

**Market and Society:  
How do they relate, and contribute to welfare?**

Wilfred Dolfsma, John Finch and Robert McMaster

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# **Market and Society: How do they relate, and contribute to welfare?**

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## **Abstract:**

This paper discusses how markets and society relate to each other. We present and discuss three views: markets as separate, markets as embedded, and markets as impure. One's stance on the contribution of markets to welfare hinges on the conceptualization of market and other spheres in society. If, for instance, one perceives of the economy (the economic domain) as an all-encompassing sphere or as a sphere totally separate from others, then one would believe markets necessarily contribute to welfare. Markets are presumed to be ubiquitous in mainstream economics; the orthodox view is that of the 'market as separate'. Indeed, Frank Hahn notably conceded that neoclassical economics does not describe markets, but 'conjures' them up. Mainstream conceptions of the market are functionalist – in the appropriate conditions the market is an efficiency conduit, and hence wealth and welfare generating. Creating these appropriate conditions then drives policy, such as the provision of health care, and tends to produce a one size fits all approach. This paper argues that this is an overly restrictive conceptualization of markets, and is an inadequate basis for conceptualizing the potential effects of markets. Conceptualizing the market as impure and embedded must be added. We contribute to this discussion by developing the concepts of 'boundaries' separating spheres. Such an approach broadens the notion of welfare and well-being beyond the monetized parameters of economic orthodoxy.

## **Keywords**

Market, society, market as separate, markets as impure, markets as embedded, health care

## **Market and Society: How do they relate, and contribute to welfare?**

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The relationship between market and society is a hotly debated issue in the social sciences. At the level of theory, this discourse dates back to considerations of social order where Hobbes, Smith, Hume are among the most important early contributors. The discussion has considerable ideological overtones as well, where the contribution of the market to welfare and well-being, is at stake. We conceptualize welfare in material terms, and we surmise that both market and society can contribute to welfare and well-being. There are spheres outside of the domain of the market that contribute to well-being, and a certain accomplishment in the market can contribute to well-being that is not captured in welfare. In this paper we do not deny that. We conceptualize the relation between market and society, focusing more specifically on periods of reform. Reforms in the health care sector are a case in point.

### **1. Expanding and Purifying Markets.**

Views on how market and society relate to each other may be classified according to Figures 1 through 3. There are three broad ways in which to perceive of the relation between the two spheres. First is to see market(s) and society as two separate realms (Figure 1). Obviously, the neoclassical economic view, specifically the Walrasian approach, is an example of this.<sup>2</sup> Market and society remain separate at all times. Indeed, the view of the market one finds in this literature is a highly abstract one – markets are ‘conjured up’ as Frank Hahn expresses it – and the realistic nature of it might be questioned. As the market encroaches on society a sense of alienation in the sense of Marx might start – for some at least. This may be due to the

differences in what motivates people in the two spheres, how they view the world in different terms when perceiving of themselves in one sphere or the other (van Staveren 2001; Le Grand 2003). Another view captured in Figure 1 is the one Parsons and Smelser (1956) present on the relation between market(s) and society. They argue that distinct markets (*nota bene*: plural) emerge at the boundaries between different spheres, such as polity and other sub-spheres in society, effectively insulating these spheres from one another (Finch 2004).

The second way in which to conceptualize the market in relation to society is probably best associated with the works of Polanyi (1944) and Granovetter (1985). The market is perceived of as thoroughly and necessarily embedded in society at large, including in such institutions as money and the firm. Growth of the market domain may be interpreted as an increasing ellipse within the wider social boundary depicted in Figure 2. A growing market interacts with society, and the two change in the process; even when, conceptually, the market has generalised traits (Rosenbaum 2000). Establishing the effects of a growing market on society is not unambiguous. Indeed, drawing the boundaries between market and society is haphazard, as social and institutional economists acknowledge (Waller 2004; Dolfsma & Dannreuther 2003). Thus, the effects of expanding markets are not so clear cut, even when usually the increase in material welfare may be obvious. Institutional and social economists would then, however, ask: at what cost? As society changes due to a growing market, comparing the situation that has arisen with the previous one will be complicated. Certainly doing so in Pareto welfare terms is impossible as his framework entails the view of the relation between market and society as separate realms, such as depicted in Figure 1.<sup>3</sup>

