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Marketization, inequality, and institutional change*

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Abstract — This paper develops a theoretical framework for analyzing the social effects of marketization. We define marketization as the imposition or intensification of price-based competition. It includes a wide range of phenomena, such as outsourcing, privatization, active labor market policies, and the international integration of markets for goods services, capital, and labor. Our central proposition is that the diverse forms that marketization takes have the common effect of increasing economic and social inequality via their effect on non-market institutions. We propose two mechanisms of institutional change. First, the means used by economic elites to seek influence shifts from voice to exit, leading to the 'disorganization' of the non-market institutions of industrial relations and welfare provision, or the erosion of their democratic and redistributive functions. Second, economic activity shifts away from production and toward extraction, leading to the expansion of new forms of undemocratic private and public regulation. We conclude that assumptions of efficiency seeking and societal embedding commonly used to analyze the expansion of markets need to be loosened in order to study this process.

Keywords: marketization, inequality, institutional change, institutional disorganization, private regulation.

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Marketization, inequality, and institutional change

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Summary

This paper develops a theoretical framework for analyzing the social effects of marketization. We define marketization as the imposition or intensification of price-based competition. It includes a wide range of phenomena, such as outsourcing, privatization, active labor market policies, and the international integration of markets for goods services, capital, and labor. Our central proposition is that the diverse forms that marketization takes have the common effect of increasing economic and social inequality via their effect on non-market institutions. We propose two mechanisms of institutional change. First, the means used by economic elites to seek influence shifts from voice to exit, leading to the 'disorganization' of the non-market institutions of industrial relations and welfare provision, or the erosion of their democratic and redistributive functions. Second, economic activity shifts away from production and toward extraction, leading to the expansion of new forms of undemocratic private and public regulation. We conclude that assumptions of efficiency seeking and societal embedding commonly used to analyze the expansion of markets need to be loosened in order to study this process.

Since the 1970s, public policy across the global North has been guided by the idea that markets are the most efficient and equitable means of governing economic exchange and distribution.[1] Accordingly, state ownership and regulations that restrict flows of goods, services, labor, and capital are viewed as contributing to the inefficiency and inequality. In the English-speaking world, elites have aggressively promoted neo-liberal policies aimed at freeing markets over several decades. Led by the institutions of the European Union, continental Europe has followed suit, weakening institutions that supported strong collective and government regulation of the terms and conditions of employment.

This paper develops a theoretical framework for analyzing the social effects of marketization, defined as the imposition or intensification of price-based competition. Marketization is not synonymous with deregulation or a return to a self-regulating market. Market making is 'institutionally thick' because states and hierarchical firms play an important role in establishing markets and defining their parameters (Vogel 1998; MacKenzie and Martinez

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Lucio 2007). The present framework concerns the effects of marketization rather than its causes. Of central importance are the mechanisms through which a change in the governance of markets leads to shifts in the distribution of resources and power. Our focus echoes one stated aim of economic sociology, 'to empirically analyze particular market situations in order to decide whom economic changes help [and] whom they hurt. . . ' (Fligstein 2005: 138).

Comparative institutionalists in economics, sociology, political science, and industrial relations have long criticized the neoclassical view that the market represents an efficient, spontaneous, organic form of resource allocation and governance, arguing that other institutions play a central role in structuring and constraining markets (Williamson 1981; Hall and Soskice 2001; Fligstein 2001; Beckert 2007). Recent work on the dynamics of institutional change has analyzed the deliberate shift toward market-based forms of regulation, and away from the alternatives, as the outcome of political conflicts and public policy choices (Höpner et al 2009; Lillie 2010; Baccaro and Howell 2011). Two different literatures have developed. The first focuses on the relationship between markets and national, regional, or international institutions. Increasingly sophisticated frameworks have emerged for analyzing changes in this relationship, usually inspired by Polanyi's (1957) notion of a dual movement, in which society gives rise to the market economy, but seeks to protect itself from the destructive features of markets (e.g. Streeck and Thelen 2006). Parallel to this literature, a large number of empirical studies have analyzed specific marketization processes and their effects on patterns of inequality within industries and workplaces (Gautié and Schmitt 2010; Doellgast et al 2009; Keune et al 2008). However, the distinct insights from this literature on the significance of market-making processes at the micro level have been largely neglected to date in macro-level theories of institutional

change. As a result, there is no overarching theory of how these institutional changes affect inequality or democratic participation.

In this paper, we seek to bridge the gap between these research traditions by examining the transition to more marketized forms of governance at different levels (within workplaces, firms, industries; across supply chains; and within different political jurisdictions) and the effects of this transition on distributional outcomes. The theoretical framework that we develop below seeks to explain why different forms of marketization have a common effect of redistributing economic and social resources towards business elites and away from workers and the poor. We describe two mechanisms through which this occurs. First, a shift from voice to exit as a means of exercising elite preferences contributes to the disorganization of redistributive and socially protective institutions. Second, a shift from productive to extractive economic activity is associated with the expansion of new undemocratic private and public forms of regulation. These processes, in turn, undermine the power resources that organized groups in civil society have used in the past to challenge the expansion of markets and negotiate the effects of market reforms.

We draw on theory and research from three traditions to develop this analytical framework. Transaction-cost economics has developed clear categorizations of the different dimensions of market governance; economic sociology provides insights on the processes through which marketization takes place; and industrial relations scholars have generated a rich body of empirical findings and mid-range theories concerning how marketization affects social outcomes. Our aim is to generate an explanation of the relationship between marketization and changing patterns of inequality over time and across countries, industries, and firms. The

framework can be applied to a wide range of marketization phenomena, such as outsourcing, privatization, active labor market policies, and the increasingly free movement of goods, services, capital, and labor across borders.

