive cooperation between competitors, particularly when foreign trade is involved, while others try to reduce the effects of barriers to entry and promote competition. Competition is not just regulated within societies, but across societies. Countries have tariffs and trade barriers to help national industry to compete with foreign competitors. These laws often benefit particular sectors of the economy.

Firms' internal organization is also a response to legal and illegal forms of competition. Firms that vertically integrate often do so to ensure themselves supplies and deny those supplies to competitors. Firms also may horizontally integrate by buying up market share in order to produce stable order in a market. Firms may diversify products in order to protect themselves from the vagaries of particular products. They may also form long-term relationships with suppliers, customers, or financial organizations in order to respond to competition.

Market societies develop more informal institutional practices that are embedded in existing organizations as routines and are available to actors in other organizations. Mechanisms of transmission include professional associations, management consultants, and the exchange of professional managers (DiMaggio and Powell 1983; Meyer and Rowan 1977). Among these informal practices are how to arrange a work organization (such as the multidivisional form), how to write labor and management contracts, and where to draw the boundaries of the firm. So, for instance, firms can compete on price, but if they infringe on one another's patents or trade secrets, they are likely to run afoul of the law. They also include current views of what behavior of firms is legal or illegal. Governance structures help define the legal and normative rules by which firms structure themselves and their relations to competitors. In this way, they generally function to stabilize those relations.

Rules of exchange define who can transact with whom and the conditions under which transactions are carried out. Rules must be established regarding weights, common standards, shipping, billing, insurance, the exchange

of money (i.e., banks), and the enforcement of contracts. Rules of exchange regulate health and safety standards of products and the standardization of products more generally. For example, many pharmaceutical products undergo extensive testing procedures. Health and safety standards help both buyers and sellers and facilitate exchange between parties who may have only fleeting interactions.

Product standardization has become increasingly important in the context of rules of exchange, particularly in the telecommunications and computer industries. National and international bodies meet to agree on standards for products across many industries. Standard setting produces shared rules that guarantee that products will be compatible. This process facilitates exchange by making it more certain that products will work the way they are intended.

Rules of exchange help stabilize markets by ensuring that exchanges occur under conditions that apply to everyone. If firms that ship their goods across a particular society do not have rules of exchange, such exchanges will be haphazard at best. Making these rules has become even more important for trade across societies. Many of the newest international trade agreements, including the European Union's Single Market Program and the last round of GATT (General Agreement on Tariffs and Trade), focus on producing and harmonizing practices around rules of exchange.

Conceptions of control reflect market-specific agreements between actors in firms on principles of internal organization (i.e., forms of hierarchy), tactics for competition or cooperation (i.e., strategies), and the hierarchy or status ordering of firms in a given market. A conception of control is a form of "local knowledge" (Geertz 1983).[7] Conceptions of control are historical and cultural products. They are historically specific to a certain industry in a certain society. They are cultural in that they form a set of understandings and practices about how things work in a particular market setting. A stable market is a social field in which a conception of control defines the social relations between incumbent and challenger seller firms such that the incumbent firms reproduce those relations on a period-to-period basis.

The purpose of action in a given market is to create and maintain stable worlds within and across firms that allow dominant seller firms to survive. Conceptions of control are social-organizational vehicles for particular markets that refer to the cognitive understandings that structure perceptions of how a particular market works, as well as a description of the real social relations of domination that exist in a particular market. A conception of control is simultaneously a worldview that allows actors to interpret the actions of others and a reflection of how the market is structured.

State Building and Market Building

Creating a general set of rules whereby stable markets can be produced helps to structure exchange in particular product fields in a particular society. To move from unstructured to structured exchange in a market implies that actors became aware of systematic problems they had in stabilizing exchange. Their awareness stimulated them to search for social-organizational solutions to their problems. But this awareness did not come quickly or all at once. The emergence of the general social technologies that help actors to produce and maintain modern markets depended on discovering the problems presented by property rights (i.e., who owned what), governance structures (i.e., ways to organize, including fair and unfair forms of competition), rules of exchange (i.e., making exchanges), and conceptions of control (i.e., producing local status hierarchies within markets to stabilize the situation of dominant players).

Proposition 2.1. The entry of countries into capitalism pushes states to develop rules about property rights, governance structures, rules of exchange, and conceptions of control in order to stabilize markets.

The timing of entry of countries into capitalism has had huge effects on societal trajectories (Westney 1987; Chandler 1990; Fligstein 1990; Dobbin 1994). The alliances made at this historical moment between workers, state officials, and capitalists structure the way in which states build policy domains and the policy styles that develop in those domains. Once such styles are established, subsequent political and economic crises are interpreted from these perspectives.

This does not mean that societies are forever locked into a set of institutions. But it does mean that any new crisis is interpreted from the current dominant perspective. This works in two ways. First, a system of rules is also a system of power. Incumbent actors try to use the current rules for their benefit. But the current set of institutions also provides actors with a way to figure out how to apply the old rules to new situations. For these reasons, we tend to observe incremental change, barring massive societal failure due to war or depression. Then, crisis open up the possibility for new political alliances and new rules.

For countries just establishing modern capitalist markets, creating stable conceptions of control is more difficult precisely because property rights, governance structures, and rules of exchange are not well specified. Firms are exposed to cutthroat competition and often demand that the state establish rules about property rights, governance structures, and rules of exchange. Creating these new institutions requires the interaction of firms, political parties, states, and newly invented (or borrowed) conceptions of regulation.[8]

People did not realize historically that they had to resolve these issues to make structured exchange possible (see North 1990, chap. 1, on this point). Indeed, many practices evolved in informal ways and stayed informal. Actors in markets found ways of making themselves stable for relatively long periods of time in the absence of formal institutions. But, as time went on, social technologies to solve problems emerged in industrial societies. Large-scale social disruptions such as wars, depressions, or social movements caused political actors to craft general tools with which to respond.

Once actors became aware of more general solutions, the solutions were used in new circumstances. But novel situations often forced the modification of organizing technology. So, for example, the modern American conception of the corporation (a limited-liability joint stock corporation) started out as a state-directed conception that emphasized limits on the exercise of property rights. This gave state legislators a tool to use in development projects whereby they could delegate transportation and communications projects to private firms and still maintain control over the firm. People began to recognize two advantages to the corporate form: it allowed the bringing together of more capital, and it restricted the liability of parties to the agreement to the assets they had invested in the corporation. These advantages pushed entrepreneurs to demand more and more acts of incorporation. Finally, this led to a broad conception of incorporation that made the form widely available (Friedman 1973; Roy 1997).

One way to partially understand governments is to view them as organized entities that produce and enforce market (and other) rules. However, this rule is not a historical necessity. It is theoretically possible for firms to routinize exchange with one another without the benefit of rules or governments. After all, most trade before the eighteenth century was done in the absence of strong states and legal systems (Greif 1989; Spruyt 1994). Before modernity, the problems posed by unstable exchange were solved by private parties to those exchanges.

There was a very practical reason for developing more general rules for markets. North and Thomas (1973) noted long ago that social institutions have made entrepreneurs richer, their firms bigger and more stable. For that reason, they argued, self-interested actors had an interest in producing rules. However, though we know rules encouraged markets as fields, entrepreneurs, managers, and governments did not comprehend that creating governmental capacity to make rules would help create wealth. So, for example, Carruthers (1996) shows that the first modern capital market in England was very much organized along political party lines. People would only trade with those with whom they agreed on politics. One of the purposes of the markets was to reward people in the party, by giving them access to friendly pools of capital.

North, in his later work (1990), realized that modern economic history cannot be read as the gradual reduction of transaction costs for markets by the production of rules that facilitate trade. He saw that entrepreneurs and government officials were unaware that their actions produced positive consequences. Their actions were not framed in these terms; indeed, their actions were often framed to benefit the friends of the rulers and cut out their enemies. Moreover, the rulers of premodern European states had time horizons far too short to understand what produced long-term economic growth. Most market institutions were the outcome of political struggles whereby one group of capitalists captured government and created rules to favor themselves over their political opponents. North's central insight is at the basis of the theory of market governance theory presented here.

The general rules that did eventually emerge reflected years of interactions with various forms of structured exchange and increasing awareness of the difficulty of managing large, complex production without rules. As one problem was solved and one set of markets stabilized, another set of problems emerged. The increasing scale of production, the growth of markets, and the growing awareness of entrepreneurs and managers of their common problems pushed the search for new common understandings.

It is still possible, of course, for structured exchange to occur without shared market institutions. But we now exist in a world where those institutions are ubiquitous and social actors are aware of them. It is this increasing self-awareness that leads modern actors in governments and firms to seek out general rules and forms of enforcement from the outset. As social-organizational vehicles become more sophisticated and ways of managing sources of instability become better known, entrepreneurs and managers realize that common understandings over property rights, governance structures, rules of exchange, and conceptions of control are useful for dominant firms.

There were two historical problems that militated against entrepreneurs and managers producing common rules to stabilize exchanges. If governments were formed by a small number of capitalists to intervene in market processes, the group was likely to make rules to favor themselves and cut out others, thereby capturing the state for their narrow interests. This, of course, frequently happened. But such rent seeking was met by open political conflict.

Capitalists often faced collective action problems when it came to making market rules. How could entrepreneurs who focused on existing conceptions of control in a given market simultaneously develop more general rules about competition, cooperation, property rights, and rules of exchange with actors in other markets? The basic problem is that owners have to worry about organizational survival in the context of scarce organizational resources. Why would they want to produce general rules for all firms in a society?

Systemic economic crises produced economic depressions as a result of unstable systems of exchange. These became more severe and involved more and more people in societies across Europe and North America in the nineteenth century. Those with the largest investments in plants and other facilities found themselves in difficult situations. Managers and entrepreneurs responded to these crises caused by overcompetition by trying to control their main competitors. They used cartels or attempted to form monopolies. Firms also faced workers' organizations that resisted their attempt to lower wages and control labor markets. Class struggle led to bitter disputes between the large groups of workers who were located in the largest factories and the owners and managers (Edwards 1979). But frequently, firms and workers could not construct stable solutions, and they certainly could not construct "general" solutions. This conflict led both sides to go to governments to get them to produce stable outcomes (Fligstein 1990; Chandler 1990).

The organizations, groups, and institutions that comprise the fields of the state in modern capitalist society claim sovereignty, that is, the right to make and enforce the rules governing all interactions in a given geographic area (Krasner 1988).[9] Firms and workers' organizations came into conflict and turmoil, and they both tried to use governments to solve their problems of instability (Fligstein 1990). While most modern discussions of state building have focused on welfare and warfare, modern capitalist states have been constructed in interaction with the development of their economies, and the governance of their economies is part of the core of state building (Fligstein 1990; Hooks 1990; Campbell, Hollingsworth, and Lindberg 1991; Dobbin 1994; Evans 1995).[10]

As was stated in chapter 1, I conceive of the modern state as a set of fields that can be defined as policy domains. Policy domains are arenas of political action where bureaucratic agencies and representatives of firms and workers meet to form and implement policy.[11] The purpose of this policymaking is to make rules and governance mechanisms to produce stable patterns of interaction in nonstate fields. Modern states also typically develop legal systems with courts that adjudicate and interpret current laws and understandings. These legal fields are domains as well that contain judges, courts, lawyers, and law schools. One way to understand the legal system is to realize that legal systems are alternative ways for challenger groups to engage in political action. By using laws against incumbents, challengers can contest the rights and privileges of dominant groups (Shapiro 1980; Stone Sweet 2000).

The building of these domains, what others have called "state capacity" (Evans, Skocpol, and Rueschmeyer 1985), occurs under a set of interactions

governed by rules that were usually put into place by a revolutionary social movement or a series of such movements or were imposed by outside invaders (or a succession of such forces). Once a government is formed in capitalist societies, the political processes in a society are about dominant groups building government capacity to ensure their dominant position and challenger groups trying to reorient existing domains or creating new ones to include them. The purpose of this confrontation within domains is to provide stabilizing rules that tend to benefit the most powerful groups.

State building can be defined as the development of domains set up by and for state officials, firms, and workers. The domains, once constructed, reflect the relative power of workers, capitalists, politicians, and state bureaucrats, inscribed in the law and the forms of regulation or intervention at the time they are formed. Domains are often focused on particular industries (for example, bank regulation) but can also be concerned with more general issues that apply across industries (for example, antitrust law or patents that define property rights). The way in which states are capable of intervening in their economies is inscribed by the power relations as constituted in particular domains when they are founded.

Proposition 2.2. Initial formation of policy domains and the rules they create affecting property rights, governance structures, and rules of exchange shape the development of new markets because they produce cultural templates that determine how to organize in a given society. The initial configuration of institutions and the balance of power between government officials, capitalists, and workers at that moment account for the persistence of, and differences between, national capitalisms.

The shape of initial regulatory institutions has a profound effect on subsequent capitalist development. They define the current state of rules and what is permissible. They also provide guidelines for how states can be subsequently organized to intervene in economies as new issues arise. Indeed, any new markets that come into existence do so under a given set of institutions. This is one of the most remarkable features of institutions: they enable newly organized actors to act. They do not just support the status quo, but allow entrepreneurs to come into existence without having to invent new ways to organize.

One can observe that, as countries industrialize, the demand for laws or enforceable understandings is high, and that once such understandings are produced, demand decreases. As new industries emerge or old ones are transformed, new rules are made in the context of the old rules. Dobbin (1994) has argued that societies create "regulatory styles." These styles are embedded in regulatory organizations and in the statutes that support them. States are often the focus of market crises, but actors continue to use an existing set of laws and practices to resolve crises. These general

tactics are used to construct arguments about why and how governments should directly intervene in or mediate disputes between firms and workers and intervene in or regulate markets. Property rights, governance structures, conceptions of control, and rules of exchange are institutional issues about which modern states establish rules for economic actors. There can be specific state agencies oriented toward producing and enforcing institutions, such as patent offices for the registration of property rights. More common, however, are multiple domains where institutional issues enter in different ways.

A good example is modern states' extensive policy domains organized around the problems of agriculture. Most advanced industrial societies have programs oriented toward solving problems of competition (for instance, price support programs and subsidized foreign trade) and rules of exchange (for instance, health and safety standards and standard weights and measures). In many advanced industrial societies, these policies are buttressed with concerns for the property rights of "family" farmers. In the United States, special tax laws make it easier for family farmers to pass on their farms to their children.

Proposition 2.3. State actors are constantly attending to one market crisis or another. This is so because markets are always being organized or destabilized, and firms and workers are lobbying for state intervention.

In normal times, change in markets is incremental and dependent upon the construction of interests of actors in and around the state.[12] Having stable rules is often more important than the content of the rules. However, rules do embody the interests of dominant groups, and state actors do not intentionally transform rules unless dominant groups are in crisis. Because of their central place in the creation and enforcement of market institutions, states become the focus of crisis in any important market. Given the turmoil inherent in markets, the state is constantly attending to some form of market crisis.

Pressure on states can from come two sources: other states (and by implication, their firms) and existing markets that can be constructed either locally (within the geography of the state) or globally (across states). As economic interdependence across societies has increased, there has been an explosion of cross-state agreements, particularly about rules of exchange. States provide stable and reliable conditions under which firms organize, compete, cooperate, and exchange. They also privilege some firms over others and often national large firms over small firms and firms from foreign countries. The enforcement of these rules affects what conceptions of control can produce stable markets. There are political contests over the content of laws, their applicability to given firms and markets, and the extent and direction of state intervention in the economy.

