

# Chapter 4

## The Political Economy of the Market

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### ABSTRACT

*In the modern period, there are two concerns regarding the nature of the market. One is associated with market structures that involve solely the economic sphere and exclude all other factors including historical, social, and institutional ones. Hence, it conducts a static analysis, while the other relates the market process with all the aforementioned factors in addition to the economic ones, and therefore, combines economic and non-economic spheres, and the analysis becomes dynamic. This chapter scrutinizes the conceptualization of the market; that is whether the market is considered as a “structure” or a “process”. With this consideration, authors relate the conceptualization of the market with the type of competition. When the market is regarded as a “process”, it is possible to claim that market becomes an “institution”. Thus, by taking the market as an institution and considering competition within a dynamic framework, the emergent economic theoretical structure provides an in-depth, comprehensive, analytical, and novel approach to real economic and social concerns.*

### INTRODUCTION

The notion that market has sociological concerns has been supported by both historical evidences and various economic analyses. Different schools of thought advocated different market conceptualizations, and based their analysis on different types of competition. It is necessary to distinguish the two basic dimensions of competition in economic analysis. First of these is the synchronous aspect of competition, while the second one is its diachronous character. In the case of simultaneous competition theories, competition is examined within a certain time period and various economic decisions are taken as a result of determination of price, production and accumulation in a given time period and these decisions

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are influenced directly by the given competitive structure. Within this framework, it is possible to set forth the general structure of simultaneous competition theories with the help of cost-price analysis and equilibrium approaches (Fortman, 1966: 40). Such an analysis excludes social dynamics and is concerned with a single point in time.

Intertemporal competition, on the other hand, analyzes processes. In such a framework, the analysis does not take place in a given time period but rather, structural changes such as technological development, growth of some firms and introduction of new products into the market are given place. Theories within this understanding of competition have a framework that influence and are influenced by not only some firms or industries but also the social structure, which includes the whole economy. In other words, it can be argued that intertemporal competition provides a framework that brings together economics and social dynamics in the existing economic problems. Besides, it is crucial to take into consideration dynamic factors, and accordingly, technological change and its coevolutionary patterns in comprehending the subsequent changes in the economic and social structure.

Within this context, the emergence and functioning of the markets, which is considered as the main economic institution, is the subject theme of economic sociology. It is possible to define economic sociology as an attempt of enlightening economic phenomena by employing sociological approaches to these phenomena. Both economics and economic sociology share similar objectives and concerns. Yet, economic sociology has severely different characteristics than the conventional economics; it attaches great importance to social relations and the role of social institutions.

The subject of competition and the type of competition are directly related to the market, which can be considered as an institution, in the economics literature. It is possible to classify the market either as a “structure” or a “process” in different schools of thought in economics. Whether the market is accepted a structure or a process determines the type of competition. In the approaches that regard and define the market as a structure, competition is static<sup>1</sup>, where technology is taken as given, whereas in the approaches that show that the market is a process, competition is dynamic<sup>2</sup> and causes technological changes. In dynamic competition theories that take the market as a process, technological change leads to economic and social changes. Although technological change is seen as diffusion of innovations to the economic sphere, it is inevitable that it will also be reflected in the social sphere. As an economic concept, technology cannot be considered as independent of the process of social knowledge accumulation when viewed from the accumulation of technological knowledge process. Within this context, the market as a process causes dynamic competition, dynamic competition leads to technological change and technological change results in economic and social change, and this analytical relationship falls within the subject theme of economic sociology. This study aims to scrutinize the conceptualization of the market; that is whether the market is considered as a “structure” or a “process”. With this consideration, the study relates the conceptualization of the market with the type of competition. When the market is regarded as a “process”, it is possible to claim that market becomes an “institution”. Such an approach allows for a wider analytical perspective that does not distinguish social reality from the economic reality.

## **SETTING THE STAGE**

This study establishes the crucial relationship between economic sociology and competition within the framework of the concept of sociology of market. The understanding of the market determines the nature of competition. Since competition is not only a “structure” but is also a “process” including technology,

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