In the next sections we describe the theoretical background of marketization, discuss four examples, and contrast the concept with neoliberalism, liberalization, and globalization. Next, we present our argument concerning the mechanisms through which marketization leads to the growth of inequality. We conclude with a discussion of broader research implications and future research directions.

Definition and types of marketization

We define marketization is a change in the characteristics of transactions. A fully marketized transaction is one in which actor choices are made purely on the basis of price, the good or service in question is standardized, exchanges are frequent, and competition is open to a wide range of participants. The concept of marketization is related to, but distinct from, three terms for shifts in the political economy.

Neoliberalism is the ideational underpinning behind efforts by policymakers to liberalize markets, based originally on a critique of socialism as inimical to freedom. Neoliberalism is an intellectual tradition, while marketization is a shift in how transactions work. The implementation of neoliberal economic ideas does not produce marketization if, for example, the actors in a market subject to deregulation choose long-term forms of exchange in which the price mechanism plays a secondary role.

Liberalization is a set of public policies that follow from the neoliberal critique of

socialism. Many liberalization policies directly impose market relations. The rollback of the welfare state in the context of active labor market policies can increase the labor supply, and the privatization of public services creates price-based exchange where there previously was none. But other liberalization policies, such as cuts to benefits and services for the unemployable, are less directly related to the functioning of transactions. Liberalization does not exhaust the possibilities of marketization, since it does not include that which is imposed by private actors.

Finally, ***globalization*** refers to the increasing interdependence of human action across international borders, including the greater openness of national markets to global flows of goods, services, workers, and capital. Globalization – and economic integration in Europe – is directly related to marketization, since it causes a short-run increase in the number of players in any domestic market, leading to downward pressures on prices. However, not all forms of globalization lead to marketization – for example, globalization of unions and activist networks; and there are domestic policies to create markets that are only indirectly related to globalization, such as privatization initiatives that come about due to the material interests or neoliberal ideas of domestic elites (Greer et al 2013). Marketization can therefore emerge without any clear stimulus from the global economy, and globalized activities may be unrelated to, or even pose a challenge to, marketization.

The concept of marketization is thus distinctive and refers to a specific set of changes in the governance of transactions between individuals and organizations. We distinguish between two dimensions on which marketization can vary, based on the primary actors involved (organizations or individuals) and the geographic scale at which marketization occurs (domestic or international). The fourfold typology that results encompasses the phenomenon in something

approaching its full diversity, including vertical disintegration; internationalization of financial, product, and service markets; liberalization of national labor markets; and internationalization of labor markets (table 1).

Table 1. Examples of marketization

Who is competing	Geographic scale of competition	
	Domestic	International
Organizations	1. Vertical disintegration	2. International trade
Workers	3. Welfare-to-work	4. Labor migration

Vertical disintegration (1) is the emergence of new intermediate markets in a production process previously integrated within a single organization (Jacobides, 2005). This trend has become almost ubiquitous in private industry and has an analog in the public sector, privatization. It includes outsourcing to third-party firms; the hiving off of operations into subsidiaries, joint ventures, or spin-off firms; and the transfer of state-owned assets to private owners (Doellgast and Greer 2006). While it does not always take place within the confines of a single country, it often does. Services such as cleaning, security, and maintenance usually need to be conducted in spatial proximity to the client, as do some manufacturing suppliers located close to purchasing firms demanding 'just-in-time' delivery. Such an act of changing a 'make' decision to a 'buy' decision is itself a case of marketization, since it usually requires a price mechanism, competing potential contractors, work that is standardized enough to be carried out by any of

them, and a specified time horizon (e.g. a contract cycle). In iterations of contracting these variables can be altered (pricing changed, additional bidders invited, contracts shortened or lengthened) and the specification of the work can change (to be more or less standardized provision of a commodity to deal with coordination problems) (Greer et al 2011). Vertical disintegration is thus a common way that priced-based competition emerges in inter-organizational contracting, and it opens the door for the intensification of competition in future iterations of contracting.

Another kind of marketization is the ***internationalization of trade in goods and services*** **(2).** Production is increasingly integrated in transnational organizational networks, facilitating offshoring and foreign direct investment. For many writers, globalization is marketization par excellence, since international activity is more difficult for any individual nation-state to regulate than is domestic activity, and since the institutions governing international trade have the explicit purpose of promoting international competition and exchange. The internationalization of markets has a number of consequences at the level of the transaction. Most importantly, under conditions of internationalization, the number of actors in a given market expands to include firms based in other countries. The opening of national markets, however, requires a shift in the price mechanism towards standardized measures of cost and quality, which can lead to a standardization in the good or service in question. The rise of global production systems within the world's automakers are an example of the opening of world markets leading to standardization, both of products and production methods. Standardized production systems have the further advantage to large firms that they offer increased exit options from locations with disadvantageous institutions or politics (Greer and Hauptmeier 2008).

A domestic form of marketization that involves labor-market competition between workers is so-called ***'activation' policy (3).*** This is a state-imposed form of marketization, labeled variously welfare to work, active labor market policies, or workfare, to reform welfare states in a move to reinstate market discipline at the bottom of the labor market. It can include new conditions to receive welfare benefits, penalties for not meeting these conditions, changes in benefit levels and tax credits to increase the incentive to work, and services to improve job seekers employability or job placement prospects. They seek to affect transactions on the labor market by increasing the number of job seekers in low-wage occupations and reducing the reservation wage. They also contribute to the standardization of labor as a commodity by forcing a very wide range of different individuals – including the highly educated and the barely employable – into a common set of low-wage occupations. These policies increase the desperation of individuals to take any job, regardless of its quality, through detailed and coercive government intervention into their lives, and may also have disciplinary effects on the core workforce via increasing the fear of unemployment (Peck 2001; Scherschel et al 2012).