Power in Policy Domains and Market Institutions

States are important to the formation and ongoing stability of markets. How they are important and to what degree is a matter of historical process (Evans 1995; Ziegler 1997). Some states have greater capacities for intervention than others, and the likelihood of intervention depends on the nature of the crisis and the institutional history of the state (Dobbin 1994; Evans, Skocpol, and Rueschmeyer 1985; Ziegler 1997; Laumann and Knoke 1987).[13] Current organized interests use current rules to try to reproduce their positions. This explains why there appear to be so many forms of market arrangements across and within developed and developing societies (Evans 1995; Fligstein and Freeland 1995).

Proposition 2.4. Policy domains contain governmental organizations and representatives of firms, workers, and other organized groups. They are structured in two ways: (1) around the state's capacity to intervene, regulate, and mediate, and (2) around the relative power of societal groups to dictate the terms of intervention.

There are two important ways in which to characterize the political structure of policy domains of the state that focus on the relations between government officials, their organizations, capitalist firms, and workers. One important dimension is captured by the distinctions among direct intervention, regulation, and mediation. Domains are interventionist to the degree that government officials can directly make substantive decisions for markets. Governments may own firms, control the financial sector, direct investment, and heavily regulate firms' entries, exits, and competition in markets. Government officials have strong control over firms and workers in these domains. An example of an interventionist state is France, where historically officials in ministries were able to direct investment and control firms by virtue of government ownership.

In contrast, states dominated by regulatory regimes create agencies to enforce general rules in markets but do not decide who can own what or make what investment. Regulatory states put organizations in place in policy domains to play "traffic cop." Theoretically, regulatory bodies do not reflect the interest of any one group but use rules impartially to police the interactions of firms and workers who are represented in the domain. Often, regulatory bodies become captured by the dominant firms in an industry. Examples of regulatory agencies are the Securities and Exchange Commission in the United States and the Monopolies Board in the United Kingdom.

Both regulatory and interventionist states occasionally use mediation in policy arenas to help make policy or settle disputes. Interactions between

industry representatives and state officials around an issue of common concern may result in the formation of a policy for a sector of the economy. If there is conflict between the organizations of firms or between firms and workers, state officials can act as mediators. It is clear that the Ministry of International Trade and Industry (MITI) played this role in Japanese development (Johnson 1982; Evans 1995).[14]

The second dimension that structures domains concerns whether or not they have undergone "capture." Economists argue that one problem of government intervention in markets is the temptation by government officials to "rent-seek" (Buchanan, Tellison, and Tulloch 1980). Rent seeking implies that government officials seek out payments from either firms or workers in a sector that involve bribes or taxes. In this case, the sector can be captured by the state. Evans (1995) has described as predatory states in some parts of the Third World that have this capacity.

Capture can occur as well if either a set of firms or an organized group of workers gets control over a policy domain (this is in fact the point of Buchanan, Tellison, and Tulloch's book [1980]). Regulatory agencies or even interventionist parts of ministries often rely on industry guidance for information and personnel. If workers or firms capture domains, they can attempt to use the domain to narrowly defend their privilege against other claims. To the degree that the industry is organized, it is possible for a set of firms to capture the regulatory agency and get government officials to accept their view of the industry and what should be done.

Workers can capture domains as well. Groups of workers may, for example, win the right to certify new workers, which, in essence, gives them the right to decide who has a "property right," that is, who owns a certificate that entitles them to make a profit from their skill. The government may directly intervene in this process or allow certification boards to be selected from members of workers' communities. Professions, such as physicians in the United States, have used this tactic successfully for long periods of time to control the supply of doctors (Starr 1982).

I would like to reconceptualize the language of rent seeking to capture in a more neutral way who, among government officials or representatives of capitalist or worker interests, has the upper hand in making policy in a given domain. Rent seeking occurs in the sense that all groups are oriented toward using their power in policy domains for their own ends. But rent seeking can be more or less venal. When individual firms or government officials use their positions to advantage themselves and disadvantage of others in their fields, extreme predatory behavior can result.

Usually, rent seeking only occurs where there is little countervailing power. If a set of capitalist firms is not opposed by government officials or workers, the firms are more likely to set in place governance structures

that allow collusion and rules of exchange that prevent other firms from competing. But it is also the case that the interests of a small set of firms and organized workers may produce the same effect. By such means textile manufacturers in the United States have been able to protect their markets by allying themselves with workers under the guise of saving jobs. These issues are explored more thoroughly in the next chapter.

3

The Politics of the Creation of Market Institutions

My discussion has so far focused on making conceptual distinctions. It is possible to get more theoretical and empirical leverage by considering how ideal-typical domination by one group, or alliances between workers, capitalists, and state officials, affects in the formation of market institutions. These ideal types are useful because they suggest how national governments come to intervene in markets as a function of the historical coalitions between government officials, capitalists, and workers. To apply the ideal types, one can examine the historic balance of power at the formation of market institutions in a given society, discern how actors are currently arrayed, and make predictions about how state organizational capacity will get built and how it will affect the rules of market organization. If one knows that a given set of arrangements dominates a certain society and one understands the roles played by various groups, then one can predict how new crises will be mediated and what kind of domains and rules are likely to be constructed.

Of course the links between general market institutions in a society and the formation of particular markets is a historical process. So, for example, as software firms have emerged, intellectual property rights have become a more salient issue. New kinds of patent laws have emerged that define what can be patented about a particular piece of software. Thus, the particular market problem can have a distinct "cultural solution" that reflects the context in which it emerges. In societies with existing patent laws, new laws were built on existing law. But, of course, new innovations in law were required because of the nature of the industry covered. This give-and-take between existing institutions and new situations for firms and industries characterizes a great deal of the empirical work on development of market institutions. (See, for example, Fligstein and Mara-Drita 1996; Haveman and Rao 1997; Baron, Dobbin, and Jennings 1986; Dobbin 1994.)

It is useful to begin with an abstract and static analysis in order to characterize ideal types. The pure cases (i.e., domination by capitalists; workers, or state officials) of the formation of governmental capacity often exist when one group dominates in the executive or legislative branches of governments and creates rules favorable to itself. Once institutions are pro-

TABLE 3.1
Dominant Groups and Their Effects on Policy Domains and Forms of Economic Intervention

Dominant Group	*Policy Domains*	*Economic Intervention*
State as rent seeker	Predatory	Haphazard; open to corruption
Capitalists	Regulatory	Capture by capitalist interests
Workers	Impossible in capitalism?	
Capitalist-state coalition	Regulatory; state could be directing or brokering development	State controls finance, utilities, infrastructure; represses workers
Worker-state coalition	Welfare state; direct ntervention in product and labor markets	State ownership of firms; extension worker protections
Capitalist-worker stand-off	Policies respond to who is dominant; state acts as broker	Strongest groups get favorable policies; compromise

duced and organizational capacity to organize domains comes into existence, domains that produce and enforce rules take on lives of their own. Firms and workers who participate in those domains learn to live with a certain set of rules, even if it disadvantages them. Changing those rules requires a serious crisis that makes reforms possible. These often occur only with a regime shift in which new political players remake the rules in their constituents' interests.

Table 3.1 presents these ideal types. Table 3.2 shows the implications of these arrangements for property rights, governance structures, rules of exchange, and conceptions of control in product markets. It is useful to consider how the pure cases structure the ability of governments to intervene in markets generally and the implications for market institutions.

Government officials in rent-seeking states organize markets by directly owning firms and using them to support favored groups (such as relatives and friends) or establishing clientelistic, but stable, relations with a particular group of capitalists. They use their power to extract rents from these "favored" groups. Organized military regimes often have this character, as do regimes in many developing countries. Rent-seeking government officials' ability to dominate economies is often a matter of degree, even

TABLE 3.2
Implications for Market Institutions of Domination by Different Groups

Dominant Group	*Property Rights*	*Governance Structure*	*Rules of Exchange*	*Dominant Model of State/ Market Intervention*
State as rent seeker	Sold via bribes and payoffs	Bribes and payoffs	Bribes and payoffs	Firms and workers disorganized; markets unstable
Capitalists	No state ownership; shareholders have all the rights	Cartels and control; clear organization of competitors	Capture of regulatory control; enforcement for incumbents	State intervention for incumbents' crises but otherwise stays out of markets
Workers	No private ownership	Competition mediated to protect jobs	Regulations extensive; worker-consumer safety paramount, used to keep out competitors	State intervention to save jobs
Capitalist-state coalition	State control of finance and ownership of public utilities; clear distinctions between public and private	Some product markets protected; others open depending on firms' competitive positions	Rule of law applied to all	State intervention to aid incumbents
Worker-state coalition	State ownership; some stakeholder rights	Oriented to job protection; firms allowed to cooperate; markets protected	Rules extensive and enforced for all	State intervention to save jobs
Capitalist-worker standoff; state autonomy	Go for intervention when both sides agree or if powerful demands from organized groups	Alternatively help sides protect jobs and markets; allow cooperation save jobs	Used for intervention for both sides	State intervention for firms or workers

where workers and firms are sufficiently disorganized that they are unable to produce political movements to counter officials. This is because these regimes often lack personnel who are able to create effective government bureaucracy to systematically rent-seek. Extensive black markets for basic commodities often develop in these conditions, and the ability of government officials to support their styles of life is constantly threatened.

In one extreme version of this situation, governments lack the ability to even collect taxes, and public officials routinely use their positions to obtain bribes and kick backs. Evans (1995) has described this condition as a "predatory state." He identifies Zaire during the late 1980s as an example. One way to characterize this lack of organizational capacity is that policy domains essentially do not exist. Governments require resources and skilled personnel; and, if they are lacking, governments do not have the organizational capacity to enforce rules. With little or no representation of the interests of workers or capitalists, this circumstance translates into difficult and potentially life-threatening situations for owners, managers, and workers.

States that are organized rent-seekers have staggering implications for the production of institutions. Table 3.2 shows that in governments with capacity to police, officials sell property rights to the highest bidder. Those rights remain with those bidders at the whim of officials. Where government officials are not able to enforce deals that are made, bribery can buy property rights. Similarly, rules surrounding competition and cooperation, which permit firms to be organized, either are applied in a clientelistic fashion, in the best case, or simply do not exist. Conditions are determined at the whim of officials on the scene. Finally, simple exchange (shipping, the transfer of funds, buying products brought from outside the country) is fraught with difficulty. Favored groups have more access to channels of exchange. If government officials cannot police such arrangements, then other government officials can upset whatever arrangement is in place.

This is a negative view of the state's role in economic development. Is it possible for state-led development to be more positive for workers or firms even where those groups are disorganized? Evans (1995) posits that this possibility relies on a well-paid, professionally trained administrative staff. This gives administrators an autonomy that allows them to try to produce market institutions that may benefit less organized social groups. Evans and Rauch (1999) provide empirical evidence that educated bureaucracies in fact enhance economic growth in developing societies. There is evidence that government-directed development in Korea, Japan, and France helped organize capitalist firms and intervened in market processes (Wade 1990; Westney 1987; Johnson 1982; Djelic 1998).[1]

The question of whether bureaucratic elites in states can in fact produce stable market institutions and growing economies is complex. It is clear that some of the development projects of the past hundred years have been state led, as even the World Bank has acknowledged (1997). But many societies with dominant states have not developed, sometimes because national politics does not push a market-style development project, as in India during most of the postwar era. But even where governments have pushed such projects (in Mexico and Brazil, for example), those projects have not been entirely successful. To make progress on this issue of the effect of bureaucratic elites, one would need to clarify two aspects of state policies. First, do the policies provide stable market institutions in theory, and second, do the governments have the organizational capacity to implement the necessary regulatory apparatus in practice? Frequently the implementation of market institutions is difficult and can be resisted by local political authorities and organized groups of capitalists.

If a society's policy domains are entirely dominated by capitalists, the mechanisms for rent seeking shift, as presented in the second row of tables 3.1 and 3.2. Policy domains exist and governments have organizational capacity, but these domains are now captured by narrower capitalist interests. On occasion, government policy is made for an individual firm. But more normal is regulatory capture by the leading firms in a particular industry. The former situation can result in tension between individual firms that search for opportunities to rent-seek and other firms in a specific industry that want collective regulatory capture in order to promote collective rent-seeking by the industry.

Often dominant firms promote industry-wide rules that apply to all firms "equally." They do so for two reasons. Dominant firms want to restrict government officials' ability to directly intervene in any market, even when those officials more or less serve their interests. Government officials who are regulators cannot own firms or intervene in market processes to choose winners and losers. But dominant firms that have accomplished regulatory capture can have rules written and enforced that disproportionately benefit them. Thus, "fair" regulators appear to be enforcing rules for every firm, even if those rules benefit some firms (usually market incumbents) more than others.

In the case of property rights, capitalists prefer a clear set of rules giving power only to shareholders. They also prefer that states not own firms in any sector of the economy. This gives governments an incentive to take over firms in sectors in economic trouble and then return them to private investors after public funds are used to strengthen firm. A good example is the massive bailout of the savings and loan industry in the United States during the 1980s. Here the government sold bonds to pay off depositors

in failed savings and loan associations. Then regulators took whatever assets were seized and sold them back into private hands. The federal government socialized the cost of the bailout to taxpayers and then made the assets available to private investors at attractive prices.

Firms' dominance also encourages governments to pay for investments firms want to make in plant capacity and technology while leaving profit making in private hands. Governments underwrite basic research but give firms opportunities to exploit new technologies commercially. So, for example, defense contractors have their costs underwritten but retain patents and use the results of research to make profits. This private ownership of property rights also ensures that patents allow firms to exploit a monopoly.

Capitalists also prefer legal forms of governance to control competition. Firms want rules that allow them to cooperate with their competitors to jointly produce new products, share markets, and set prices. Firms also prefer "fair trade" that makes predatory trade practices illegal. Fair trade implies that new entrants into a market cannot engage in predatory practices that might upset a stable set of arrangements. Rent-seeking firms attempt regulatory capture of agencies that control their ability to cooperate and compete. Firms do not want direct government intervention in problems caused by competition because that might result in public ownership of the sector or in one set of firms being favored over another.

Rules of exchange determine who can interact with whom and under what conditions. Regulatory capture would result in the easing of rules of exchange for dominant firms in an industry. To prevent rules from being written for a single firm, capitalists tend to want more general rules. So, for example, regulation that guarantees contracts and payment that provides for restitution if contracts are broken mean that no one has the incentive to cheat. Regulation that ensures product safety and quality prevents some firms from capitalizing on lower standards to sell cheaper products. However, rules of exchange can be used to thwart competitors (particularly foreign ones) by putting up barriers to entry in a given market. If outside firms have to put up bonds, pay tariffs, or meet extraordinary health and safety standards, their products are more expensive and easier to keep out. In this way, rules of exchange may become trade barriers to control competition.

Societies where capitalists are highly politically organized offer opportunities for dominant firms to create conceptions of control to ensure their stability without threat of government intervention. Capture of agencies and regulators who deal with governance structure ensures that arrangements to stabilize any given market may meet with success. In a society dominated by firms, we may expect a few large firms to divide a market in oligopolistic fashion. Competition is tempered by the recognition that if all prosper, all survive. Governments stay out of markets unless incumbent firms begin to fail. Under these conditions, incumbent firms may request

government action. But the government's intervention is oriented toward returning conditions of profitability to the industry rather than reorganizing it or taking it over.

