JEI JOURNAL OF ECONOMIC ISSUES
Vol. XXXIX No. 2 June 2005

Market and Society: How Do They Relate, and How Do They Contribute to Welfare?

Wilfred Dolfsma,
John Finch,
and
Robert McMaster

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 in which Thomas Hobbes, Adam Smith, and David Hume were 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. Welfare is usually conceptualized 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.

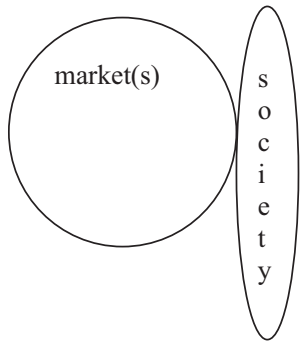
Expanding and Purifying Markets

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 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,

---

The first author is at Erasmus University Rotterdam as well as Maastricht University, The Netherlands; the second and third authors are at the University of Aberdeen, Scotland. *This paper was presented at the annual meeting of the Association for Evolutionary Economics in Philadelphia January 7–9, 2005. The authors would like to thank Irene van Staveren for helpful comments without implicating her in any way.*

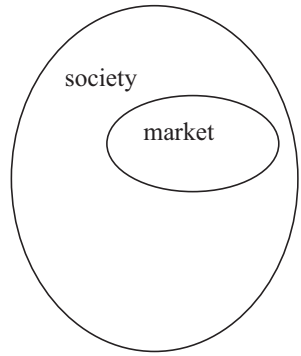
Figure 1. The "Separatist" View: Market and Society as Separate



is an example of this.[1] 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 Karl 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 Talcott Parsons and Neil Smelser (1956) presented on the relation between market(s) and society. They argued that distinct markets (nota bene: plural) emerge at the boundaries between different spheres, such as polity and other subspheres 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 Karl Polanyi (1944) and Mark Granovetter (1985). The market is perceived 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 generalized 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 and 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

Figure 2. The "Embedded" View: Market as Embedded in Society

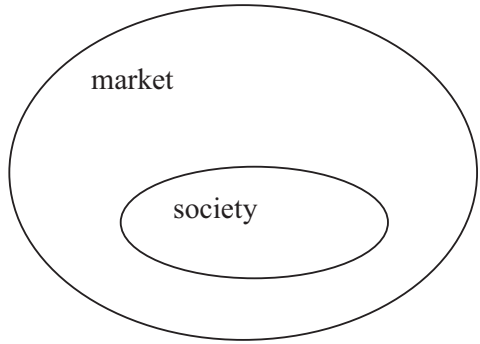


welfare terms is impossible as his framework entails the view of the relation between market and society as separate realms, such as depicted in figure 1.[2]

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 2002)—as 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 toward those centering on the individual and toward 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).[3] Figure 3 clearly relaxes the Parsons-Robbins boundaries between the economic and social domains by arguing that nonmarket elements need to be present in a market context in order for the market system to function. 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 consistent with a "contractual" view, where market-type relations between agents are presumed to be ubiquitous (Hodgson 1999).[4] Growth of the market in this view is of a different nature from that 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, Geoffrey 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. The "Impure" View–Society within Market



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 belief 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 interactions between market and society.

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 more contentious 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 (neoliberal) case for the extension of the former into the realm of the latter. Even when evidence in favor 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 not going far enough. From this perspective the policy implication is obvious: extend the market domain to these noneconomic/market domains, creating the "appropriate conditions," and efficiency and therefore welfare (as conceptualized according to a Paretian/utilitarian frame) will be enhanced. This has certainly happened in the case of health care reforms (Light 2001a), as elaborated below.

Health Care

In recent years the health care sector has been subject to processes of ongoing market-oriented reforms in many countries (McMaster 2002). 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.[5] Indeed, any market-oriented reform necessitates an increasing recourse to contractualized relationships between parties, whether patient and clinician or, as in the United Kingdom, 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 toward the commodification of health care.[6] 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 health care, follows the sequence of banishing elements from the system that are considered noneconomic, attempting to create a pure market de novo (Light 2001a, 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 2001a). 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 programs tend to be proposed (Hendrikse and 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 complementary to related areas, the limited effects of the programs were to be expected. These two arguments are even acknowledged in the mainstream (Milgrom and Roberts 1990). Individuals in the sector have, for instance, altered their behavior 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 United Kingdom, 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 2001a, 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 Witold 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 2001a). John Davis and Robert McMaster (2004) have argued 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 and 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).[7] 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 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. 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.