Labor migration (4) is an example of marketization in labor markets, with transactions altered through internationalization. Liberalizing the movement of labor is perhaps the most controversial form of marketization, due to its cultural and political consequences, and is one form of marketization that has gone much further in the EU than anywhere else. The freedom of movement of labor within the EU was enshrined as a goal as early as the Treaty of Rome, and there is now in principle a single labor market stretching from Ireland to Bulgaria and Spain to Finland. This opens markets to new actors: workers accustomed to very different terms and conditions of employment can compete for the same jobs in the same place. Increased migration

has implications for the working of the price mechanism if new entrants to labor markets are willing to accept lower wages than incumbents, and this willingness is often facilitated by isolation from the surrounding society. Sometimes the organization of work itself intensifies this isolation, e.g. when there is worker posting, labor camps, or human trafficking. The openness and price effects of migration depend on institutional conditions as well, such as the restrictiveness of visa programs or whether it has co-evolved with practices of worker posting (Lillie 2010).

These four examples illustrate the diverse forms that marketization can take. Their common feature is that a transaction is created, or its governance altered, in such a way that it becomes more frequent, more governed by price, with the commodity in question more standardized, and/or the access to outside actors increasingly open.

The institutional analysis of markets

The framework that we develop below contributes to contemporary debates concerning the causes and consequences of changes in market governance. These changes have been analyzed from different perspectives by comparative institutionalists. Neoclassical economics is the starting point for most of these debates, since it advances the most coherent defense of the self-regulating market as both efficient and egalitarian. According to mainstream economists, institutional arrangements that interfere with equilibrium pricing constitute distortions that lead to the inefficient allocation of resources. In labor markets, for example, trade unions are viewed as monopolists that restrict competition and force firms to employ labor at above market rates. In the long run, the union monopoly drives up labor costs above the 'equilibrium wage', which

contributes to inequality by creating a union 'wage premium' and creating disincentives for employers to create jobs for entry-level staff. Similar arguments have motivated a wide range of policies to ‘deregulate’ through the removal of regulations aimed at restricting markets and protecting vulnerable social groups (Harvey 2005; Mirowsky and Plehwe 2009).

Most institutional analysis begins with a notion of market failure, grounded in a critique of the simplifying assumptions of neoclassical economics. Theorists associated with the 'new institutional economics' such as Williamson (1985), argue that institutions can play a valuable role in overcoming market failure, for example, by reducing uncertainty. Transaction cost economics examines transactions governed in different ways, and assumes that efficiency is the key driving force behind efforts to minimize the costs of planning, monitoring, and adapting tasks, and to avoid monopoly and corruption. Asset specificity – of site, machinery, or human capital – sets some of the cognitive conditions that determine the governance of contracts and can create lock-in effects in which the contracting relationship itself becomes valued. According to this school, high asset specificity leads to the internalization of activity or the emergence of ‘relational contracting’. What Sako (1992) analyses as the ‘arms-length contractual relation,’ in which many buyers and sellers compete in a spot market for a standardized good or service, is a case of a highly marketized transaction.

These theorists treat the transaction as the main unit of analysis. Most comparative institutionalists, however, emphasize the social and political context in which transactions occur. Comparative political economy, for example, uses the nation-state as its unit of analysis. The varieties of capitalism literature, the most influential framework in this tradition, argues that inter-organizational contracting relationships are part of broader equilibria of other non-market

institutions, such as training and industrial relations, that exist to solve broader problems of between-firm coordination (Hall and Soskice 2001). Liberal market-based systems can be efficient and productive, but only for certain industries, where innovation and rapid reallocation of resources are necessary for competitive advantage (Vitols 2002). Variation is explained as the outcome of a search by organized, nationally based large firms for solutions to market failures. Thus, under-investment in training was traditionally addressed in Germany by strong employer-supported apprenticeship programs administered together with unions (Streeck 1992), and coordination in contracting chains were addressed in Japan through Keiretsu-style network organization (Sako 1992).

The transaction-cost economics and varieties of capitalism schools treat non-market institutions as means to promote efficiency. However, they also both suggest circumstances under which highly marketized forms of governance are a 'best practice' in efficiency terms. Two alternative schools of institutionalism – economic sociology and industrial relations – are critical of this idea, on the grounds that power and politics are necessarily involved in the construction and regulation of market-based exchange. In different ways, they explain non-market institutions as the outcome of efforts by organized interests to control markets. They show how collective action or public policy can check the free market, typically by imposing monopoly or oligopoly.

Economic sociologists view economic exchange as rule-based behavior structured by human interaction irreducible to the search for efficiency. Markets are socially embedded through the fixing sets of norms, actors, and power relationships, in two senses: social protection and the stabilization of market relations themselves (Beckert 2007). Markets can also be made or opened, with rules emerging or evolving to regulate exchanges, the property rights of their

players, and so on (Fligstein 2001). However, economic sociologists view the distinction between market- and non-market institutions as a false one, since markets are necessarily constructed by actors in society and therefore embedded in other forms of social relations. Zelizer (1988), for example, argues against what she calls the theory of the 'boundless' market as an amoral, powerful, autonomous arrangement, leading – absent external institutional checks – to 'nightmarish visions of a fully commoditized world'. Instead, she argues for a 'multiple markets' model, in which market structure derives from the interaction of cultural, structural, and economic factors. Fligstein (2008) discusses these dynamics in opening of markets in Europe during the 1980s and 1990s through EU directives, which he shows was largely limited to the domain of private exchange, as opposed to property rights or public sector governance; he argues that the latter would have undermined the power of domestic elites. Economic sociologists reject the image of 'more or less marketness' because of the allegedly asocial nature of a highly marketized situation and the demarcation between society and economy that it would imply (Krippner et al 2005; Vidal and Peck 2012).