Domination of capitalist societies by workers is difficult to imagine. If workers really dominated a capitalist society, it would probably be more adequately described as socialist. If a worker-dominated state could exist in capitalism, it would create policy domains that favored using the government to own firms, protect jobs, and provide extensive benefits for workers. Private property rights would be severely curtailed. This would mean that, except for small businesses, effectively all businesses would be run by the state. Workers as rent seekers would act to preserve jobs and benefits rather than create "efficient" industrial structure. In the context of property rights, they would curtail capitalist social relations and favor state ownership. They would want workers to be represented on boards of directors. They would favor state intervention in competitive processes, particularly where such processes would likely result in the loss of jobs.

Rules of exchange would keep tariffs high and prevent capitalist competition from destroying jobs. Rules of exchange would also be structured to regulate transactions that threatened jobs or health and safety. One could expect extensive rules controlling conditions of work and the health and safety of products. Rules of exchange would make it difficult to import competitive products. Finally, the conception of control that dominated economic life would stress state preservation of jobs. In uneconomic industries, the state would intervene to restore financial strength and minimize job loss. Rules would make it difficult to fire workers and hard to close plants, even those that were clearly uncompetitive.

The socialist societies that have existed have had many of these attributes. Those societies, however, often had state managers who were unconstrained by workers' interests and therefore were able to engage in rent seeking. These societies were often lax in creating health and safety standards for products and work. Groups of workers were frequently exploited for redistribution of resources toward uses favored by state managers, such as defense expenditures. The social democratic countries, particularly in Scandinavia, embody a number of these tendencies of worker-dominated societies as well. But they are not pure cases of domination by workers, as much of the economy remains in private hands.

It is useful to consider how alliances between capitalists, workers, and government officials produce compromises in the structure of policy domains and the institutions that structure markets. I first consider the alliance between government officials and capitalists. In this situation, capitalists are not able to totally dominate the economy but instead must ally with state officials. Two historical trajectories can lead to such an alliance. First, for historical reasons, governments may have strong organizational capac-

ity (Evans 1995). If capitalists are not sufficiently organized (which frequently occurs in the early days of industrialization) to take control of governments, governments can help to organize capitalists. Second, workers resist such attempts by firms to control states completely. If their political actions are turned back, governments and firms can work together to promote a capitalist order to strengthen capitalist control over economic processes. This means that repression of workers usually accompanies a capitalist-state coalition.

Such a compromise gives governments more ability to intervene in market processes and therefore control policy domains. Government bureaucrats can act to organize the interests of a particular sector of the economy if firms fail to do so. Firms try to keep governments from direct intervention and attempt to limit states to regulation. Table 3.1 sums up these arguments, showing that capitalist-state coalitions produce regulation, state-organized development, and worker repression.

Table 3.2 provides an analysis of the implications of this compromise for market institutions. State-led development implies that governments own certain sectors of the economy, such as utilities and finance. They do this because those industries are often essential to development, but often societies lack either capital or expertise to have developed private sectors. They also give government officials levers to control privately held firms. Generally, state-led development is done with limits on public ownership. There are clear rules about the conditions under which governments can intervene in the economy by the direct control of property rights. State-led development also causes governments to regulate competition and cooperation. States may try to protect certain industries in early stages of development, or longer if they are deemed crucial to the national market. At the same time, government officials may encourage firms oriented toward export markets to compete in world markets. Rules of exchange are used in the same way.

Capitalist-state coalitions often tread dangerously close to rent seeking. If powerful national firms ingratiate themselves with government officials, they may obtain official recognition of their status and protective regulation of their position. This means that the state will bail out declining firms or sectors. State officials can decide in the national interest to regulate a sector, and that comes close to equating the dominant firms' interests with the national interest.

Worker-state coalitions characterize some of the social democracies of Western Europe. Table 3.2 suggests that in such states officials organize policy domains but favor the interests of workers rather than capital in policymaking. Governments develop organizational capacities in many industrial sectors to directly intervene in the affairs of private firms in many

ways. Extensive state ownership of firms and state protection of workers are likely. If firms begin to fail, governments take them over to protect jobs. Where private firms exist, they are subject to government scrutiny and are forced to adopt strict rules to make it difficult to lay workers off. Workers may also have extensive rights in the governance of the firm as well. Workers may be stakeholders who sit on boards of directors and help decide the strategies of the firm.

Generally, the regulation of competition and cooperation of firms are oriented toward protecting jobs. Governments encourage firms to merge and control competition to save jobs. Rules of exchange also are used to protect jobs. In the case of incumbents failing in an established industry, governments often soften rules to provide incentives for the reorganization of incumbent failing firms.

The final case to consider is a worker-capitalist standoff in society in general. Governments are then called upon to solve crises on a sector-to-sector basis. The nature of the intervention depends on which group has the upper hand in that sector. If no one dominates in a particular sector, groups may compromise, with state officials acting as brokers between sides. Where workers or capitalists are very powerful, they may dominate policy domains. Where both are weak, government officials dominate. Because of the complex politics of these situations, governments tend to have the ability to extensively intervene in economic life. This capacity may give government officials a narrow kind of autonomy, an autonomy that focuses on finding compromises and imposing them in specific situations.

Compromise situations can be stable in that groups maintain vigilance and promote and protect domains most important to their interests. All of the market institutions are open for intervention by state officials, and the form of that intervention reflects the crisis presented to government officials and the relative power of the sides. Governments are likely to own some firms, control the conditions of cooperation and competition, protect some sectors and jobs, and intervene as the particular crisis and the alignment of social forces determine (see Hart 1992 for a similar argument).

Political Structuring of Labor Market Institutions

Like policy domains, labor markets are organized around issues of property rights, governance structures, conceptions of control, and rules of exchange. In the context of labor markets, property rights refer to skills that one can claim in order to make profits. Usually the central issue is the process whereby states, workers, or firms control who can use credentials.

Governance structures refer to rules of social closure whereby groups can control the supply of labor. Credentialing can be used as both a property right and as a mechanism to control competition. If people cannot practice a certain occupation because they lack credentials, this controls labor supply. Rules of exchange concern the conditions under which labor is free to move. Rules of exchange guide hiring, firing, and pay and promotion. In specific labor markets, conceptions of control are such that organized groups structure market processes to benefit their members. Table 3.3 presents ideal-typical arrangements for labor market structures in a society.

Where the state predominates, labor market structures are likely to be nonexistent. The relative power of workers depends on clientelistic ties to governments. This dependence makes it difficult for groups of workers to enforce property rights, as individuals who know the right people may be able to circumvent any control. Neither firms nor workers' organizations can effectively control the supply of labor or the conditions that structure the rules by which firms and workers interact. Clientelistic relations to corrupt governments increase locally either groups of worker or firms that are best able to pay off local governments.

Where firms predominate, they tend to control labor markets. Firms create rules and structures for workers internally that allow them to reward and punish workers at will. Firms prefer workers who are not organized outside of the firm. (Dore 1973; 1997 shows how this works for Japan.) Competitive external labor markets with no minimum wage and few rules give firms the greatest leeway.

Firms may create forms of bureaucratic control to reward with careers workers who are important (Edwards 1979). Firms prefer workers to be disorganized and therefore want to keep property rights out of their control. Unions are weak or nonexistent, and professions are not fully successful at controlling certification. Finally, firms prefer to control work rules and do not want workers to be able to use work rules to affect the terms of exchange.

Workers prefer to control labor markets. Their means of control include strong unions and professions and trades that control certification and the supply of workers. Ideally, workers prefer to be able to offer to firms workers whom the firm has to accept. Thus, the supply of labor is under worker control. Finally, worker-controlled labor markets contain rules of exchange that control the movements of workers for their benefit and restrict firms ability to hire, fire, pay, or promote. Civil service systems that reward seniority and make workers difficult to fire reflect these principles.

Labor market structures that reflect dominance by firms and states allow firms to control many of their affairs but also protect the rights of individuals to get paid, move, or be certified for their credentials. State agencies are on the side of citizens because of an overriding commitment to fair

TABLE 3.3
Implications for Labor Markets of Domination by Different Groups

Dominant Group	*Dominant Model of Labor Market*	*Property Rights*	*Governance Structures*	*Rules of Exchange*
State as rent seeker	Corrupt	Difficult to attain and exploit	Groups with clientelistic ties can cooperate to attain labor market closure	Groups with clientelistic ties dominate
Capitalists	Firm-controlled labor markets	Unions outlawed/Professions weak	Firms keep labor markets competitive	Workers cannot use work rules to affect closure
Workers	Worker-controlled labor markets	Strong unions/professional/trades control over certification	Labor markets under worker control or closure	Workers prevent free movement of labor
Capitalist-state coalition	Firm-controlled labor markets, but laws protect individuals	Unions regulated; certification by state authorities that might be captured by professions	Labor markets mostly left to firm control; rules to protect individuals	Mostly free movement of labor
Worker-state coalition	Worker-controlled labor markets, but laws protect individuals	Unions powerful; professions and trades control certification under state regulation	Labor markets organized; rules to protect individuals	Workers prevent free movement of labor
Worker-capitalist stand-off; state autonomy	Mixed labor markets, some firm controlled, some worker controlled	Some unions; professions strong in certifying	Some worker controlled, some firm controlled	Movement of labor determined on case-by-case basis

competition and freedom of association. Unions are regulated and are most successful where skills need to be certified. Professions are most successful because of claims of individuals to profit from their training. Labor markets are mostly left to firms to control. Individual workers are offered protection from firms, but collective bargaining is highly regulated. While workers

are protected from some forms of discrimination on the job, firms are largely able to hire, fire, promote whom they want and set rates of pay.

Where workers and state officials dominate, workers have a great deal of power in labor markets, but to some degree state officials also protect the rights of firms. This protection takes the form of promoting the rights of owners and managers as individuals to use their property as they see fit. Unions and professional associations are powerful and able to control certification of workers. While unions are able to organize workers, they have limited control over firms' hiring practices, and thus unions do not attain full closure over labor markets. State bureaucracies are organized to protect workers rights but also pay attention to the rights of managers and employers who are also citizens.

Where neither firms nor workers dominate a society's labor market, one expects many different arrangements across industries. Some labor markets are controlled by workers, others by firms. Some groups of workers attain the ability to certify workers and restrict competition among them; other groups of workers do not.

Policy Domains and Market Regulation in Real Societies

Real societies do not exhibit any one form of organization. This is because groups rarely control all institutions, and even more rarely are they able to do so over time because of the historical layering of governments' capacities for intervention in their economies. So, for example, one set of political and economic crises may lead to the triumph of capitalist-oriented political parties, which then limit the ability of both government officials and workers to regulate some economic feature of the society. But a subsequent crisis may sweep in a new political coalition more representative of workers' interests that expands the number of policy domains and the capacities of government officials for regulation and intervention on behalf of workers' interests.

The United States is the purest case of a society in which capitalist firms are able to use the policy domains of the state for their own interest. Government generally lacks the capacity to directly intervene, and, when it organizes domains or sectors, it is regulatory. Regulation of financial, ownership, and labor markets is minimal, almost always in the interest of firms, and is often captured by the leading firms in a sector. As for the property rights of firms, the United States is organized to maximize shareholder (i.e., those who own the stock) value (see chap. 7).

The United States is not a pure system. In terms of issues of governance, U.S. competition laws have traditionally prevented cooperation between

firms, decreasing the power of firms to control markets directly (Fligstein 1990). Recently, however, these rules have been relaxed, and U.S. firms are being allowed to enter joint ventures with their major competitors, suggesting that even these limited rules of governance have tilted toward firms. The U.S. system of rules of exchange is a victory for capitalist firms. Rules protect such industries as textiles, sugar, and, for a while, automobiles and steel, while promoting exports by firms doing business on an international scale, such as manufacturers of computers or airframes.

Recognizing the degree to which American firms dominate the creation of market institutions and the regulation of those institutions helps make sense of two sorts of phenomena. When considering what market institutions may come out of a particular crisis, one must always bear in mind that government will tend to intervene to protect capitalist interests. Thus, analyses of market crises should begin and end with understanding that governments intervene for incumbents so as to preserve private capital. A comparison of market institutions across societies and of the responses by governments to similar crises shows that the U.S. federal government always acts to preserve and enhance firms, while other governments may pursue policies oriented toward protecting other social groups.

Japan appears to be a case where capitalists and state officials share control over the policy domains of the economy. The Japanese economy is organized to protect small business and agriculture in the home market while supporting big business in exporting around the world (Dore 1973, 1997). This set of relations may appear to be an example of dominance by capitalists, as in the U.S. model. But government officials have had the power historically to intervene in product markets directly, and, in particular, to direct investment toward firms engaged in exporting. MITI has directed capitalist development when the capitalists themselves have not been strong enough to do it (Evans 1995). The government has been deeply involved with directing investment and controlling trade (Johnson 1982). Business is also powerful, having local markets protected and being able to cooperate across firms (Aoki 1988; Gerlach 1992). Workers have been systematically disorganized by the Japanese government since the early 1950s (Dore 1973). In the economic crisis of the 1990s, the Japanese government tried many strategies to promote a recovery. It propped up banks and injected huge amounts of money into public infrastructure projects. It did not force a reorganization in the keiretsu structure, the families of firms with interlocking ties of ownership across different industries.

The Scandinavian welfare states appear to be the real societies closest to the ideal type of dominance of workers with the assistance of state actors. Governments own some firms, although important parts of the economy

remain privately held. The economies are export-oriented but internal consumption is heavily regulated to protect the internal markets and jobs. Wages and benefits are high, and inequality is low. The government intervenes in many features of economic life (Lawrence and Spybey 1986), mostly to protect workers and save jobs. There are extensive work rules, unemployment benefits, and health benefits. Governments legislate paid vacations, sick pay, and maternity leave (Esping-Anderson 1990). If firms lay workers off, governments attempt to retrain workers and find them new jobs. An extensive public sector engages in public works as well.

The German system is a political compromise between capital and labor, although, in many domains, labor appears to have the upper hand. Officials in the federal German government have relatively little capacity to organize policy domains or directly intervene in industrial sectors (Ziegler 1997). The German states, called Lander, do have more capacity to intervene in labor markets and product markets. Many of the Lander own stock in their largest firms. With employers they organize the training of workers and the retraining of workers if industries decline. Until recently, workers and firms were organized into large corporatist organizations that settled many important economic issues (Streeck 1984, 1995). Workers sit on boards of directors and are involved in firms' decision making (Lane 1989; Kocka 1980; Cable, Palfrey, and Runge 1980). Extensive labor market protections are in place. Workers enjoy countrywide collective bargaining. They also have generous benefits.

While German firms are subject to more collective arrangements than in Japan or the United States, there is less public ownership of firms in Germany than in Scandinavia. A number of private large and extremely diversified corporations, such as Daimler-Chrysler, exist. A large number of much smaller firms, are oriented toward market niches and export (Herrigel, 1996). Firms are allowed to cooperate in markets that involve foreign trade. The core of the German economy is export oriented and privately held.

The French system has produced an interesting hybrid that may have the strongest control by state actors of any of the OECD countries. One of its most interesting features is a highly interventionist government. One could argue that French society fits the ideal-typical model in which capitalists and workers are balanced and the state plays an autonomous role vis-à-vis both groups (Crozier 1973). This standoff means that the French state intervenes on whichever side has the most power in a particular domain.