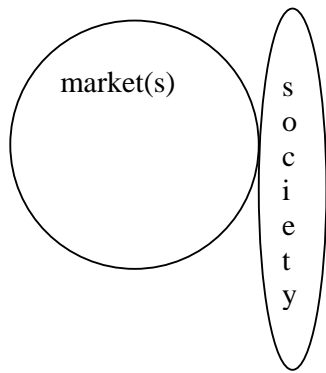


Figure 1: The 'separatist' view: Market and society as separate

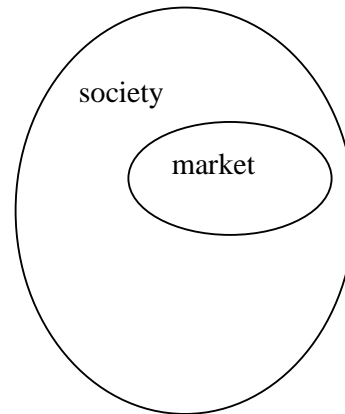


Figure 2: The 'embedded' view: Market as embedded in Society

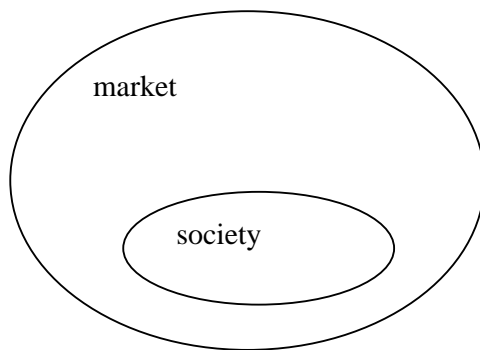


Figure 3: The 'impure' view – Society within market

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The perspective underlying the Keynesian welfare state views the market as part of and regulated according to dominant social or societal values such as norms of distributive justice (O'Hara 2000, Fine 2001) – a view akin to the one pictured in Figure 2. The process of liberalization and privatization ('reform') boils down to an attenuated role for the state, certainly in terms of distributive justice, and there is a shift in values towards those centring on the individual and towards negative freedom. The state is viewed in such a perspective as a

force of coercion, whereas the market is viewed as the domain of freedom (van Staveren 2001).

Alternatively, the market may be perceived not as a pure entity, but as heterogeneous (Hodgson 1999).<sup>4</sup> In order for a market to function, it is in need of elements that are generally perceived of as foreign to it. Such ‘societal’ elements would not emerge from within the market, nor does this mean that society is completely subordinated or eclipsed by the market. This view strongly hinges on how one defines a market, and seems to entail a strict definition.<sup>5</sup> Growth of the market in this view is of a different nature than for the previous two views. The argument is not just about how concrete markets impinge on other domains in society, but on how market-like thinking expands into other domains with their associated ways of thinking and perceiving. Such an expansion, Hodgson and others argue, may occur but can never completely eclipse all elements of ‘society’ within the market without jeopardizing itself. Even when Hodgson does not define impurity precisely, or explicitly indicates what impurity refers to, we take this to mean impurity with regard to the motives of actors and their relations among each other. This seems consistent with Hodgson (1999). Figure 3 represents the ‘contractual’ view, where market-type relations between agents are presumed to be ubiquitous (Hodgson, 1999). This clearly relaxes the Parsons-Robbins boundaries between the economic and social domains, and corresponds to the recent application of mainstream economic theorizing to non-market institutions.