The field of industrial relations has been less interested in the process of making markets and more interested in the interaction between market competition and other institutional arrangements, such as collective bargaining and employment legislation. A large body of research has examined the political dynamics of specific changes in the scale and organization of markets, including the role of trade unions and public policy in seeking to protect workers. Grounded in the work of the 'old institutional economists', industrial relations theory has treated government regulation and labor unions as important interventions to establish order and predictability to inherently unstable labor markets. Commons' (1909) case study of the US

shoemakers demonstrated that as markets for shoes expanded their geographic scope, price-based competition intensified, wages and prices were driven down, and existing producers were driven out of business. Unions were formed after the collapse of earlier trade-based associations that included entrepreneurs, and they engaged in an escalating contest over earnings and prices in the face of these new competitive pressures. Thus, the sudden increase in market competition brought about by geographic expansion of the market provided the impetus to create the institution of collective bargaining. Institutional change was driven by a 'contest for income' in which organized interests sought to build and use market power to gain a higher price. The Webbs (1897) argued along similar lines that UK trade unions counteracted the 'higgling' of the labor market through mutual aid, legal enactment, and collective bargaining.

Industrial relations theory views non-market institutions not simply as a means of minimizing transaction costs or advancing elite interests. It views institutions as tools to cope with the various policy challenges created by market economies, such as poverty, unemployment, excessive labor turnover, and skills shortages. Later theorists concentrated on the formalized role of unions in the regulation of work in industries and firms, analyzing, for example, the construction and maintenance of internal labor markets (Doeringer and Piore 1972) or unions' efficiency-enhancing 'collective voice' effects, which potentially offset their monopoly costs in bargaining wages above market equilibria (Freeman and Medoff 1985). Comparative scholars extended these insights to explain cross-national or cross-firm differences in the adoption of efficiency-enhancing changes in production technologies and methods in the 1980s and 1990s, such as those associated with lean production. Workplaces with strong and institutionally secure unions and traditions of labor-management cooperation – most common in

non-liberal and coordinated countries like Germany – were found to be more successful in adopting these innovations than those with weaker collective bargaining arrangements, such as those in the US (Turner 1991). Encompassing institutions could thus constitute 'productive constraints' on management (Streeck 1992) and encourage the development of trust and labor-management partnership (Kochan and Osterman 1995). Comparative scholars argue that non-market institutions can help to reconcile equity and efficiency, providing stakeholders with voice in decisions and redistributing gains from increased productivity (Streeck 1992). Industrial relations theorists advance the most consistent critique of the market economy on equity grounds, pointing to the unequal distribution of power in the employment relationship and the resulting need for institutions to redistribute power (Hyman 1989).

However, institutional theory remains ambiguous about the social effects of marketization. As Beckert (2006) points out, economic sociology has not examined the problems that result from market-making or 'social reforms' that could ameliorate them. Other schools of institutionalism are directly critical of some attempts to regulate markets where these efforts conflict with efficiency, growth, or competitiveness. North (1981) criticizes the policies of pluralist interest groups in Western countries in favoring redistribution at the expense of efficiency, and Streeck (2009) argues that the non-market institutions that once produced efficiency in Germany are now 'exhausted' and a drag on national competitiveness. The recent liberalization literature examines the erosion of national non-market institutions (Baccaro and Howell 2011) and the rise of national market-making institutions (Höpner et al 2009), but not their social effects. The dualization literature examines the relationship between institutions and inequality, but focuses on the residual power of non-market institutions and excludes market-

making institutional change (Emmenegger et al 20012).

The institutional literature has theorized the dynamics of markets, their relationship with non-market institutions, and the effects of this relationship on economic growth or efficiency. But it has not explained how those dynamics shape broader social outcomes, such as inequality.

Marketization, institutional change, and inequality: A framework

In this section, we draw on the insights from transaction cost economics, economic sociology, and industrial relations to develop our framework. Central to our line of questioning is whether, how, and the conditions under which 'the commodification of nature, money, and labor . . . destroys the very ground upon which a "counter-movement" could be built' (Burawoy 2010, 312).

Our framework has two parts. The first describes two mechanisms through which marketization affects the functioning of non-market institutions: 1) shifts in business influence-seeking from voice to exit and 2) shifts in economic activity from production to extraction. These mechanisms are associated with distinct forms of institutional change. The shift from voice to exit encourages the disorganization of socially protective non-market institutions, and a shift from production to extraction leads to the expansion of private regulation outside the normal mechanisms of democratic accountability. The second part examines two mutually reinforcing kinds of inequality that result: economic (the distribution of material assets and income) and social (the distribution of status and rights).

Effects on non-market institutions

1) **From voice to exit and institutional disorganization.** The marketization of transactions changes the means by which elites assert their preferences; the mechanism for influence shifts from 'voice' to 'exit'. Hirschman (1970) used these terms to distinguish between different responses to the declining quality or performance of an organization of which an individual is a member: one can withdraw or 'exit' from the relationship, or alternatively seek to change it through exercising 'voice.,' A firm exercising voice would work with unions, government agencies, and other stakeholders to negotiate changes needed to reorganize work in an existing location; or it could exercise exit by closing the establishment and imposing new practices in a greenfield site governed by different actors and rules.