The French government, historically, has owned firms, directed investment, and controlled the financial system. It underwrites research, and the top of the French management system has a symbiotic relationship with the government (Green 1986; Barsoux and Lawrence 1990; Bourdieu 1996; Djelic 1998). French workers also have extensive welfare benefits and work rules. The government responds to crises in various sectors by direct intervention. If workers are more organized, then the state builds policy domains and organizational capacity to aid workers. The policy domains of the French government appear to be dominated by the interests of workers. But state officials have set themselves up as cadres with similar social background and educational credentials (Bourdieu 1997; Boltanski 1987). This implies that government officials are somewhat independent of workers' interests.

The ideal types just described can be used to make sense of the policy styles and domains of existing capitalist societies. Once those styles are characterized, it is possible to predict what kind of new state capacity is likely to be built in a political or economic crisis. So, for instance, government intervention into market processes is more likely in France or Scandinavia than in the United States or Great Britain. Since workers are much less protected from market crises in the United States, one expects them to bear the brunt of market crises more systematically.[2] This means that the same economic crisis will be met with entirely different policy responses by different governments. So, for example, the slow economic growth of the 1970s was met in the United States by public policies that favored deregulation of the economy, while the French and German governments were more concerned to ensure social solidarity and protect benefits and workers' rights. One important result was that income inequality increased substantially in the United States while it changed little in France, Germany, and Scandinavia.

Over time, crises tend to reinforce a given set of institutional rules and build organizational capacity of a certain variety. Even in the era of so-called globalization, national political systems continue to matter. Groups of capitalists and workers interpret crises in terms similar to those they have been using all along. When they go to established policy domains, they expect the existing configuration of power and style of intervention to produce an accurate interpretation of the crisis and a solution. So, in the United States, every economic crisis calls forth the response to deregulate and to reduce government and worker influence, while in France, government officials are called upon to act in the "public interest."

Stability and Complexity

Recently, Chandler, Amatori, and Hikino (1997) have compiled a volume of papers oriented toward understanding the role of big business in economic growth. They assert that big business has been the engine of economic growth across capitalist societies because of the investments managers make in economies of scale and scope. Their argument is that societies where there are large firms have experienced sustained economic growth,

while societies that have not managed to create large corporations have less growth. The central problem with the argument is that the papers in the volume, which consider various societies in Western Europe, Asia, and North America, reach a remarkable conclusion that is at odds with the central assertion of the editors. The most important factors for long-term economic growth appear to be stable state-society political arrangements, formal mediation of class struggle between workers and capitalists, and a history free from war, invasion, or victimization by imperialism (Fligstein 1998). Large corporations, from the perspective of most of the papers, are endogenous to this process.

This conclusion, of course, dovetails nicely with the political-cultural approach. Capitalist development depends on the production of stable institutions and the creation of solid frameworks to guide the interactions between workers, capitalists, and states. I would like to develop this insight more explicitly.

Proposition 3.1. Sustained capitalist economic growth requires the political resolution of worker-owner-state conflicts and the creation of rules to govern those conflicts by producing property rights, governance structures, and rules of exchange.

The literature on comparative capitalisms has shown us that there are many ways to attain these stable forms. In some societies, capitalists dominate, while in others, workers or state managers play a stronger role. The degree to which this domination spills over into the logic of employment systems explains how jobs are created and how far workers are able to influence rates of pay. I want to make a strong assertion here. Unless there is substantial rent-seeking, all of these possible patterns of relative strength produce stable institutional conditions for economic growth over the long term.

Now the central claim of economics is that there are more or less efficient ways to set up institutions to promote economic growth. It is correct in that, at certain extremes where rent seeking is unchecked, we are less likely to observe positive outcomes. For example, in African, Middle Eastern, and some Asian societies (India and Pakistan) in the past 30 years, rent seeking has constricted economic growth. Economics has a tougher case to make where institutions are more socially balanced. I want to argue that once stable institutions are in play, their impact on highly aggregate outcomes such as long-term economic growth and employment growth may be similar, regardless of the particulars of the institutions.

The basic idea for economists is that societies make institutional tradeoffs between the efficient allocation of resources and the equitable distribution of goods and services. But the empirical evidence for this assertion is difficult to gather. Economists who study long-term economic growth are

often struck by the importance of state investments in infrastructure, education, and political stability (Barro 1990; Maddison 1995; Aschauer 1990; North 1990). While we can examine rates such as GDP per capita as long-term measures of economic growth, it is difficult to show that differences in such rates result from different institutions. So, if one examined economic growth in Germany from 1950 to 1975, one might conclude that the German system, which favored workers, was more efficient than the American system, which favored capital. If one examined economic growth from 1990 until 2000, one might view American institutions as more effective. Of course, one could only draw this conclusion if one ignored the costs of German unification and the decision to create the single currency in Europe.

It is very difficult to assess the relative effects of institutional arrangements when they change relatively infrequently and economies go through business and political cycles that affect economic growth according to their own dynamics. This does not prevent scholars and policymakers from engaging in comparative institutional analysis on the basis on long-term economic growth. For example, edited volumes by Berger and Dore (1996), Boyer and Drache (1996), Crouch and Streeck (1997), and Hart's monograph (1992) start with the idea that one can assess the relative effects of economic institutions on economic growth. But the analytical weaknesses do suggest that consumers of such analyses should take them with a grain of salt.

This is the lesson the political-cultural approach offers reformers in developing societies, particularly the formerly socialist societies. The critical problem for these societies is to build reasonable political coalitions between workers, capitalists, and governments that reflect the real concerns of the organized forces in those societies. Those groups must help produce legitimate states that have the capacity to intervene in market processes in order to produce stable outcomes for firms and workers. Without the building of such a political consensus, these societies may be doomed to long periods of rent seeking on the part of government officials or former government officials who control the largest firms. Economic growth is not just a matter of freeing up prices and unfettering markets. It is a matter of creating rules of stable interaction such that rent seeking is avoided, exchange is possible, and varied groups are represented.

There is much political pressure (particularly from Western agencies such as the World Bank and the IMF) on developing societies to favor capitalist interests over worker interests. But it is not totally clear that this has been the surest path to economic development. The history of development of the industrial societies shows that as development proceeded and democracy spread, political parties that reflected the interests of workers became more prevalent. These political parties were the strongest in West-

ern Europe, and they helped create more equal and just societies. The overall effect of these reforms on long-term economic growth is difficult to measure. The most important features to promote economic growth appear to be related mostly to the production of rules and laws that did not allow extreme forms of rent seeking on anyone's part and investments in physical and social infrastructure. Redistributive policies that produced, for example, more equal income distributions and universal pensions and health care do not appear to have negatively affected long-term economic growth in societies that were more developed.

The political-cultural approach supplies scholars interested in economic growth with insight into the forms of stability and instability in modern market economies. The political and institutional stability of societies plays a huge role in their economic stability. Governments in industrial societies play a role in investment and mediating the class struggle as well. The actions of managers and entrepreneurs are framed around these forms of stability. They can create new industries using government support to invest in uncertain technologies. They can diversify their risks in their firms to produce stable identities for firms.

Implications for Research

Three sorts of studies are suggested by the political-cultural approach. First, scholars may focus on the political processes that generate particular market institutions and the roles of various groups in those processes in a given society. This type of work examines the production of particular laws, shared agreements over ways to intervene and regulate market processes, or the decision-making process by which laws are interpreted by courts. Many excellent studies exist that consider such political decision-making processes (Thorelli 1955; Evans 1995; Ziegler 1997).

One may also extend the model to analyze trade agreements between societies. The World Trade Organization, NAFTA, and the European Union all require agreements over economic rules for exchange. Therefore, they can be analyzed according to what kind of rules have been written (property rights, governance structures, rules of exchange) and which groups have had the largest say in their nature (for such an analysis of the European Union's Single Market Program, see Fligstein and Mara-Drita 1996).

Second, studies may focus on the emergence, stability, or transformation of a particular market, holding constant market institutions. This kind of work has already produced rich understandings of particular industries (for examples, see Baker, Faulkner, and Fisher 1998 for advertising; Baker 1984 for the Chicago Board of Trade; Podolny 1993 for investment bankers;

Baker and Faulkner 1991 for Hollywood producers; Uzzi 1997 for clothing manufacturers; and Biggart and Guillén 1999 for automobile manufacturers). In the next chapter I provide some tools for analyzing transformation of particular markets and offer examples of these processes.

A third set of questions is also opened by the political-cultural approach. One of the most important tasks is to offer analytic tools that bring together action in a particular market or set of markets and political institution-building. Interactions between these two domains work in two ways. First, a given market-building process can feed into policymaking, thereby shaping the production of institutions. Once large firms emerge in capitalist economies, how do they compete and cooperate? Economic crises caused by the oversupply of goods drive firms to try to control competition. Government interventions to produce governance structures follow. Across societies, the political responses to crises produced by too much competition have resulted in different solutions depending on the relative power of social actors.

In the United States, for example, the Sherman Act (1890) prohibited cartels as restraints of trade, but did not prohibit large firms from controlling huge market shares and using their size to threaten competitors (Fligstein 1990). By 1896, cartels were illegal, but joining together the assets of a large number of competitors was not. It is not surprising that the major participants in the 1898–1904 merger movement engaged in the horizontal integration of their industries. This joining of production became an accepted tactic to deal with competition.

This is a way in which political institutions and actions in markets interrelate second. Preexisting market institutions determine what possibilities exist for entrepreneurs organizing new markets. These institutions open up new opportunities and foreclose others. If governments set tariffs to protect particular industries, other industries are tempted to get governments to do the same for them. Alternatively, government policies can have unintended consequences. So, for example, a government policy that defines legal and illegal forms of competition forecloses opportunities to form conceptions of control based on illegal forms of competition. It does not end the search for conceptions of control but pushes the owners and managers of firms to find new ways to control their problems of instability. We have studies of how changing the rules for an industry has greatly affected the founding and survival of new organizations (Ranger-Moore, Banaszak-Hull, and Hannan 1991 on the insurance industry; Haveman and Rao 1997 on banks). Djelic (1998) has done a fascinating study of the use of the Marshall Plan to push European governments to reorganize their largest firms after World War II.

Another spectacular example of this process in the United States is the so-called separation of ownership and control that operates in the largest

corporations. Currently, agency theorists in economics argue that the separation of ownership from control exists because it is the most efficient way to organize property rights (see, for instance, Fama and Jensen 1983a). Yet Mark Roe (1994) has shown that the separation between ownership and control in the United States was primarily a political, not an economic, project. During the Great Depression of the 1930s, the widespread economic crisis brought the federal government to change the laws regulating which economic activities banks, brokerage firms, and insurance companies could engage in. Banks had to choose between lending money and owning firms. Brokerage firms had to focus on selling securities. Insurance companies were kept from holding controlling positions in firms.

These rule changes were an effort to prevent bank failures. They were also motivated by populist concerns with the concentration of ownership and wealth. Roe (1994) documents that the development of large equity and debt markets subsequently was the outcome of firms' search for capital. Since federal regulators would not allow firms to be owned by banks or other financial organizations, firms were forced to find other ways to raise funds. Roe argues that part of the reason the United States developed sophisticated capital markets in the postwar era was because there was a huge demand for capital, yet relatively high interest rates offered by banks.

The connections between states and markets depends on where one cuts into a particular market process. It is, of course, possible to study market processes without reference to governments and the more general rules that enable firms to exist. But analysts always need to be sensitive to the role of governments in the formation of new markets. Governments can provide funding for new technologies, underwrite standards, produce regulation with intended and unintended consequences, and engage in many forms of direct and indirect intervention.

If one is focusing on some innovation in market rules, then one studies how crises in markets spilled over into politics. One is interested in which groups supported what project and which group won out. Alternatively, if one is interested in how sets of rules enabled or constrained subsequent market actors, one sees how rules were interpreted by entrepreneurs to produce new markets or transform existing ones.

Conclusion

When scholars observe the structuring of product, capital, and labor markets across industries and societies, they are struck by the plethora of arrangements. I argue that this variety reflects two forces: one historical and the other systemic. Because of their unique trajectories and entry into capitalism, societies have found different ways to organize their property rights, governance structures, and rules of exchange. While there are real cultural differences at work in different societies, I want to argue that many of the differences reflect the particular power arrangements that exist as societies enter industrialization. The relative power of state, capitalist, or worker groups as state building proceeded is inscribed in government capacity and in who the benefits from a certain set of arrangements. Arrangements that favor one group over another promote the life chances of that group and work to disorganize others. In "normal" times, the crises of a given society are in fact the crises of whoever has privilege at the moment. Those in power use the mechanisms they have developed to maintain that power.

Only in a more widespread societal crisis (war, depression) does the possibility for real institutional reform occur. This is because the current power arrangements and the rules that support them are no longer able to reproduce those groups. New social groups can be swept into power and create new government capacity, oriented toward their interests and interventions in their favor. These new groups create domains that overlay or replace existing ones. Market organization is thus a mix of the historical and the political. The chosen solutions for organizing for markets depend on who writes the rules and how these rules help a given set of actors.

But rules can have unintended consequences. New social groups may use rules in ways their framers did not intend. These new actors may then push for modernization of the rules under the guise of making the old rules relevant for new circumstances. Thus, new rules can reflect an unusual mixture of the past and present. They constrain and reinforce systems of power but also enable new social actors and eventually may be transformed to serve in new contexts. Rules can be borrowed, not just from one's own society, but across societies. As markets integrate across national borders, new conceptions of control become possible. These conceptions can be borrowed for use in existing national markets as well.

Modern markets defined as structured exchange are difficult to imagine without the existence of modern governments. Governments are implicated in modern capitalist economies in two ways. First, their current policy domains are constituted to intervene, regulate, or mediate in product, capital, and labor markets. These structures are not innocent but bear the marks of control by dominant social groups. Thus, in economic crises, organized groups of firms or workers quickly take their grievances to governments if their group controls the domain.

Second, rules and understandings built around property rights, governance structures, rules of exchange, and conceptions of control create the possibility for new markets to emerge by providing social-organizational

vehicles for entrepreneurs to take advantage of selling new products. This implies a somewhat more passive role for governments, but it is important nonetheless. Accepted rules by which entrepreneurs can be organized and legally defined means to control competitors give entrepreneurs the chance to exploit opportunities to capture profit. It is to the building of market structures that I now turn.

4

The Theory of Fields and the Problem of Market Formation

MY GOAL in this chapter is to develop a general sociological view that makes sense of social structures in a particular market (for a compatible approach, see Baker et al. 1998). This requires two main elements: (1) a sociological model of action that describes what entrepreneurs and managers try to do in a market, and (2) a theory of market formation based on the theory of fields. I use this conceptual framework to develop propositions about the dynamics of the formation, stability, and transformation of markets.

I then use this framework to explore the production of stable markets and market institutions in the United States and some of the current efforts to construct market society in the former socialist countries. I take up the question of what it means to say that a market is globalized from the perspective developed here and consider what the implications are for the problem of forming globalized market institutions. Finally, I consider how, as market society grows and expands, economies become more stable as firms diversify and markets multiply.