One’s stance on the contribution of markets to welfare hinges on the conceptualization of the relation between market and society. A perception of the economy (the economic domain) as a sphere entirely separate from society would be accompanied by a believe that markets necessarily contribute to welfare. Given that markets are presumed to be ubiquitous in mainstream economics, we argue that the foregoing is a reasonable representation of economic orthodoxy. Mainstream conceptions of the market are functionalist – in the

appropriate conditions the market is an efficiency conduit, and hence generating welfare as well as well-being. Creating these appropriate conditions then drives policy. This ‘separatist’ view is not the only conceivable view of the relation between society and economy, however, as we have argued. There are two more views; views stressed and developed in the fields of institutional and social economics, as well as elsewhere. The three views of the relation between economy and society can also be used to clarify their interactions.

## **2. Changing relations between market and society**

We acknowledge that markets can increase both welfare and well-being. This has been argued for on a number of occasions, and has been substantiated by empirical material. Rather than challenge this view, in this paper we mean to point to the darker aspects of markets. In processes of change or reform, there is a distinct way in which the relations between market and society are presented by both sides of the argument. We focus on the side of those advocating the change. The example of reforms in health care serves to illustrate and clarify our position.

In stable circumstances, actors involved in a particular practice recognize that economic aspects of that practice are embedded in a broader social context; the view is that of Figure 2. They also recognize that motives that operate for themselves and others alike reflect a number of considerations, some of which are more materially oriented while others are more relational (Figure 3). Under conditions of change, advocates refer to a ‘pure’ situation, as in Figure 1, where market and society are presented as separated both in terms of spheres as well as in terms of motives. This is done by referring to the purported socio-cultural values underlying the market, values such as transparency, accountability, and efficiency. Referring to these values, new institutional settings are sought (cf. Dolfsma 2004). As a new stable situation emerges, however, the changed practice needs to relate to the larger society that



surrounds it, and impurities emerge. Nevertheless, the bifurcation between society and markets (to some) presents a strong *prima facie* (neo-liberal) case for the extension of the former into the realm of the latter. Even when evidence in favour of the reform was not persuasive and evidence of the effects of the reform is daunting, there may be a tendency to argue that the lack of effects is due to reforms being implemented have not gone far enough. The policy implication is obvious: extend the market domain to these non-economic/market domains and efficiency and therefore welfare (as conceptualised according to a Paretian/utilitarian frame) will be enhanced. This has certainly happened in the case of healthcare reforms (Light 2001), as elaborated below.

### **3. Health Care**

In recent years the health care sector has been subject to processes of on-going market-oriented reforms in many countries. The economic rationale underpinning much of the market-oriented reforms to health care systems is predicated on the presumption that health and health care may be treated as commodities.<sup>6</sup> Indeed, any market-oriented reform necessitates an increasing recourse to contractualized relationships between parties, whether patient and clinician or, as in the UK, between vertically disintegrated units of the system. Especially given the promotion of an efficiency rubric, this increased codification is accompanied by a host of quantitative measures. Moreover, such measures revolve around generating monetized measures of value and economic evaluation techniques, pointing towards the commodification of health care.<sup>7</sup> The value of the activity is concentrated on exchange value as opposed to use value, hence the requirement for measurement, encouraging a focus on outcomes, through such indices as performance indicators. A consequentialist tendency and attitude is promoted.

In essence this involves ‘the market’, and references to the market, adopting greater prominence than other organizational mechanisms. However one may think about these changes, they do indicate that the three views of the relations between the market and society help one understand the process. In addition, and more prominently, the way in which the changes have been advocated and implemented, at least in the case of healthcare, follows the sequence of banishing elements from the system that are considered non-economic, attempting to create a pure market *de novo* (Light 2001, 2001b). What is apparent to institutional and social economists is that such attempts are bound to fail. In a new configuration, the subsystem will need to relate to other subsystems and society at large (Light 2001). Boundaries between the two are never entirely clear, change, and are permeable. In addition, impure elements (motives) (re-)enter the very subsystem that was deemed in need of purification – if ever they had been expunged.