Marketization undermines voice-based influence seeking and leads to exit threats for a few reasons. First, at the organizational or inter-organizational level, the shift from centralized decision-making within hierarchies to market-based contracting fundamentally changes the governance of transactions. Chandler (1977) used the term the 'visible hand' to describe the administrative structure and managerial coordination that replace market forces in centralized organizations. Transaction cost economics proposes that the decision to internalize transactions into nonmarket modes of organization occurs under particular conditions favoring long-term commitments, i.e. where durable investments are undertaken to support transactions, and thus the continuity of relationships among parties is valued (Williamson 1985).

Under conditions of marketization, exit threats become increasingly common, as the marginal costs of alternatives become more important factors driving investment and purchasing

decisions. Large organizations that establish internal markets are more likely to threaten to withdraw resources from underperforming firms or establishments as a means of encouraging efficiency, rather than intervening to influence strategy and investments in the longer-term. In financial markets, as shareholding becomes more dispersed and a market for corporate control develops, investors' primary means of disciplining management shifts from one of exercising 'voice' on corporate boards to the threat of 'exit' through selling shares. Under these conditions, short-term cost and profitability become the central benchmarks for performance.

This expansion of market-based transactions in the economy leads to broader changes in organized non-market institutions outside of the organization's boundaries. Here the insight of comparative political economists that firm strategies are closely linked with (and to some extent dependent on) structures of regulation and inter-firm coordination is useful. The concentration and centralization of capital under 'organized capitalism' was accompanied by the progressive regulation of markets as well as the growth of collective organizations in labor markets (Lash and Urry 1987: p.4). These organized or coordinated models relied on national-level collective bargaining and nationally regulated labor markets, while the state played a strong role in tripartite arrangements under more corporatist-style structures. This represented a 'voice-based' system for mediating among competing claims or developing long-term goals at the level of industries and national economies: objectives were set through negotiation rather than administrative fiat, and actors were constrained from acting opportunistically.

Reorganizing the economy through competitive markets creates opportunities and incentives for exiting these coordinating institutions. As the number of buyers and sellers increases and the price mechanism becomes more important as a basis for allocation decisions, it

becomes difficult to establish or maintain centralized interest representation. Large, hierarchical corporations decentralize their collective bargaining frameworks to increase flexibility and differentiate pay and working conditions at the local level, in line with the rising importance of marginal costs and profitability. Meanwhile, the openness of markets exposes established organizations to competition from new players with potentially lower labor costs.

The frequency with which economic elites exercise exit options is less important for distributional outcomes than their threats of using these options. Exit threats in the context of economic openness can reshape the behavior of policymakers and worker representatives with or without capital flight, privatization, or outsourcing taking place on a large scale. While exit options may be formally available to workers and the poor (through strikes or migration), in practice managers and investors benefit far more. Strike threats and out-migration are more costly to workers than capital flight is to business elites, and in a liberal economic order courts and lawmakers generally restrict strikes while liberalizing capital flows. Exit threats engendered by marketization thus affect democratic processes in the political and industrial relations spheres in a way that redistributes power towards business elites and away from the rest of society.

This change in the way economic elites seek influence produces a shift in the material interests of those who hold power in organizations. Managers increasingly face incentives to price 'human resources' based on short-term marginal costs, and the basis for securing labor cooperation shifts from cooperation to competition for jobs and investment. As certain non-market institutions, such as collective bargaining, cover a shrinking portion of the economy, the potential benefits of pursuing goals within these institutions (as well as the costs associated with avoiding them) decline. Together, these changes within organizations and in the broader

institutional context of organizations undermine more democratic or administrative decision-making structures at different levels: the workplace, firm, industry, and nation-state.

This shift affects industrial relations institutions by promoting devolution of bargaining downward towards the workplace (Katz 1993). In the past, these changes have been coordinated by employers and trade unions seeking to preserve these institutions' labor peace and redistributive functions (Traxler 1995). Disorganization refers to the declining relevance of these coordinating institutions and the resulting erosion of these functions. In many cases, collective bargaining, worker representation, and welfare-state arrangements presuppose corporate and industry structures that no longer exist. Company-based health care and pension insurance in the US, for example, presupposed lifetime employment in a single firm; German collective bargaining institutions presupposed a world in which firm boundaries correspond with the boundaries of sectors, nested within a national institutional system. As market-based competition intensifies, and firms restructure themselves in response (whether through domestic externalization or internationalization), companies find that they can choose which institutional framework to apply (Doellgast and Greer 2006). Possibilities multiply for 'escape and defiance' of standards through shifting work to new companies, sectors, or countries or through employing workers on more poorly regulated contingent contracts (Doellgast et al 2009). As non-market institutions, such as collective bargaining, cover a shrinking portion of the economy, the costs associated with avoiding them decline. Workers find themselves in 'spaces of exception' in which statutory and collective forms of regulation are absent or unenforceable (Lillie 2010). Policymakers may seek to compensate workers through tax credits or human capital investments, but they do so in a delayed fashion that does not usually balance out the inequalities generated in

the first place. The low-wage and insecure segment of the workforce therefore expands.