Markets as Fields

Most key insights of the sociology of markets have been framed as reactions to neoclassical economic views of the functioning of markets. White (1981) suggested that stable production markets were possible only if actors took one another into account in their behavior, contrary to the basic assumption of the neoclassical economic view, which stresses anonymity of actors. Granovetter (1985) extended this argument, suggesting that all forms of economic interaction were centered in social relations, what he called the "embeddedness of markets." Various scholars have presented evidence that market embeddedness produces effects that economic models cannot predict (Burt 1983; Zelizar 1983; Baker 1984; Fligstein 1990; Uzzi 1996, 1999; Baker, Faulkner, and Fisher 1998).

The empirical literature has failed to clarify the precise theoretical nature of the social embeddedness of markets. Granovetter (1985) argues that network relatedness is the most important construct. Burt (1983) proposes that networks stand in for resource dependence. Podolny (1993) uses net-

works as a cause and consequence of the creation of a status hierarchy. Uzzi (1996, 1997, 1999) and Gulati and Gargiulo (1999) have focused on trust relations in repeated market transactions. Fligstein (1990) and Fligstein and Brantley (1992) argue that the social relations within and across firms and their more formal relations to the state are pivotal to understanding how stable markets emerge. Campbell and Lindberg (1990) and Campbell, Hollingsworth, and Lindberg (1991) take a similar approach and focus on the emergence of what they call "governance structures" in industries. Institutional theory in the organizational literature implies that institutional entrepreneurs create new sets of social arrangements in organizational fields with the aid of powerful organized interests, both inside and outside of the state (DiMaggio 1988; DiMaggio and Powell 1991).

These latter perspectives have been buttressed by studies on comparative industrial organization (Hamilton and Biggart 1988; Chandler 1990; Gerlach 1992; Whitley 1992; Wade 1990; Amsden 1989; Dyas and Thanheiser 1976; Mueller 1980; Stokman, Ziegler, and Scott 1985; the papers in Chandler, Amatori, and Hikino 1997) that show how state-firm interactions in various societies produce unique cultures of production. Industrial countries are not converging toward a single form (Fligstein and Freeland 1995). Instead a plurality of social relations structures markets within and across societies. These observations have challenged the neoclassical economists' view that markets select efficient forms that, over time, converge to a single form.[1]

To push this debate forward, I want to develop a new view from the existing literature. The basic insight is to consider structured exchange (i.e., markets) as a field. The social structure of a field is a cultural construction whereby dominant and dominated coexist under a set of understandings about what makes one set of organizations dominant. This is similar to what Podolny (1993) has called a "status hierarchy." The interactions of firms are cultural constructions that are understood by participants. Both are locked in a "game" in which the goal of dominant actors is to reproduce their advantage and the goal of the dominated is to either directly challenge the dominators or accept a lesser role, albeit one in which the dominated too are reproduced on a period-to-period basis.

To apply the theory of fields to markets, one must focus on the behaviors of the organizations that produce the goods or services in the market. The incumbent firms are defined as those who dominate the field by being big, defining the product, and undertaking moves to reproduce their position vis-à-vis smaller, challenger firms. The basic idea is that the price mechanism in a given market (i.e., the balance of supply and demand) tends to destabilize all firms in a market. This is because it encourages all firms to undercut the prices of other firms, and this threatens the financial stability of firms.

The goal for dominant firms is to provide a set of understandings for themselves about how to cope with this potential destabilization. Firms frame their behavior vis-à-vis one another with the goals of convincing incumbent firms not to directly challenge one another and of ensuring that challenger firms decide not to compete directly over prices. The social structures of markets are, therefore, fundamentally systems of power whereby incumbent (dominant) firms use tactics and strategies to stabilize themselves and reproduce their position over challenger (dominated) firms.

From this perspective, the networks formed among customers and suppliers and among competitors function to solve the problems of competition and uncertainty for firms. They provide information on the behavior of other firms. In the case of long-term supplier relations, they ensure that suppliers do not defect to competitors. They also ensure that suppliers remain favorable to long-term customers. In the case of alliances or joint ventures between competitors, they link the fortunes of firms together. This interdependence has the effect of stabilizing outcomes for firms that might normally be competitors and reduces the competition between them (Gulati and Gargiulo 1999; Kogut, Shan, and Walker 1992).

These tactics and strategies are not always successful at preventing price competition. Stable markets do not always emerge, and firms can always challenge one another by cutting prices. But firms' tactics to control competition are not limited to holding prices at a given level, as they are in neoclassical economics. Many kinds of strategic games can be played by incumbent firms or coalitions of firms to gain advantage and stabilize their situations.

Two related sets of social relations, what can be called "control projects" (White 1992), are implicated in market building. First, a firm's internal power struggle must be resolved. The internal power struggle is about who controls the organization, how it is organized, and how ongoing situations in the product market are analyzed. Second, actors in incumbent and challenger firms must recognize the social stabilizing effects of the current relations between firms. This understanding structures their interactions by providing them with interpretations of other firms' behavior (White 1981).

The winners of the internal power struggle are those with a compelling vision of how to make the firm work internally and how to interact with the firm's main competitors. I introduced the idea of a "conception of control" to summarize this worldview and the real social relations that exist between firms. In this way, a conception of control is a story about what the organization is and its location vis-à-vis its principal competitors. It is also an interpretive frame used to interpret and justify actions vis-à-vis others.

The production of market institutions is a cultural project in two ways. Property rights, governance structures, conceptions of control, and rules of exchange define the social institutions necessary to make markets. These organizing technologies provide actors with tools to engage in market activity. Market worlds are social worlds; therefore, they operate according to principles like other social worlds. Actors engage in political actions vis-à-vis one another that reflect local cultures that and define social relations, who is an actor, and how actors can interpret one another's behavior (Geertz 1983).

The Goal of Action in Stable Markets

The purpose of action in a given market is to create and maintain a stable world within the firm and produce social relationships across firms in order to allow them to survive. Dominant firms set the rules and agendas for others. Challenger firms can help their survival by finding ways to fit into the dominant scheme. I have defined conceptions of control as understandings that structure perceptions of how a market works and allow actors to interpret their world, and as the real social relations that produce that world.

The key insight of the perspective I propose here is that there are two forms of potential sources of instability in markets: (1) the tendency of firms to undercut one another's prices, and (2) the problem of keeping the firm together as a political coalition (March 1962). Market actors try to control sources of instability to promote the survival of their firm (see Baker, Faulkner, and Fisher 1998 for an example).

The goal of a conception of control is to erect social understandings whereby firms can avoid direct price competition and can solve their internal political problems.[2] These challenges are related, and the solution to one is often part of the solution to the other. Actors in the firm who can claim to stabilize the relations of the firm to its principal competitors argue that their version of how the firm should work internally is the cause of the firm's success.

My major point is not to suggest that competitive processes do not matter to market structure or survival of firms. Nor am I saying that the control projects of actors in firms are always successful. Price competition always has the potential to undermine market structures. In some classically competitive markets, such as restaurants and barber shops, stability has never emerged.

My point, rather, is that we can get a great deal of analytic leverage over what is going on in a particular market if we assume that entrepreneurs and managers construct their actions so as to avoid price competition and

stabilize their position vis-à-vis other competitors. This effort involves attempts to co-opt different kinds of resource dependencies, such as the need to find out information about what competitors are doing and maintain relations to key suppliers and customers. But the effort also involves positioning one's firm vis-à-vis one's principal competitors. Even in markets that are highly competitive, actors try to differentiate their products to form niches to protect themselves from price competition (for example, restaurants serving high-priced California cuisine, or hamburger chains; see White 1981 for a compelling mathematical demonstration). My claim is not that actors in firms are always successful at creating stable shelters from price competition, but that the price mechanisms in markets push them to do so. In markets, the goal of action is to ensure the survival of the firm. It is very difficult for actors to know a priori if a given set of actions will stabilize a firm's market position vis-à-vis its competitors. Put rhetorically, no actor can determine which behaviors will maximize profits (either a priori or post hoc), and action is therefore directed toward the creation of stable worlds.

Issues of internal organization revolve around producing stable (reproducible) social relations. The intraorganizational power struggle is about actors within the organization making claims to solve the "critical" organizational problems (Pfeffer 1981; March 1962). Actors need to have a coherent view of organizing that allows them to simplify their decision-making processes. Those actors that convince or defeat others are able to define, analyze, and solve problems in their own terms. They will also be the leaders of the organization (Fligstein 1987). Once in place in a market, the conception of control dominating the market figures into how the leaders of firms operate to structure its corporate culture.

Conceptions of control function in two ways. They define the nature of the social relations between incumbent and challenger firms. In this way, they are a local set of understandings about who is powerful and why. They also function as cognitive frames through which the leaders of the firm interpret the actions of others. This means that a given strategic move of a competitor is interpreted in terms of the relationship between two firms (i.e., who is an incumbent and who is a challenger) and more broadly within the framing of how the market works.

There are a large number of possible conceptions of control because the unique history of markets means that clever entrepreneurs and managers can produce myriad cultural solutions to their collective problems of price competition. To understand a given conception of control, one must have practical knowledge of a particular market. Although conceptions of control are often unique, it is possible to note that firms liberally borrow conceptions of control from other markets, particularly nearby ones. Thus,

markets founded at a similar moment in time are likely to use similar conceptions of control.

It is useful to consider an example. One common conception of control in high-technology markets is the attempt to make one's product an industry standard. This is a tricky thing to do. If one tries to be too proprietary about creating a particular standard, other firms will resist. In order to produce a standard, one must make the standard open to all potential users. A firm that is fortunate enough to have its technology be adopted as the industry standard can be characterized as having a kind of monopoly. Where did the idea for this conception of control come from?

Before 1980, the personal computer industry was fragmented. The most dominant firm was Apple Computer, which had a proprietary operating system and computer chip running the machine. IBM decided to enter the market for personal computers. In order to get to market as quickly as possible, they decided to buy computer chips and an operating system from other suppliers. IBM's choice on entry had several unintended consequences. First, by entering the personal computer market, IBM legitimated these machines for business use. This meant that what had been essentially a small market for hobbyists all of a sudden became a large market. Second, because they chose to enter the market using technologies that were owned by other firms, they quickly spawned an industry of "clones." At the core of this new industry were the producers of the operating system, Microsoft, and of the main computer chip that functioned as the brain of the machine, Intel. Both Microsoft and Intel sold their products to whoever wanted to buy them. Microsoft and Intel became the standards for anyone wanting to make hardware or software for the personal computer. The huge growing market and the proliferation of firms involved in various aspects of the market meant that the Microsoft operating system and the Intel computer chips were in an outstanding position to dominate these markets.

It was never IBM's intention to make Intel or Microsoft into industry standards. This was an unintended consequence of the way the market evolved. Apple Computer with its proprietary operating system and computer chip was not able to compete with the open architecture of IBM and its clones, and the firm has been relegated to a small niche in the overall market. The lesson that high-technology firms have taken away from this case is that trying to become an industry standard by licensing or selling your technology to anyone is a conception of control that leads to success. Trying to dominate the market by maintaining strict control over a technology is likely to lead to others finding a product with more open standards. This is now the "conventional wisdom" that can be used to organize new technology markets (Edstrom 1998). It is a conception of control that came from experience that can now be mobilized to organize new markets.

Firms can move into existing markets and impose successful conceptions of control on other firms. I have argued that merger movements can be understood in this way (1990, chap. 7). During the 1960s, for example, financial managers realized that they could increase the size and diversity of their firm by purchasing other firms. During the period 1965–67, fully 40% of the assets of the five hundred largest corporations were bought up. In essence, firms either became merger targets or else pursued other firms in order to avoid being a target. This financial conception of control came to dominate the world of large corporations in the United States. Davis and Thompson (1994) and Stearns and Allan (1996) make the argument that mergers in the 1980s were a kind of social movement that reorganized the world of the largest corporations, an argument I take up in chapter 7.

In spite of the historical uniqueness of conceptions of control, it is possible to understand the general strategies that firms use to cooperate with competitors in order to share markets. Cartels, publicized prices, barriers to entry, limited production, patents, licensing agreements, and joint ventures in marketing and production are all tactics that firms use to divide markets. One way to produce stable markets is to get the state to intervene to restrict competition. Involving the state in regulation or protective legislation that increases the odds of survival is a normal strategy for dominant firms. Finally, forming relations through networks to principal suppliers, customers, or competitors gives firms the opportunity to co-opt their world (Gulati and Gargiulo 1999; Kogut, Shan, and Walker, 1992). Such networks give firms access to information and secure valued inputs and outputs.

Actors use two internal principles of organization to indirectly control competition: (1) integration and (2) diversification, which, in large firms, is often accompanied by producing multiple divisions in the organization. Integration can be vertical (the merger of suppliers or customers) or horizontal (the merger with competitors). Vertical integration prevents others from threatening valued inputs or outputs. Spot contracting for inputs suggests that there is ample supply of valued inputs. But if that supply is threatened, firms can switch from spot contracting to long-term network relations, and, if those fail, they can engage in acquisitions.

Similarly, firms can continue to directly compete with their main rivals. They can also try various means of co-optation, such as forming joint product alliances or else pursuing nonprice forms of competition. The integration or merger of a large share of an industry means that a few firms can control the market by tacitly agreeing not to threaten one another's position through a price war. Firms in these situations often publicly announce pricing and production decisions so that other firms can follow suit (what an economist would recognize as an oligopoly).

Diversification implies entering new markets to increase the probability of the firm's survival. It begins with the differentiation of a single product on the basis of quality or price (White 1981). To the degree that firms do not compete because their products differ, price competition does not threaten firms' existence.[1] As I already noted, this explains why small firms, such as restaurants, specialize according to cuisine and price.

A firm can produce multiple products that reduce their dependence on any one product and, hence, increase the likelihood that the firm will survive (Kay 1997). This practice allows the firm to grow larger, which increases its stability as well. Firms search for new markets because huge gains can accrue to the first mover in a growing market. Such gains help stabilize the firm. If markets fail to materialize or market conditions deteriorate, a diversified firm can exit a failed market without threat to the larger corporate entity (Kay 1997). On the other hand, the production of multiple products introduces internal control problems, and actors are constantly reorganizing around variations of the holding company and multidivisional form (Fligstein 1985; Prechel 1994).

My perspective may seem antithetical to two perspectives that dominate the current literature on business firms: organizational population ecology and the literature that emphasizes organizational learning or adaptation. Organizational population ecology argues that competition produces selection pressure on firms and that many fail (Hannan and Freeman 1989). My argument is not that firms do not fail in spite of the best intentions of managers. Nor is my argument that "control" projects always work. My main idea is to examine market processes by trying to understand what owners and managers of firms try to do in the face of competition. If they succeed, they do so in the face of selection processes and competition. What my framework is intended to explain is exactly what kinds of tactics are available to managers and owners and which ones work (or don't work!). When we see a stable market with social relations, we can study its history to understand which tactics were attempted and which succeeded.

The other main thrust in the literature focuses on processes of organizational learning and the role of networks within firms and across firms in this endeavor (for example, see the papers in Nohria and Eccles 1992; Kogut, Shan, and Walker 1992; Powell and Brantley 1992). The idea of organizational learning often reflects an ideological stance. It suggests that actions of firms to scan their environments and make adjustments in their products and processes are an adaptation to market conditions (see Gulati and Gargiulo 1999 for example). But one can easily make the case that much of this learning is more focused on mitigating the effects of competition. So, for example, joint ventures are not only an opportunity for learning about a new production process but an attempt to co-opt potential competitors.