We argue how the inevitability of such a return to a ‘contaminated’ situation –in the minds of pure market theorists– can be shown in terms of the measures introduced by such advocates themselves in seeking to alter the system. Indeed, as outcomes foreseen by advocates did not materialize, new reform programmes tend to be proposed (Hendrikse & Schut 2004). The mechanisms and measures are re-embedded. As such mechanisms and measures can never stipulate every circumstance that might arise, and as such mechanisms and measures are necessarily complimentary to related areas, the limited effects of the programs were to be expected. These two arguments are even acknowledged in the mainstream (Milgrom & Roberts 1990). Individuals in the sector have, for instance, altered their behaviour such that they act in accordance with the stipulations of the pure market mechanisms and measures introduced, but in fact are able to circumvent their effectiveness. Sometimes this is done in direct violation of the stipulations, as in the UK, where meetings to coordinate activities of the different parties involved are called that government regulations

and contracts explicitly forbid. Previously existing ‘societal’ ties are drawn on – ties with individuals that can be trusted (Light 2001, 2001b).

Indeed, there is increasing importance attributed to *managing* health care provision in particular ways that enhance the role of financial incentives (of clinicians) and the employment of pricing. Greater emphasis is placed on accountancy techniques and on the utilization of (mainstream) economic language and discourse (see for example, Fitzgerald 2004; Grit and Dolfsma, 2002). As the language and discourse of health care provision changes, so new metrics become increasingly absorbed and embedded. As Kula (1986) has argued theoretically, and shown in a large number of cases in different settings, the newly introduced measures are quickly embedded in existing practices, partly undermining the use for which they have been introduced (cf. Light 2001). Davis and McMaster (2004) argue that health care reform, and the mainstream economics underpinning it, is likely to encourage a change in the nature of care in health care systems. Clinician conduct and behavior is, to some extent, influenced by the social obligations of their membership of, and embeddedness in, a professional group, which is predisposed to the Hippocratic Oath. The trust that had underpinned the cooperation within health systems necessary for, (effective) provision is corroded with the emphasis on measurability and efficiency (Gilson 2003; Hunter 1996). A high-trust environment is substituted by a low-trust environment in which different people with a different view of ‘good care’ assume control (Fitzgerald 2004, Grit & Dolfsma 2002). Professional discretion is marginalized. It is a moot issue whether this is entirely inimical to the social relations associated with an increased recourse to market-type arrangements, such as performance measurement, the monetization of incentives, and contractualization of interactions. Nevertheless, some recent anthropological and ethnographic works have suggested that the nature of care is changing with changes in the arrangements governing the provision of health care (see, for example, Fitzgerald 2004, van der Geest and Finkler 2004).

Such studies appear to indicate that market-orientation encourages health service managers to adopt a more abstract and homogenized view of the care process, akin to a Cartesian approach (Davis and McMaster 2004).<sup>8</sup> This contrasts with a more person-oriented focus of some, although not necessarily all, clinical services, which can lead to conflict and agent disorientation (Fitzgerald 2004), as well as a narrower and reductionist view of care.

The conceptualization of markets as separate that the reforms were based on was an overly restrictive one, inadequate for the conceptualizing the potential effects of markets on society, welfare and well-being. To be more realistic, the contributions of Polanyi, Hodgson and Granovetter, among others, need to be used to conceptualize the relation between market and society differently. As we have argued, the ‘boundaries’ separating these spheres need to be conceptualized and empirically analyzed more carefully. Such an approach broadens the notion of welfare beyond the monetized parameters of economic orthodoxy, and feeds into the policy debate by recognizing that a functionalist interpretation of the market is informed by a particular view of how it relates to society.

#### **4. Conclusion: Markets, Society & Welfare**

In this short paper, we presented different views of how market and society relate: the market as separate, the market as embedded, the market as impure, and the market as ubiquitous. These characterizations seem to presume that boundaries between different domains can be drawn. This, however, may be problematic. When we discuss a growing market in this paper, as for the reform of systems of healthcare in a large number of developed countries, we actually refer to the market sphere expanding in a qualitative way, encroaching on other, adjacent spheres, and not necessarily to a growing market in a quantitative sense.