2) **From productive to extractive economic activity and private regulation.** Alongside the shift from voice to exit, the scope for representative participation narrows, and the uncertainty associated with economic transactions increases. How, then, is the level of order maintained that is needed to continue production and exchange? Institutional theorists such as Fligstein (2002) and Thelen (2000) have argued that, because capitalists have an interest in market stability they pursue cartel-style arrangements through collective regulation with other firms, centralized collective bargaining, or government intervention. It is therefore necessary to look beyond the destabilizing and disruptive side of marketization to examine its implications for the strategic behavior of managers and investors. A second critical mechanism through which marketization affects non-market institutions is through shifting the primary objective of top management from one of seeking profits through productive activities to one of extracting profits through non-productive activities such as finance or the management of privatized public services. The ethos shifts from 'retain and reinvest' to 'downsize and distribute' i.e. to shareholders (Lazonick and O'Sullivan 2000), and we witness in the global North what Harvey (2003) calls 'accumulation by disposession'.

This shift in the kind of business activity leads to a shift in how elites seek to stabilize the capitalist economy. In the past, non-market institutions to stabilize the economy arose due to compromises between organized business and labor, aimed in part at stabilizing national economies. Industrial relations systems were justified in the eyes of many elites due to their function of maintaining order in the workplace (Tomlins 1985), and welfare states helped to

dampen unrest more broadly (Piven and Cloward 1971). Institutions aimed at stabilizing a highly marketized economy are different. Markets require a very wide range of technical rule-making, such as the provision of information about performance to investors and managers and the creation of abstract and standardized criteria. This not only concerns the prices of goods and services, as well as more broadly accepted measures concerning what counts as good performance within organizations and new mechanisms of measurement and comparison (Brinkmann 2011). Market criteria are diffused into organizations via the logic of shareholder value, which divides the workforce into decentralized profit centers within the company or across new market-mediated organizational boundaries. This kind of rule-making emanates from government agencies, legislatures, and other statutory bodies, but also through the contracting and internal steering activities of private firms.

The complex reconfiguration of rules that govern how profits are extracted is conducive to a specific kind of voice mechanism for business. Decisions have to be made concerning issues such as who may compete, the frequency of transactions, the criteria for decision-making, the kind of communication allowed between market actors, and the form quality standards and price signals take. Because markets are governed by rules and create demands for social protection, marketization is institutionally thick (Vogel 1998). Whether made in public policy or in the private sector, such decisions are political, with severe distributional consequences; however, they are often made in the realm of 'quiet politics' and not subject to the checks and balances of democracy, such as public debate (Culpepper 2011).

Why would the complex political and institutional dynamics associated with marketization have skewed distributional effects? Under financialization, decisions involve the

shifting of costs and risks, and those who participate in them tend to be large corporate actors, whose profits depend on financial rather than productive activities (Krippner 2010). Trade unions and organizations of the unemployed do not have the lobbying capacity to compete with business to shape these rules in detail. Harvey's (2003) narrative includes a far wider range of predatory capitalist activities, usually involving fraud, theft, or violence to appropriate assets in developing countries. But something parallel takes place in the global North as citizens are stripped of the rights and entitlements once associated with industrial citizenship and states hand over public assets such as infrastructure and social services (Dörre 2009). While these changes largely take place within the parameters of democratic institutions and the rule of law, they do reinforce inequality. This extraction process has no real analogue within capitalism that benefits the workers or the poor. As a result, financialization is a key cause of increases in capital income, dividends, and top earned incomes (McCall and Percheski 2010); and this seems to be the case for extractive activities more generally.

Institutional change and inequality

The above discussion has shown that marketization alters the structure and functioning of non-market institutions, leading to the disorganization of socially protective and redistributive institutions and the rise of new voice mechanisms for business that stand outside of democratic accountability. The power relationship between workers and business, already unequal during the 'golden age' of 20th century capitalism, has thus been further skewed in favor of business by marketization processes.

One outcome is economic inequality. Of particular concern is the growth of low-wage

and insecure jobs. While the rise of low-wage and insecure work is uneven, it is increasing in most wealthy countries, most dramatically in once-egalitarian Germany (Gautié and Schmitt 2010). New possibilities have emerged in European countries for 'escape and defiance' of minimum standards through shifting work to new companies, sectors, or countries or through employing workers on more poorly regulated contingent contracts (Doellgast et al. 2009). Changes at this level are partially responsible an expansion of low-wage jobs in the national economy as a whole; however, these are exacerbated at the national level by decreasing coverage of welfare state protections that served to decommodify labor and encourage expansion of standard employment contracts.

A second outcome is social inequality. The declining power of civil society organizations to effectively represent the interests of workers and the poor is of central importance here. Within firms, representative participation is undermined by increased bargaining fragmentation, declining coverage, and the increased importance of financial criteria or 'shareholder value' in driving strategic choice. This has the effect of narrowing the range of stakeholders who influence corporate behavior, while constricting worker access to institutions of workplace democracy. At the national and sectoral levels, union decline weakens corporatist bargaining structures and coordinated interest representation, while changes in the welfare state shift responsibility for poverty and unemployment onto the individual. The result is declining social status and rights for those groups who most depend on these forms of organized interest representation to participate in decision-making at different levels and to secure redistribution of power and resources.

Social inequality has consequences for sociologists' embedding assumptions, because it contributes to the erosion of those mechanisms that are supposed to protect society from market

relations. The literature on trade unionism has found cases of unions reviving themselves and provided some ideas about how unions could reverse their overall decline (e.g. Turner and Cornfield 2007). However, these cases remain exceptional in a context of overall union decline across the global north, partly because much of the innovation takes place during organizational crises (Voss and Sherman 2000; Lillie and Greer 2007) and partly due to insider-outsider dilemmas (Umney 2010). In the former case unions alienate outsiders, who may then organize themselves against the union movement; and in the latter case they may compromise in ways that water down protections of the insiders. Our view is superficially similar to Palier and Thelen's (2010)'s account of 'segmentalism', in which unions and management in the core sectors of 'coordinated' economies bargain to protect labor market 'insiders', thereby hardening the segments of the labor market. Their account, however, unduly dismisses the possibility that it is the disorganization of non-market institutions, rather than their residual power, that causes inequality. Nevertheless, we agree that social inequality exacerbates trade union weakness.