Powell and Brantley (1992) have postulated that the network and alliance structure present at the founding of the biotechnology industry were a form of "learning." One could easily interpret those relationships as risk spreading and information gathering. Alliances are a form of risk spreading or product diversification whereby firms do not put all of their eggs in one basket. By cooperating with competitors, one competes less, by definition. By sharing information, one finds out where opportunities are and what opportunities have been foreclosed. Thus, this learning can easily be interpreted as an attempt to find ways to stabilize one's environment.

Another example is provided by Uzzi (1999), who shows how firms form relationships to various financial organizations and that, once relationships are established, firms are able to raise capital more readily. I would argue that this pattern shows the co-optation of suppliers and the attempt on the part of managers and owners to control their future by securing supplies of capital. These actions affect the stability of the firm that receives financing, but it also could affect the fortunes of firms that did not receive financing. In this case, networks help co-opt a resource dependence. But for firms that fail to secure relationships with financial organizations, their legitimacy is undermined. Either way, these financial relationships can be interpreted as a stabilizing tactic.

Conceptions of control refer to broader cultural conceptions in which these tactics are embedded. Actors in two different firms may use product diversification, but one may view it as diversifying the financial portfolio (a financial perspective), while the other may see it as carrying a full line of goods (a marketing perspective) (Fligstein 1990). Conceptions of control also allow actors to interpret the meaning of a particular strategic move by competitors. Actors stick with the conception of control they believe works. After some period of time, others, in either a given market or related markets, recognize some key set of factors and begin to imitate them. But these factors are rarely articulated before the fact; they become accepted only after they operate to produce stability for some firms. Such tactics and conceptions create cultural stories that can be used over and over again to justify an action or produce a new one.

The Problem of Change and Stability in Markets

There are three phases in market formation: emergence, stability, and crisis.[4] My concern is to specify how actors' perceptions of the current social structure affects the tactics they use to seek stability for their firms. In any market, participants can usefully be distinguished in terms of their size relative to their market. Large firms control more external resources than small firms, including pricing from suppliers, financial assistance, and legit-

imacy, and they may possess control over key technologies or large customers (Pfeffer and Salancik 1978; Burt 1983). As a result, it makes sense to distinguish market participants as incumbents and challengers (Gamson 1975). Incumbent firms are large, and actors in those firms know their major competitors and model their actions on other large competitors. Challenger firms are smaller and frame their actions in reaction to the largest firms. But they experience the world as a given—one out of their control.

Differing conditions of market stability produce different kinds of politics. A stable market is defined as a situation in which the identities and status hierarchy of producer firms (i.e., who are the incumbents and the challengers) is well known, and a conception of control that guides actors who lead firms is shared. Firms resemble one another in tactics and organizational structure. Politics reproduce the position of the advantaged groups.

In new markets, the politics resemble social movements. The conditions in the market are wide open and fluid. Lots of firms are forming, each with different conceptions of what the market will be. The problem is that, in fluid situations, it is not clear how to control competition. Actors in different firms are trying to convince other firms to go along with their conception of the market. If they are powerful enough, they try to force their view. If there are many different firms of equivalent size, then alliances around conceptions of control are possible. Networks form between competitors, suppliers, and consumers that are oriented toward making sense of what others are doing (reducing information costs) and toward co-opting resource dependencies (Gulati and Gargiulo 1999). Conceptions of control may become political compromises that bring market stability to firms. This is just the way social movements work. They create collective identities for disparate groups that push forward political coalitions for change. (Tarrow 1994)

Markets in crisis are susceptible to transformation. On rare occasions, the push for change may come from within the firms in a market. More frequently, firms invade the market and transform the conception of control. This can look like a social movement, in the sense that the invading firms are trying to establish a new conception of control and in doing so are likely to ally themselves with some of the challengers or existing incumbents.

The most fluid period in a market is during its emergence. The roles of challengers and incumbents are yet to be defined, and there is no accepted set of social relations. It is useful to explore the metaphor of a social movement and its application to an emerging market. The ability of groups in a social movement to attain success depends on factors similar to firms

trying to produce a stable market: the size of groups, their resources, the existence of a political opportunity to act, state actors willing to negotiate grievances, and the ability to build a political coalition around a collective identity (Tarrow 1994; Snow et al. 1986; McAdam 1982).

A new market spawns the growth of new firms as well as entrance of firms operating in other markets, just as a political opportunity creates new social movement organizations. Firms try to take advantage of a market opening in the same way that organizations in social movements try to take advantage of a political opportunity. In a new market, the situation is fluid and is characterized by multiple conceptions of control proposed by actors from various firms. A stable market requires the construction of a conception of control to promote noncutthroat ways to compete that all can live with and that state actors can accept. A conception of control operates as a kind of collective identity that many groups can attach to in order to produce a successful market.

Proposition 4.1. At the beginning of a new market, the largest firms are the most likely to able to create a conception of control and a political coalition to control competition.

At the origination of a market, all interorganizational relations must be constructed. Markets are the outcome of an institutionalization project that is the equivalent of discovering a conception of control (DiMaggio 1988). In this way, markets are social constructions. Making these institutional projects successful is inherently a political project. Actors need to find conceptions of control to signal to other firms in the moment of market formation what their intentions are. One can predict that the largest firms in an emerging market are likely to create a conception of control and persuade others to go along with it because of the perceived advantages of size.

Proposition 4.2. Power struggles within firms are over who can solve the problem of how to best organize the firm to deal with competition. The winners of the struggle impose their organizational culture and design on the firm.

A firm's internal power struggle depends on actors coming up with coherent conceptions of control that they can impose on others within the firm. The internal power struggle is likely to be most intense during the emergence of markets. Different groups believe that they hold the solution to the problem of how to organize the firm to best deal with competition. Those actors that win impose their organizational design and culture on the firm. Internal firm structure and who controls the firm result from the conception of control that deals with the problem of market competition. These conceptions of control are available to other firms and help produce a stable status hierarchy of firms.

Proposition 4.3. Through intended and unintended actions, states can thwart the actions of firms to create stable conceptions of control.

All conceptions of control are built around current understandings of legal and illegal market behavior. Firms avoid conceptions of control that are illegal, but occasionally find themselves scrutinized by government officials. More frequently, state regulation of economic activities changes the balance of power in a market away from one conception of control and toward another. This occurs in regulated markets such as drugs, food, telecommunications, utilities, banks, and media.

Proposition 4.4. The "liability of newness" in new markets reflects, in part, their lack of social structure and a conception of control; that is, it reflects participants' inability to control competition.

It is at the emergence of markets that competition and price mechanisms exact their greatest toll. With no established conception of control to structure nonpredatory forms of competition, price has its strongest effect (Stinchcombe 1965; Hannan and Freeman 1977). Business failures are often blamed on a lack of resources or the inability of managers to construct organizations that reliably deliver products. I argue that part of the difficulty is the lack of a social structure to control competition. Markets in which a conception of control never emerges continue to have relatively high death rates of firms, while markets that produce conceptions of control stabilize at lower death rates.

Proposition 4.5. New markets borrow conceptions of control from nearby markets, particularly when firms from other markets choose to enter the new market.

New markets are born in close social proximity to existing markets. Earlier, I argued that diversifying products is a way to produce more stable firms. Entering new markets does not require confronting entrenched interests and does not directly threaten the stability of the firm. If new markets succeed, then the firm's stability is enhanced. The differentiation and creation of new products is most frequently the spin-off of existing products. The start of a new market is not random but is shaped by existing conceptions of control, legal conceptions of property and competition, and the existing organization of related markets.

To illustrate these principles, it is useful to consider examples. The creation of the U.S. steel industry is a clear case of firms struggling to create a social structure to control competition.[5] In the nineteenth century, steel companies faced huge price swings because of the companies' role in the railroad industry and building trades, and these price swings were devastating because of the large amounts of fixed capital invested in the industry.

There was a great incentive to find legal mechanisms to stabilize prices (Hogan 1970). The basic problem for the steel industry was to discover a conception of control that limited competition. Cartels and monopolies were illegal in the United States (Thorelli 1955). The choice that remained was to integrate firms to control the market. My proposition (4.1) that the largest firms in the market are the leaders in such efforts is historically accurate in this case (Hogan 1971).

During the turn-of-the-century merger movement, the largest industrial corporation in the world emerged: U.S. Steel. The merger created a large corporation that controlled inputs into the steelmaking process as well as divisions that produced outputs for every segment of the market. The company controlled more than 65 percent of the market for steel and 75 percent of the industry's iron ore reserves (Hogan 1970). In spite of this strong position, the firm found itself confronted by wild swings in product demand and unstable prices well into the twentieth century. It faced a dilemma in enforcing its position against its competitors. If the firm vigorously pursued price-cutting to gain monopoly control over the industry, it would find itself a target of antitrust authorities; if it did nothing, its large investment was threatened.

U.S. Steel began to pursue an alternative tactic. It posted its prices and production schedules and defended them by decreasing production in the face of aggressive competitors (Fligstein 1990). U.S. Steel tried to cajole others into going along with its prices by threatening to use its control over inputs and its huge capacity to produce. If all behaved "reasonably," then some price stability could result. This strategy worked to stabilize steel prices from 1904 until the depression in 1929 (Kolko 1963).

U.S. Steel's strategy of integrating production, setting prices, and daring others to undercut them was ratified as a legal way to control competition when it won its antitrust lawsuit in 1920. This conception of control spread in social movement–like fashion during the 1920s merger movement, when oligopoly structures emerged in all of the core metal-making and petroleum industries (Eis 1978). This structure proved durable in the U.S. steel industry and lasted until the 1960s (Hogan 1971).

It is useful to examine an emerging industry when there is not yet a conception of control, applying the perspective advanced here to predict an outcome. The biotechnology industry has sprung up from common technologies that developed at major universities. To figure out which conceptions of control are contenders for organizing the industry, one asks: "What problem of competition would a social structure need to resolve?" One way to control competition is patent laws. Firms that discover a product first can extract monopoly rents from their investment in that product, thereby avoiding competition. The game is to find new products that can

be patented. Two competing conceptions of control can be identified to take advantage of patent laws.

Powell and Brantley (1992) have argued that the critical problem for biotechnology firms is to control the supply of scientists who have the knowledge about the products. They view a network organization as a stable conception of control because it is a political compromise in which scientists may be able to leave a firm with knowledge of products, but firms have extensive organizational ties so that they will not have to depend on just one or two scientists for information or products. If the arrangements one firm has with other firms are alliances, then the collapse of any given alliance will not necessarily lead to a collapse of a given firm, by denying it either products or information. If a given scientist leaves, firms presumably have other scientists or alliances who can take up the slack. In this way, a networked firm oriented toward producing patents to control competition may prove stable.

Two other features of the biotechnology industry imply an alternative conception of control (Barley, Freeman, and Hybels 1992; Powell and Brantley 1992). Most biotechnology products must undergo extensive testing by the Food and Drug Administration. Firms need money to survive this period of testing before bringing products to market. Thus, the state, through FDA regulation of the market, shifts the competitive conditions in the market from the discovery of new products to the ability to survive the testing and approval process. Once through the testing phase, firms have to reliably produce, market, and distribute the product. This creates a second arena of competition that relies on production and marketing expertise.

These two competition problems imply that a different conception of control may emerge. I suggested earlier that one source of conceptions of control was nearby markets. The drug industry has extensive experience with the same testing and production processes used by the biotechnology industry and is built on the creation, production, and control of proprietary drugs. I predict that, to the degree that surviving the testing process and producing and marketing the product are pivotal, biotechnology firms will be tempted to form alliances with drug companies. Moreover, drug companies will be tempted to buy out the most successful of the biotechnology firms. The drug companies' conception of control (integrated firms that produce drugs with monopoly patent rights to eliminate competition to gain back the cost of producing the drug) will dominate.

A more hybrid form could emerge that would focus on maintaining the network organizations by keeping the discovery of products separate from the production and distribution of those products. This arrangement has advantages for both drug companies and biotechnology firms. The biotechnology firms maintain some control, while the drug companies lower their risk.

There is evidence that all three conceptions of control are practiced (Barley, Freeman, and Hybels 1992; Powell and Brantley 1992). My model would predict that the most likely outcome is a merger between the two industries, whereby large biotechnology companies become drug companies or divisions thereof. The largest players in the market are the drug companies; their conception of control solves competition problems in the pharmaceutical industry; they already have negotiated the legitimacy of that solution with states. My fallback position would be to argue that biotechnology firms remain fundamentally research organizations then license products to pharmaceutical companies. The problem of controlling the defection of scientists is more ephemeral than the problem of getting products through the patent process.

Proposition 4.6. In markets with stable conceptions of control, market participants widely agree on the conception of control and the status hierarchies and strategies it implies.

Once a stable market emerges, the roles of incumbents and challengers are defined and the power structure of the market becomes apparent. Actors in firms throughout the market are able to tell observers who occupies what position and what their central tactics are. They will be able to make their actions contingent on their interpretation of those tactics.

Proposition 4.7. Incumbent firms pay attention to the actions of other incumbent firms, not challenger firms, while challenger firms focus on incumbents' behavior.

A stable world depends on social relations between the largest firms. The central players ignore challenger organizations under most circumstances because they pose little threat to the overall stability of the market. If these organizations live up to their name and begin to challenge the existing order, incumbent organizations confront them and attempt to reinforce the governing conception of control.

Proposition 4.8. Firms in stable markets continue to use the governing conception of control, even when confronted with outside invasion or general economic crisis.

The major force that holds a market together over a period of time is the ability of the incumbent firms to continue to enforce a conception of control vis-à-vis one another. Incumbents are constantly trying to edge one another (and challengers) out for market share, but they refrain from direct confrontation that might prove the ruin of all. These actions are guided by the existing conception of control (i.e., the conception of what is a rea-

sonable action). This requires actors to frame action for their firm against their competitors and to have the resources (power) to make it stick. They know the identity of the important firms in the market, they try and make sense of their moves, and they respond to those moves.

This accounts for the relative stability of established markets, in both the identities of the participants and their tactics. To produce a stable order where firms survive is a relatively difficult problem. Once stability is attained, actors in firms are loathe to engage in actions that undermine their incumbency. If challengers shift tactics or invaders come into the market, incumbent firms continue the same kinds of actions that produced the stable order in the first place. Incumbent firms may allow some redefinition of who is an incumbent and who is a challenger, but they will remain committed to the overall conception of control that lessens competition. To break down the stable order could bring more chaos than would enforcing the "way things are done." Actors are also cognitively constrained by a conception of control. Their analysis of a crisis is framed by the current conception of control and their attempts to alleviate the crisis by applying "the conventional wisdom."

The case of the Japanese keiretsu illustrates how a stable conception of control has withstood both political and economic assaults. Japanese keiretsu are families of firms in different industries that share ownership ties. The overall structure of the keiretsu is to cement important interdependencies and allow various keiretsu members to survive economic downturns. Often banks are at the center of keiretsu, and they function as an internal capital market for the firms.

The keiretsu show high growth, high investment, and relatively low, but stable, profits (Aoki 1988). In economic downturns, keiretsu structures allow workers to be transferred across firms rather than being laid off (Lincoln, Gerlach, and Takahashi 1992). This exerts downward pressure on profits but secures employees' loyalty. When firms within the structure are experiencing economic troubles, managers in other firms respond by helping to reorganize the troubled firm (Gerlach 1992).