In processes of change intended to expand the market, one such view (economy as separate from society) tends to be advanced, driving institutional changes. We have argued, for health care, that any such new measures introduced will not bring about the pure market context envisaged, but will necessarily be re-embedded in society, as ‘other’ non-economic motives (re-) emerge to ‘contaminate’ the system as well. Introducing elements of a pure market in a ‘hybrid’ context does not necessarily increase welfare, let alone well-being.

The notion of welfare, however, seems to depend upon concept of the market. ‘The market’ in this view, is both a (necessary) concept through which to understand welfare, and also a requirement for aggregation across individuals so that we can speak meaningfully of societal welfare. This would seem to imply, for the purpose of measuring welfare, that society = economy. In order for society at large to be understood to contribute to welfare, the idea of the market needs to be projected into realms where at present there is none. The conceptualisation of the market, however, and certainly its relation to society, needs to be a much more complex one, allowing for changing boundaries between the two spheres, for a range of motives to come into play, and for a concept of welfare which comes closer to that of well-being. This undermines the mainstream, Paretian perspective on welfare (cf. Dolfsma 2005) as well as the view of economy as separate. Well-being, more loosely connected with markets, is even less likely to be affected – positively or negatively – by how markets develop, expand, are contaminated or purified.

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## Endnotes:

<sup>1</sup> The first author is at Erasmus University Rotterdam as well as Maastricht University; the second and third authors are at the University of Aberdeen. This paper was presented at the annual meeting of the Association for Evolutionary Economics in Philadelphia, PA, USA, January 7-9, 2004. We would like to thank Irene van Staveren for helpful comments without implicating her in any way.

<sup>2</sup> Within the mainstream, some seem to hold the position that economy and society constitute two separate physical realms. After Robbins (1932), as economics tended to be defined not in terms of realm but in terms of method applied, the identification of realm and discipline holds less water than it used to. Economy and society are now separated in terms of motives, as economics is defined such that sociological or psychological elements, for instance, are believed to be irrelevant

<sup>3</sup> In some instances, however, it is clear that, however one looks at it, the growth of the market does encroach on society with clearly negative effects on well-being, if not welfare. An example is provided by the work of Schor (1992, 1998) who shows that the pressures in a modern consumption society are such that people tend to work much longer hours even as they grow richer, ending up with a much-shortened social and family life. Schor claims that well-being is lowered in the process. Frank (2000) adds that welfare is lowered as well.

<sup>4</sup> Van Staveren (2001) distinguishes three value-domains (freedom, justice, care) that would seem to relate to three 'places' (market, state, and care). This is similar to a Granovetter-position of Figure 2. At the recent ASE world congress (June 8-11, 2004, in Albertville, France), however, she claimed that here domains need to be severed from 'places'. In each value-domain, she now redirected her argument, all values can be found. This position would be more akin to that of Figure 3, and signifies a considerably different position.

<sup>5</sup> Hodgson (1999, p.269) defines markets as 'institutionalised exchanges, where a consensus over prices and other information may be established.' Hodgson observes that not all exchanges take place in markets, an important exception being what he calls relational exchange based on 'on-going ties of loyalty rather than competitive open-market deals.'

<sup>6</sup> Reference to any standard health economics text indicates that health and health care are considered to be 'special commodities' (see for instance, Folland *et al.* 1997 and McGuire *et al.* 1988).

<sup>7</sup> Drawing from Polanyi's (1944) notion of a 'commodity fiction', and Marx's (1990) notable 'commodity fetishism', a commodity can be defined in terms as a thing that may be potentially monetized, sold for money, and therefore property rights to the entity can be defined and transferred (Fine 2002, Polanyi 1944).

<sup>8</sup> Parts of the feminist literature also stress how the nature of care can change through institutional change, see, for example, Folbre and Nelson (2000).



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