Nor is the state necessarily effective, or even necessarily interested, in protecting workers and the poor from market dynamics. In Europe, for example, market-making rules have undermined, in various ways, the sovereignty of nation states over workplaces in their own territory and treating worker protections and protected forms of collective action such as strikes as market obstructions (Lillie 2010). This trend has taken place as pro-market thinking has spread from 'neoliberals' on the right into center-left parties (Nachtwey 2009). In the current economic crisis, financial bailout packages have stipulated even further-reaching liberalization, including privatization, cuts to the public sector, reductions in statutory minimum wage levels and the loosening of employment protection rules (Koukiadaki and Kretsos 2012).

The process of marketization is thus reinforced by changes in ruling ideas. Participants in market transactions become increasingly concerned with norms of fairness and transparency, and neoliberalism becomes the justifying idea of the elites who benefit from the resulting change (Crouch 2012). As marketization progresses, public opinion may turn against these elites; but it may also turn against the poor. In response to harsh workfare policies in the US, negative opinions of claimants and the welfare state actually increased (Soss and Schram 2007), bringing the decommodifying welfare state under more pressure, both to cap expenditures and to roll back citizen entitlements that are not connected to labor market participation. Our claim is therefore not that marketization erases the moral foundations of capitalism, but rather that marketization may create a new normative framework devoid of broad solidarity.

The ideational changes engendered by marketization may therefore reinforce divisions in societies in terms of who is recognized and valued. This shift in values comes not only from right-wing parties; European Social Democrats have also taken the lead in rolling back decommodifying welfare policies and arguing in public debates for reducing the rights and increasing the responsibilities of the poor (Scherschel *et al* 2012). These political dynamics lead to the expansion of a group in society called the 'precariat', which is not only chronically low-income and insecure, but also *de facto* disenfranchised and cut off in other ways from mainstream society (Castel 1995; Dörre 2009).

Our argument can be summarized through the following propositions:

1. The marketization of economic transactions involves changes in two areas: business elites exercise their preference increasingly through exit threats rather than existing voice mechanisms; and their economic activities become decreasingly productive and increasingly extractive.

2. These changes in the behaviour of elites lead to changes in other institutions. The shift from voice to exit encourages the disorganization of socially protective non-market institutions, and the shift from production to extraction leads to the expansion of new undemocratic voice mechanisms.

3. The disorganization of socially protective institutions and the expansion of private regulation lead to greater inequality, both economic (material assets and income) and social (status and rights).

An application

We now discuss one of the types of marketization introduced above, vertical disintegration, for a brief application of the framework in an empirical context. We draw here on our own studies in Germany since 2003, in which we explored the connections between institutional change, the rise of inequality, and changes in trade union and management behavior (e.g. Doellgast and Greer 2007; Lillie and Greer 2007; Doellgast 2012; Greer, Schulten and Böhlke 2013).

The extent and nature of inter-organizational contracting is not necessarily a stable characteristic of particular industries or of national systems; indeed under conditions of vertical

disintegration work carried on inside of organizations is reorganized with the aid of market-based transactions, in the form of outsourcing, offshoring, privatization, or organizational spinoff. This results in **a change in the basis for decision-making from voice to exit** and **a change in the primary objectives of management from a logic of value creation to a logic of value extraction (proposition 1).** Employment and investment in an externalized establishment becomes increasingly contingent on succeeding in competitive markets; in the context of such markets the former owner gains the ability in principle to shift the contracting relationship elsewhere. The contracting relationship itself then becomes a site for realizing profits, most often through the customer squeezing prices. We observed customers not only demanding discounts from suppliers in competitive markets but also creating subsidiaries to compete in their contracting chains to strengthen the credibility of exit threats. German law does not give worker representatives a voice in these decisions, and in large firms with worker representatives acting as 'co-managers' we observed widespread acceptance of the business case for vertical disintegration.

Under these conditions management becomes increasingly focused on short-term costs and revenues, leading to both **the disorganization of protective institutions and an expansion of private regulation (proposition 2).** The shift of work out of vertically integrated organizations or the state and into production networks weakens coordinated collective bargaining, through introducing new organizational and industry boundaries between groups of worker representatives. Because unions and employers associations' boundaries conform to those of large traditional employers or what once were relatively stable industries, there is no obvious way of settling the jurisdictional problems that emerge when these boundaries are

blurred by the insertion of additional firms, some of them new and unorganized and others established with roots in low-wage service industries, in the production process.

Simultaneously, administrative practices emerge to manage contracting itself and its potential economic consequences. This takes the form of government or private mechanisms for accreditation, monitoring, and standard setting, which can be an arena for the parties to seek more advantageous contracting terms. With few exceptions, the privatized version of this kind of institution-building is sealed off from broader societal influence, and the public-oversight version is usually too complex and technical for unions or others in civil society to compete against the lobbying firepower of private industry. While social standards were included in this process, it was unclear what affect they have. In cases of government contracting there were complex legal obstacles to enforcing social standards (most notably the Rueffert decision of the European Court of Justice); in private contracting the enforcement of social standards was in its infancy and confined to a few large firms with International Framework Agreements negotiated with trade union representatives.