After World War II, keiretsu were reformed from prewar economic conglomerates (zaibatsu) that were family controlled. The zaibatsu were broken up during the American occupation but began slowly to reform in a looser manner (Hadley 1970). Since World War II, they have been directed by state actors to enter new markets, and they have proved adept at producing new products (Johnson 1982). The keiretsu structure contains firms with activities spread across a wide spectrum of industries and markets. The keiretsu structure, as a conception of control, does not directly restrict competition in a given market. Its advantage is its capacity to stabilize competition across markets. It has been noted that within given product markets, the firms from different keiretsu compete quite vigorously (Aoki 1988).

The keiretsu structures operate to mitigate competition across markets in a number of ways. First, firms tend to purchase goods and services from inside the keiretsu. This means that some markets are captive and price competition is held down. Second, if a given firm faces an economic crisis, the other firms attempt to support it. Management expertise, capital, and the ability to place workers with other firms during slumps mitigate short-run competitive processes. Third, the focus on market share implies that firms invest for the long run and that expectations for short-run profits are not high, which gives managers latitude in dealing with competitive conditions. Fourth, because of the ownership relations between firms and banks, the cost of capital tends to be lower (see Gerlach 1992 for a review of the literature). One can see the intimate connection between the problem of trying to control competition externally and the internal social organization working to solve that problem.

Recently, two forces began to close in on the keiretsu. First, the U.S. government applied pressure to open up Japanese markets, an effort directed in part against the keiretsu structures (Gerlach 1992). The United States wanted to break open the procurement arrangements of the keiretsu and demanded that the Japanese open their financial markets and allow a market for corporate control to develop. Second, the economic downturn of the 1990s put pressure on the permanent employment system of the keiretsu. It became more difficult to pass workers onto other firms in the keiretsu. The managers who controlled the keiretsu have been able to use their traditional methods to fight off these attacks. They were well enough connected politically to fight off reforms within Japan and strong enough economically able to endure a long recession (Gerlach 1992).

Proposition 4.9. Market crisis is observed when incumbent organizations begin to fail.

Crisis comes to markets when the largest firms are unable to reproduce themselves from period to period. This can be caused by three kinds of events (alone or in combination): (1) decrease in demand for the firm's products can result from bad economic conditions or a shift in buyers' preferences, (2) an invasion by other firms can upset the conception of control and introduce procedures that force a reorganization of the market, or (3) the state can intentionally or unintentionally undermine the market by changing rules.

Incumbents rarely become innovators because they are busy defending the status quo; market transformation is precipitated by invaders. The reorganization of a market around a new conception of control resembles a social movement and is very much like the formation of raw markets. Invading firms can form alliances with existing firms around a new conception of control or a compromise conception of control, and this makes

the reorganization of the market more predictable than it was at market formation.[6]

Proposition 4.10. Transformation of existing markets results from exogenous forces: invasion, economic crisis, or political intervention by states.

One of the key features of capitalist society is the dynamic interplay of markets, in which some markets are emerging, others are stable, and still others are in crisis and undergoing transformation. I propose an exogenous theory of market transformation that views the basic cause of changes in market structure as resulting from forces outside the control of producers, due to shifts in demand, invasion by other firms, or actions of the state. Incumbent firms respond to these destabilizing forces by trying to reinforce the status quo. Markets are connected in a wide variety of ways. Firms rely on suppliers, capital markets, labor markets, and customers as well as on states for their stability. It follows that these market and state forces are always interacting and thereby producing potential problems for an existing conception of control. Crisis in relations across markets can undermine existing agreements by threatening the well-being of all firms, either by withholding key resources or through the direct invasion of firms from nearby markets.

Proposition 4.11. Invaders are more likely to come from nearby than from distant markets.

This proposition parallels the argument about where new markets come from. Firms seek stability by finding new markets. The invasion of an existing market can occur in a couple of ways. First, firms in closely related markets enter existing markets, where they can successfully introduce a new conception of control to increase their advantage. Second, firms may enter the same product market in different geographic areas, thereby undermining a local stable order.

Proposition 4.12. When firms begin to fail, the intraorganizational power struggle heats up, leading to higher turnover of top personnel and greater activism by boards of directors and nonmanagement shareholders. New sets of organizational actors attempt to reconstruct the firm along the lines of the invaders.

Conceptions of control are used by actors in incumbent firms to ward off market crises. The power struggle internal to the firm becomes more intense as market crises become more pronounced and the reigning conception of control proves inadequate to the crisis.

Consider the example of the transformation of the finance conception of control as the guiding principle in the market for corporate control in the United States during the 1980s (an issue I will take up more systematically in chapter 8). The financial conception of control dominated the actions of many large U.S. firms between 1950 and 1970 (Fligstein 1990). This view held that firms were composed of assets that could be deployed and redeployed by financial actors within firms in order to promote growth. The major tactics of this conception were the use of financial tools to internally monitor divisional performance, and the use of mergers to buy and sell divisions that produced diversification for firms (Fligstein 1990). These tactics solved the competition problems of large firms by allowing them to exit and enter businesses and stabilize the overall corporate structure. Firms were the principal actors in the market for corporate control as they used the stock market to add to or subtract from their "portfolios."

What crisis made this conception of control no longer viable for large corporations? High inflation rates during the 1970s meant that interest rates were high, stock prices were low, and the value of assets was inflated, thereby making returns on investments poor (Friedman 1985a). The financial conception of the firm, with its focus on the profitability of product lines and market diversification, suggested that "good" managers would deal with these problems by keeping debt low and funding investments from cash generated internally. The market for corporate control was in crisis because managers were not reorganizing their assets, even though corporate profits were low. This presented a new opportunity for actors to seek a new rationale to reorganize the market for corporate control.

What was this "new" conception of control, and who were its proponents? Davis and Thompson (1994) have argued that the language of "shareholder value" and the discourse that blamed managers for being ineffective spread among institutional investors in social movement fashion in the early 1980s. The financial strategy of holding undervalued assets, funding investment internally, and keeping debt low was viewed as a problem. The idea of maximizing shareholder value was allied with "agency theory" from economics (Jensen 1989) to emphasize that if managers were not going to maximize shareholder value, then they should be replaced by management teams who would.

Institutional investors are a heterogeneous group that includes investment bankers and representatives from pension funds, mutual funds, and insurance companies. In the 1980s they were from a closely related industry, financial services, and they invaded the turf of financial managers who controlled the largest U.S. corporations. Their goal was to force these managers to redeploy their assets to reflect the effect the 1970s had on their balance sheets. They wanted managers to sell off overvalued assets, assume debt to keep firms disciplined, and to remove layers of management to save money. They also forced managers to focus their business by buying up competitors and selling off their most diversified assets (Davis, Dick-

mann, and Tinsley 1994). They, of course, benefited by making money on organizing and executing mergers.

Research shows that firms that were merger targets tended to ignore financial reorganization to increase "shareholder value" (Davis and Stout 1992; Fligstein and Markowitz 1993). Useem (1993) has shown how managers began to use the language of shareholder value and engage in the behaviors that the perspective implied. The merger movement of the 1980s resembled a social movement in that some financial executives and the various actors within the financial services industry discovered a common language and produced a conception of control to reorganize the market for corporate control.

The federal government played both direct and indirect roles. The Reagan administration passed a huge tax cut that produced windfalls for corporate America in 1981. The administration expected firms to reinvest that capital in new plants and equipment, but instead firms bought other firms. The administration also announced that it would not vigorously enforce antitrust laws (Fligstein and Markowitz 1993). Davis and Stout (1992) argue that the Reagan administration became a cheerleader for the shareholder value conception of control. The shareholder value conception of control is related to the finance conception of the firm, but it uses a stark discourse that only recognizes the rights of one group: those who own stock. All other concerns are subordinated to maximizing the returns for owners. The attention of top managers is focused on evaluating their product markets, but more importantly on how the financial markets evaluate the firm's stock price.

How does this new conception of control affect competition in the market for corporate control? If managers pay attention to shareholder value in a narrow sense, they are less likely to become merger targets. To the degree that the "game" is to avoid becoming the object of acquisition from outsiders (i.e., mergers), managers with a narrow focus are likely to maintain control. I hypothesize that the managers who win the internal power struggle will be those who can claim to maximize shareholder value. This process explains the spread of these tactics to most large firms during the 1980s.

Links between Market Formation and States

In the last chapter, I suggested some general propositions about the links between market building and state building. I argued that many groups in society had interests in creating general market institutions in order to stabilize economic growth. But because these interests are often opposed, I described how various political coalitions between state managers, workers, and capitalists provide different tools state managers, entrepreneurs, and managers can use to organize markets. The earlier discussion explained that the policy domains of the state oriented toward market building were the outcome of the political organization of important groups in society. The current discussion is about how entrepreneurs and managers actually engage in market building within new and existing markets. It is useful to bring these discussions together in two ways. I would like to consider why the initial transition to capitalism is so important for varying societies. Then I will discuss how to think about the concept of "globalization."

The central insight of this chapter is that market instability mobilizes entrepreneurs and managers to build internal organization and external social relations to their principal competitors. Now imagine the situation where an economy is rapidly growing and there are a great many competitors across a large number of markets, all searching out ways to control competition. Their "local" problems of instability cause many of them to look wherever they can for ways to produce stability. Managers and entrepreneurs widely search for stable conceptions of control. Firms in particular markets that find ways to stabilize their interactions are immediately copied. One can get a kind of lock-in for a given conception of controls across many industries if these solutions are sufficiently general.[7]

To the degree that workers, firms, and government managers become involved in this process of defining stable conceptions of control by building state capacity to regulate social action in markets, this lock-in can occur in the institutions of the state as well as the particular markets. Such market institutions are also readily available for entrepreneurs in new markets seeking to find stable solutions to their problems of control.

One major implication of this process is that distinct national "cultures" of control develop at the moment of entry into capitalism. These national ways to legally control competition are inscribed in the institutions of the state and in the ways that firms pursue their tactics in markets. This theory helps explain why scholars who try to understand distinct national systems of governance often conclude that the history and politics of a given society matter a great deal for a distinct set of practices by firms.

The process also implies that these institutions only become unstuck under the most dire circumstances. At any given time, there are crises in many markets in a given society, and thus the possibility for new conceptions of control exists. But local crises do not bring about systemwide transformation because many other markets remain quite stable with incumbent firms that are happy with the status quo. It is only under extreme circumstances that wholesale changes in the rules occur. More frequent are crises of particular sectors, followed by reorganization.

These insights illuminate the kinds of problems confronting the latecomers to capitalist social relations in Eastern Europe. Attempts to "mar-

ketize" are met by three difficult problems. First, governments there have little or no capacity to intervene effectively in capitalist societies. Second, the international organization of markets means that firms in developed product markets are poised to invade these societies and take over the local product markets, thereby undermining efforts on the part of local firms to adjust to changed circumstances. Third, there exist few market institutions, such as property rights, governance structures, or rules of exchange, to guide actors in new firms (Stark 1992, 1996; Burawoy and Krotov 1992). In essence, these societies are attempting to cram two hundred years of market and state building into a short period of time.

It is interesting to consider how this process appears to be going in Hungary. Lacking the ability to regulate a capitalist economy and lacking an indigenous entrepreneurial class of managers, the Hungarian government nevertheless initially tried to cultivate a capitalist class by privatizing state-owned firms. The market reformers in government tried to cultivate such a class by producing a market.

The property rights issue was initially dealt with in the following way. Stark (1992, 1996) found that state actors in Hungary turned state-owned ministries into corporations. The government, however, held the bulk of stock in these corporations, although control appears to have devolved to managers. Eventually, state managers appeared willing to have firms sold off to private interests, including foreign corporations. Complicated patterns of shareholding have developed whereby the state owns all of some firms and parts of others.

In this context, it is particularly interesting to consider how managers have responded to the problem of competition. Stark (1996) documents that managers have reorganized firms into complex structures in which large firms incorporate satellites of smaller firms in which the large firms hold equity shares. Firms have taken up two tactics. First, they have taken ownership stakes in firms producing similar products and have tried to control both the inputs and outputs of production. Second, groups of firms with related and unrelated products have joined together. These are the two tactics, integration and diversification, I earlier described that are used by firms to avoid direct competition.

Pushing firms to behave competitively, state actors have forced Western-style accounting standards on firms to attract Western investment. This, in turn, has pushed many firms into bankruptcy (Stark 1996). Western-style investors have, so far, not been attracted to Hungarian partners. Western firms prefer to directly sell their goods to Hungarians. The state is the holder of equity and debt, and, thus, if firms fail, their bankruptcies drain the state's coffers. Moreover, there is political pressure to maintain jobs and keep firms from failing.

It is not clear whether integration and diversification within Hungarian firms will produce stable outcomes. These strategies may not be able to stand up to invasion by Western firms, particularly given the financial problems firms face. Eyal, Szelenyi, and Townsley (1998) have found that Hungarian managers, not surprisingly, refuse to purchase the firms they run. They prefer to be paid straight salary since they know better than anyone else how precarious firms are. Thus, the indigenous capitalist class that market reformers have hoped to cultivate does not want to play the part.

While my approach cannot say how these transformations will turn out, it does suggest that one can expect more demands to be placed on the government. The policy domains of the state that will directly deal with questions of ownership, financing, and employment are still being built. Market reformers will have a difficult time producing these institutions without an indigenous entrepreneurial and capitalist class that proposes how to do so. Eventually, the people who run the government will have to realize that they own the biggest firms in the economy and that they must decide what to do. They will have to provide capital for firms directly, keep firms alive by subsidizing employment, and consider ways to mitigate competition with firms outside of Hungary. If this proves to be untenable, then one can expect that they will continue to try to sell off assets to foreign firms. In essence, unless strong capitalist groups emerge with a positive agenda to produce different rules and economic growth, one can expect that the rules produced will likely be designed to protect jobs.[8]

Some Macro Implications of the Theory of Fields

The imagery suggested by the theory of markets as fields is useful to explore. The economic sociology of capitalist societies is concerned with the construction of massive numbers of markets operating with different conceptions of control and massive numbers of fields of government connected to these markets. The interesting questions concern not just the internal dynamics of particular markets but the interactions of markets and states more generally. The view of markets as fields proposed here captures the two key dynamics that are attributed to the world of firms. First, the largest firms are seen as very powerful, and within their markets they maintain an order that benefits them. If one cuts into a given market, one is likely to find a hierarchy of power whereby a set of firms rules the market with a set of practices. But there is a second dynamic at work here as well. As markets are formed or are invaded and transformed, no one player has power and who will survive is up for grabs. Competition is the driving force at these moments, and even the most powerful are vulnerable if the analyst cuts into the market at the point where transformation is coming.

Stable markets are like sand castles. They are built up, last a while, but in the end are transformed. Unlike like sand castles that survive only for a day, stable markets can last sixty to eighty years. This spans several human generations and shows enormous stability. But, ultimately, even the most stable markets (such as steel, automobiles, and chemicals) have been transformed.

For a huge number of markets as fields, a period-to-period stability is induced by the ability of the largest firms to reproduce their role structure by playing the game against one another and the challengers. But there are also dynamic parts of the economy where new firms are emerging and no order exists, and others where transformation of an existing order is happening. The imagery of markets as fields and of fields as connected to and part of governments stresses both continuity and change.

It is interesting to speculate on conditions that produce massive changes within and across markets. Clearly, the number of markets and their social relations have increased dramatically since World War I. Moreover, since the worldwide economic depression of the 1930s and the devastation of World War II, the world's capitalist economies have grown incredibly as governments learned how to stabilize markets by regulation, controlling the money supply, fiscal policy, and mediating in interfirm relations and worker-firm relations. One of the most interesting features of these changes is that since the 1930s, there have been no large-scale worldwide depressions. Why is this the case?

There are three possible sources of instability in a given market: conditions within the market, conditions across markets, and relations between the state and firms. A given market may become unstable because demand for its product decreases, the invaders enter it, or the government intentionally or unintentionally changes rules. If a given market is unstable, instability may spread to adjacent markets. For example, if there is a downturn in the automobile industry, one expects the suppliers of the materials consumed by the industry to be affected as well. If demand for a product drops precipitously, a dependent market may actually disappear.

The interesting question is how far and how deep instability may spread. One can make one of two arguments about the increased number and complexity of markets. First, more complexity has increased "tight coupledness" of markets, implying that a breakdown in one is likely to have profound effects on many others. Markets that are more centrally linked to many markets thus have the possibility of having much larger effects on a complex society. So, for example, one can argue that financial markets are pivotal to capitalist economies. Bank failure or stock market collapses are likely to affect the conditions in many markets and possibly induce recession.

Alternatively, one can argue that the increase in the number of markets means that markets are only loosely dependent on one another. Thus, a crisis in a given market may have effects on nearby markets, but those effects may be quickly dampened. Since there are so many markets, many are not affected, and the crisis is "locally" devastating, but "globally" not so large. Moreover, there are always new and growing markets, and these can offset some of the negative effects of crisis elsewhere.

So, for example, in the 1980s in the United States, the entire savings and loan industry went bankrupt. But the federal government intervened, and while certain markets were affected, there was no financial meltdown and the economy did not even go into recession. In 1987, a huge stock market crash also did not produce an economic recession. This crash was followed by the Federal Reserve Bank's increasing money available to prevent a more general liquidity crisis. Neither crisis made it harder for firms to borrow money or make investments, thus showing that the underlying economy was not as dependent on the financial sector as one might have speculated.

These examples point out that action by government coupled with a large diversified economy makes deep economic depressions less likely as capitalism develops. This does not mean that recessions do not occur nor that crises within particular markets are not always going on. But it does suggest that, overall, the growing complexity of markets and market arrangements makes the whole system more, not less, stable. Thus, advanced market societies can be highly dynamic in the sense that markets are always forming and being transformed. But the overall effect on economic growth and stability across markets can be dampened. Particular market crises do not spread very far, particularly if governments intervene.

Proposition 4.13. Complexity in market structures and a growth in the size of markets tends to produce stability, not fragility, in societal economic growth. This is because the diversification of products of firms and the diversification of economies makes firms and economies more stable.

The largest corporations have become diversified in their product lines. This means that they have, by and large, found ways to stabilize the overall identity of the firm. It also means that managers and entrepreneurs can choose to exit slow-growing or declining industries and devote resources to fast-growing industries. The general effect is that in an economic downturn in a particular market segment, corporations have strategies for coping apart from laying off vast numbers of workers. They can redeploy workers in the short term and capital in the middle term. They can concentrate on products less affected by economic downturn and can promote fast-growing products.

Governments have helped firms make these investments through tax policies, direct ownership, subsidization of research and development, industrial policies, and military expenditures. Almost all of the important new technologies of the postwar era have been funded directly or indirectly by government spending on education research organizations or on, corporate research and development or as spillovers from military applications. Firms have been the principal beneficiaries of these policies.

Governments also have intervened in their economies during economic downturns to even out the worst effects of recessions on consumption through Keynesian deficit spending and spending on unemployment benefits and public works projects. Political intervention in labor markets has varied across industrial societies. To the degree that class struggle has been stabilized, governments have bought themselves political peace.

In the Western industrial societies, the main effect of the production of stable market systems is to provide stable political conditions for entrepreneurs and managers. This encourages them to invest in new product lines. The development of new industries, particularly those that rely on science-based investments, has been possible primarily because of the stabilizing influence of governments on general economic growth and political conditions.

The overall effect of these three forces is to encourage more diversification of the economy by the production of new products and markets, more stability for the largest firms by the diversification of product lines, and less dependence of the total economy on any given industry. The lack of economic depressions in the postwar era is a testament to the positive feedback produced by these stabilizing processes.

Proposition 4.14. Economies that are large and diversified experience more stability and less severe economic downturns. This is because their diversity makes them less dependent on any one source of economic growth and therefore less prone to extreme swings.

If diversity and complexity have produced stability, then lack of diversity and dependence on a small number of products is likely to produce more instability. In small economies that are highly dependent on a small number of products, fluctuation in prices for those products has big effects on the economic growth of that economy. This, of course, is one of the insights of dependency theory (Frank 1969).

Proposition 4.15. The complexity of markets does not lead to tighter connections between them, but weaker connections. The overall effect is that a recession or depression in a particular market is likely to affect economic conditions in nearby markets, but these effects are quickly dampened and do not spread across the economy.

This follows from our argument about complexity. If a society contains a great many markets, some of those markets are forming and growing quickly, some are mature, and others are declining. Rapid changes in demand for the products of some products, whether brought about by too many producers (or the invasion of "foreign producers"), a downturn in demand, or technology obsolescence, could have huge effects for those firms or geographic areas that are highly connected to the production of a given market. We would expect for those effects to spread across competitors and to suppliers. But the degree to which a downturn in a single market or set of markets has larger effects depends on a number of factors. First is the degree to which firms in a given market are dependent on that market for their existence. If they are sufficiently diversified, then they may be able to exit a given market over a period of time and invest themselves in other markets. Second, the size of the market is consequential as well. Crises in markets that do not affect a lot of other producers or consumers are not likely to cause more general crises. Third, the degree to which connected markets are dependent on a particular market for resources matters. If connected markets are not totally dependent upon a small number of customers, then they are able to shift their sales to other markets.

As economies grow, they produce more markets, more complexity, and less general interdependence. Taken together, these forces suggest that the larger and more diversified the markets are in a given society, the more able it is to withstand an economic downturn in a single market or related markets. The negative effects of downturns in those markets are likely to be dampened quickly to the degree that dependent suppliers and customers are themselves diversified. Thus, stability breeds complexity and loose coupling.

This set of insights can be brought to bear on issues of globalization and world trade. To the degree that societies have diversified economies and to the degree that participation in the world economy provides new markets and hence a more stable set of customers and suppliers, increases in world trade for a particular society are likely to have stabilizing effects. World trade is most threatening to societies that are small economies that are not diversified in their products. This makes them more vulnerable to fluctuations in demand for their products. But, even here, having more customers and suppliers may increase the size of firms and the diversification of their products.

Recently, we have seen the destabilization of currencies produce deep recessions in less-developed societies such as Mexico, Korea, Indonesia, and Thailand. Clearly, the relatively small size of these economies is one of the principal causes of their collapse. But equally responsible is the way in which foreign investment has entered these societies. These economies

were encouraged by international organizations, such as the World Bank and the International Monetary Fund, to liberalize their financial systems in order to allow foreign investment. The problem was that those who encouraged this deregulation did not realize that many governments lacked the capacity to regulate their banking systems. This meant that they had little ability to understand the real financial situation in their society until it was too late.

Globalization and Market Processes

One potential objection to my focus on states is that it fails to deal with the fact that the world economy is now truly global. But I believe that this political-cultural approach centered on state and society is quite useful in analyzing so-called global markets. I show in chapter 8 that comparative empirical analysis of the organization of firms' activities supports the view that national capitalisms persist. There are two important reasons why this is. First, firms depend on national institutions to organize themselves. These institutions produce stability and, hence, wealth for the owners and managers of firms. The owners and managers of firms still turn to their national authorities for help. Second, most consumption remains national, not international. In 1996, about 83% of the $35 trillion world economy was national (WTO 1997). Globalization cannot be in all markets. I will explore these themes in chapter 9.

Here, I want to pick up some alternative themes that follow from the discussion in this chapter. My main insight is that the only difference between a global market and a local one is geographic spread. The definition of a market provided here, a reproducible role structure, can be applied to globalization in a straightforward way. A market is "globalized" if there are a small number of participants who form an incumbent-challenger structure and operate across countries with a common conception of control.

It is an empirical question as to how many world markets are truly global in this sense. Moreover, it may be the case that some markets are partially globalized in that some regions are dominated by firms that know each other, but other parts of the world market are protected or local. How many globalized markets are there? Given that 83% of world economic activity is national, it is safe to say that there are fewer than many observers believe. Of course, many of these markets are for important products such as automobiles, chemicals, airframes, computers, software, pharmaceuticals, and some business services such as accounting and consulting. Industries that are partially global include telecommunications and some financial services, such as investment banking.

How do we tell if a market is being globalized? That is, when do foreign firms become invaders that transform a stable national market with a conception of control? The model developed here suggests a national market is upset when invaders arrive with a new conception of control. When this happens, the model predicts that the incumbents will respond by (1) reinforcing the old conception of control, (2) getting their governments to intervene to protect their local market, (3) co-opting invaders by forming alliances or joint marketing or production arrangements. If these fail, it is possible that the national market is absorbed into the international market, whereby firms adopt the new conception of control either by adopting the "new" methods for competition or through merger.

This brings up a more systematic consideration of what governments do in the face of globalization. One can conceive of the problem in the following way. Divide a country's main markets into those involved in exporting and those not involved in exporting. Consider the situation where firms either are or are not experiencing pressures from exporting firms from other countries. Firms in markets that are not exporting and are not being threatened by exporters will not pressure their governments to do anything about trade. Firms that are exporting and are not threatened by other firms (i.e., those already in globalized markets under my definition) are also unlikely to put pressure on their governments to keep foreign firms out.

Firms that are not exporting but suddenly find themselves under assault by those who have invaded their home market will try to get protectionist measures passed by their governments. Firms that are exporting and are feeling pressure from other exporters may put pressure on their governments to help them open up foreign markets, particularly those of their main competitors. This implies that it is not schizophrenic for governments to simultaneously pursue the opening of some markets abroad while protecting some of their own markets at home. So, for example, the U.S. government continues to support the textile and sugar industries domestically while it tries to force the internal market in Japan open for cars and other American products.

Proposition 4.16. The emergence of global markets depends on cooperation between firms and states to produce rules of exchange, property rights (i.e., guarantees that firms can expropriate profits), and governance structures (i.e., ways to compete). One hypothesis is that increases in world trade produce demand for more of these agreements that produce more extensive cooperation between governments.

The European Union, NAFTA, and the recently completed GATT treaty, which founded the World Trade Organization, can all be analyzed

according to whether or not they provide common rules for property rights, governance structures, and rules of exchange. They can also be broken down by sectors that involve or do not involve exporters to see if rules tend to apply more or less exclusively to those sectors (Fligstein and Mara-Drita 1996). These agreements have so far been primarily concerned with rules of exchange that facilitate more trade.

One implication of this proposition is that the creation of global markets will depend on states and will in fact be limited by states. There are two kinds of projects that states can undertake in opening markets. First, they can remove trade barriers between societies. This eliminates many kinds of rules that prevent market access. This is a negative integration project. But there are limits to this kind of market integration. Without common rules to guide interaction, market opening will not involve creating a true world market (i.e., one where a small number of firms make investments around the world in response to one another's actions and market opportunities). Thus, trade and the benefits to trade will be limited. To get single markets for a particular commodity requires that extensive rules exist. It is not surprising that the trade zone with the highest level of trade in the world is Western Europe. The European Union has set out to create a single market by removing trade barriers and providing for new European-wide rules to guide firms. The effect of this rule creation has been to create a market that in many ways resembles the internal American market.

One arena in which agreements have not occurred is the creation of a world market for corporate control. It is relatively difficult to engage in hostile takeovers in any society except the United States and Great Britain. Earlier I suggested that property rights were at the core of the relations between national elites and states. Most national elites have resisted having transfer property rights transferred to the highest bidder because they would lose power. States remain players in the creation of the global economy because their elites depend on them to preserve their power and guarantee entry to global markets.

The market model proposed here offers conceptual tools to help study processes of globalization. It provides a working definition of whether a particular market is globalized. This definition can be used to establish the degree to which a world market exists for a particular commodity and the level of integration of that market. It also can be used to examine over time if a particular market is becoming more or less integrated. So, for example, over time, the world automobile industry has become more integrated. There are fewer firms, and more of those firms operate in many parts of the world. What is most interesting in the recent past is that the national identities of these firms is blurring so: Daimler bought Chrysler, Renault bought Nissan, and Ford bought Jaguar. Finally, one important implication of globalization is that one would expect that globalization in a particular market would spill over through invasion into another market. So the pharmaceutical industry contains a small number of large firms that operate on a global basis. An industry like biotechnology can be changed dramatically by the entry of these firms onto their turf. This implies that there are a great many empirical projects that can be done to study states, markets, and changes in the nature of the market due to entry of firms from other societies.

The response to globalization by governments is also explicable from this perspective. They strive to protect local industries not focused on the global market under threat by non-home country firms, and they strive to open the markets of the competitors of their own global firms. Governments remain central to these processes because workers, entrepreneurs, and managers depend upon them to protect them and expand their opportunities.

Conclusion

Markets are social constructions that reflect the unique political-cultural construction of their firms and nations. The creation of markets implies societal solutions to the problems of property rights, governance structures, conceptions of control, and rules of exchange. There are many paths to those solutions, each of which may promote the survival of firms. I have sketched the interconnections between states and markets and the outcomes produced by various actions. I have extracted general principles by which these outcomes can be understood.

I have argued that stable markets reflect status hierarchies that define incumbents and challengers, and that market leaders enforce the market social order and signal how crises are to be handled. These complex role structures in markets operate through the social relations between actors (which are generically called *networks*). My view of markets takes seriously the problem of how states interact with markets to produce general rules by which social structures can be formed. It also makes market structures easier to observe, takes into account the role of actors' intentions in the production of market structures, and makes more sense of how firms are likely to behave under different market conditions.

I have tried to give a political reading to the process of market dynamics. The liability of newness of firms results, at least partially, from the lack of social structure in a market and the social movement–like search for such a structure. Legitimacy is bestowed by states on markets. A "stable" market for a population ecologist resembles one in which a conception of control is shared. Similarly, as in population ecology, the transformation of markets results from external sources of change.

The metaphor of "markets as politics" unites these ideas. I have shown that this view makes possible a unified approach to the study of markets—an approach that focuses on the political processes that underlie market interactions. Ultimately, however, the usefulness of any metaphor is in the research it generates and the intuitive and counterintuitive insights it creates.

I motivated this section by suggesting that one reason national capitalisms persist is the unique development of market institutions in each capitalist society. I have argued that this unique development hinges on the relative power of capitalists, workers, politicians, and state bureaucrats to lay down and enforce market institutions (property rights, governance structures, conceptions of control, and rules of exchange) at the entry into modern development. This political alliance and the rules that support it have huge effects on the subsequent development of a society's economy.

These effects work in two ways. First, these groups define the status quo and try to get the state to support their position. States are the focus of firms' attention during market crises, and state actors intervene along predictable lines. Societal transformation of rules occurs only during great crises, such as war or depression. Second, if one has knowledge about how institutions are organized in a given society, one can predict that new industries will emerge with the existing societal templates. Thus, one expects that there are both institutional and organizational forces at work to prevent societies from converging in form. National elites do not willingly give up their power, and states are committed to defending it by the nature of the market institutions that are created.