The disorganization of socially protective institutions and expansion of private regulation produced **increased economic and social inequality (proposition 3).** The clearest evidence was the expansion of low wage and insecure jobs created as tasks and work processes were standardized, and whose wages and working conditions were increasingly determined by the demands of customers and the price-based competition introduced to enforce these demands. Workers carrying out tasks that were externalized were shifted to companies abiding by collective agreements in low-wage industries (like cooking, cleaning, and logistics), not subject to collective bargaining (call centres), or subject to new low-wage collective agreements

(temporary agencies). Workers whose work was not externalized remained within large companies abiding by longstanding collective bargaining agreements and therefore reasonably high pay.

Increasing material inequality was closely connected to increasing social inequality. While the core workforce in large private firms retained strong institutions of collective bargaining and worker participation, these arrangements were absent or very weak in externalized establishments. We found some evidence of new trade union techniques to organize the peripheral workforce and campaigning tactics to fight privatization. Organizing, however, was frustrated by the market pressures facing contractors and jurisdictional questions facing unions; and efforts to fight privatization or outsourcing usually did not succeed. Low-wage workers carrying out externalized work did not only see their power in the industrial relations arena reduced; they also witnessed their entitlements to unemployment benefits sharply curtailed by the Hartz reforms, leading to fear and a decline in union power.

Research and policy implications

Above we have sketched a framework for exploring the link between marketization and inequality. We have drawn on a wide range of theoretical and empirical literature to specify this connection and proposed causal mechanisms that mediate it. Our aim has been to guide future research.

One implication is that the efficiency assumptions found in economics and comparative political economy are not very realistic. Central to the prediction of institutional stability in varieties of capitalism theory is the belief that capitalists who apparently benefit from a certain

economic system will not try to alter it. There are a number of problems with assuming stable national systems. There are so many exogenous factors that contribute to the way that any given market is governed, and endogenous conflicts between capitalists, that it is simply implausible to argue for an evolution toward greater efficiency or to depict the governance of markets as determined by national-level equilibria of self-interested capitalists. A different approach is needed to do justice to the multi-level politics of market making (Lillie and Greer 2007).

A second implication is that the embedding assumptions of sociology need to be loosened. We agree with economic sociologists that markets are shaped by the broader social environment as well as endogenous problems of maintaining order, and that the proliferation of new rules is an important part of how markets evolve. ‘Embedding’, however, is not a prediction of the social effects of market change. The rules that emerge in response to marketization may protect business elites in that market (at their behest) and sustain exchange itself. Protecting the vulnerable from harm could still be relegated, long after the fact of market-making re-regulation, to separate decisions over effects in the realm of social policy. Market change – however embedded and institutionally thick – therefore shapes other social processes. In case after case, the key actors that might have prevented marketization from causing social damage are undermined by privatization, outsourcing, activation policies, or trade liberalization. Such changes plainly are shifts from 'less market' to 'more market'.

Third, scholars seeking to explain inequality should take into account the institutional regulation of work, the traditional terrain of the field of industrial relations. In the global North, the erosion of democratic governance of these institutions, through trade unions or works councils, is a central cause of increasing inequality. Industrial relations theory poses a challenge

to the rest of the social science through its analysis of intractable labor problems under capitalism. Our research program emphasizes the implications of the re-regulation of work under conditions of marketization, and the inequality of income and security that results. The consequences extend far beyond the workplace.

Fourth, marketization poses a challenge to democracy, by undermining civil society, changing governing ideas, and undermining alternatives. Trade unions, social movements, charities, and other nonprofits are part of the society that marketization is helping to transform. In case after case, a contradiction exists between the solidarity between people who are not competing against one another (e.g. unionized workers in a single establishment) and the hard-to-manufacture solidarity between those who are (e.g. workers in different countries being whipsawed by management threats to withhold investment). Because unions and civil society are rarely organized at the same scale as the market, this problem usually lacks a solution of the sort suggested by classic industrial relations writers or by the Polanyian image of re-embedding.

We propose the study of seemingly disparate phenomena using a common theoretical lens. They include changes in the institutional regulation of work and welfare with wide-ranging effects, not only on the distribution of resources and status, but also on ideology, politics, and the quality of democracy. In a way, there is nothing new or counterintuitive about this. Empirical industrial relations research has long examined how shifts in market governance affect income inequality and other outcomes related to inequality, such as the power of organized labor. By integrating a range of empirical and theoretical literature, we hope to lay the foundations for critique of neoliberalism and its center-left intellectual relatives.

Questions do remain, however. For example, what are the causes of marketization?

Above, we have argued that social scientists' assumptions about the causes of change in market governance prevented them from examining social effects. As Charles Umney (2013) points out, Marxism, has long recognized the connection between markets and inequality NS has identified two mechanisms to understand market formation. First, because of the obscuring of social processes under commodity fetishism, markets can be both a product of society and have anti-social effects; and second, market governance can function as a strategic weapon for capitalists, individually and as a class. These concepts will be useful in developing mid-range theory that can explain both the causes and the effects of marketization.

Second, is this agenda relevant beyond the context of the global North since the 1990s? Does it apply where the market economy expands alongside transitions to democracy, increases in overall standards of living, or government efforts to reduce inequality? Does it apply to violent or fraudulent instances of accumulation by dispossession or help to reinterpret the buildup of organized capitalism? Our framework is a starting point. It presents propositions about how changes in market institutions might shape trends in inequality. If policymakers in the developing world seek to expand their market economies while reducing inequality, our framework could help to understand potential pitfalls. It could also lay the groundwork for the global North to learn from progressive experiments elsewhere.

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