Conclusion: Markets, Society, and Welfare

In this short paper, we have presented different views of how market and society relate: the market as separate, the market as embedded, and the market as impure. 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 health care 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" noneconomic 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, and certainly from a Paretian perspective, seems to depend upon the concept of the market as separate. "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, this idea of the

market needs to be projected into realms where at present there is none. We argue, however, that a conceptualization of the market, and certainly the way in which it is believed to relate 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 less likely to be affected—positively or negatively—by how markets develop, expand, or are contaminated or purified. Certainly, how well-being is affected depends on how, when the dust settles, the boundaries between market and society have been redrawn.

Notes

1. 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.
2. 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 Juliet Schor (1992, 1998), who has shown 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 has claimed that well-being is lowered in the process. Robert Frank (2000) has added that welfare is lowered as well.
3. Irene van Staveren (2001) distinguished 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 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.
4. Geoffrey Hodgson (1999, 269) defined markets as "institutionalised exchanges, where a consensus over prices and other information may be established." Hodgson observed that not all exchanges take place in markets, an important exception being what he called relational exchange based on "on-going ties of loyalty rather than competitive open-market deals."
5. 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).
6. Drawing from Karl Polanyi's (1944) notion of a "commodity fiction" and Karl Marx's ([1887] 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).
7. Parts of the feminist literature also stress how the nature of care can change through institutional change; see, for example, Folbre and Nelson 2000.

References

Davis, John, and Robert McMaster. "The Individual in Mainstream Health Economics: A Case of Persona Non-grata?" Paper presented at the 2004 EAEPE Conference, University of Crete.

Dolfsma, Wilfred. *Institutional Economics and the Formation of Preferences.* Cheltenham: Edward Elgar, 2004.

——. "Towards a Dynamic (Schumpeterian) Welfare Economics." *Research Policy* 34, no. 1 (2005): 69–82.

Dolfsma, Wilfred, and Charlie Dannreuther. "Subjects and Boundaries: Contesting Social Capital-Based Policies." *Journal of Economic Issues* 37, no. 2 (2003): 405–413.

Finch, John. "Whatever Happened to Parsons and Smelser's Economic Sociology?" University of Aberdeen, 2004. Photocopy.

Fine, Ben. *The World of Consumption: The Material and Cultural Revisited,* 2d ed. London: Routledge, 2002.

Fitzgerald, Ruth. "The New Zealand Health Reforms: Dividing the Labour of Care." *Social Science & Medicine* 58 (2004): 331–341.

Folbre, Nancy, and Julie Nelson. "For Love or Money—Or Both?" *Journal of Economic Perspectives* 14 (2000): 123–140.

Folland, S., A. C. Goodman, and M. Stano. *The Economics of Health and Health Care,* 2d ed. Upper Saddle River, N.J.: Prentice-Hall, 1997.

Frank, Robert H. *Luxury Fever: Money and Happiness in an Era of Excess.* Princeton, N.J.: Princeton University Press, 2000.

Gilson, L. "Trust and the Development of Health Care as a Social Institution." *Social Science & Medicine* 56 (2003): 1453–1468.

Granovetter, Mark. "Economic Action and Social Structure: The Problem of Embeddedness." *American Journal of Sociology* 91 (1985): 481–510.

Grit, Kor, and Wilfred Dolfsma. "Dynamics of the Dutch Health Care System—A Discourse Analysis." *Review of Social Economy* 60, no. 3 (2002): 377–401.

Hendrikse, G. W. J., and F. T. Schut. "Towards New Governance Structures in Dutch Health Care" (in Dutch). *Acta Hospitalis* 44, no. 1 (2004): 5–20.

Hodgson, Geoffrey M. *Economics and Utopia.* London and New York: Routledge, 1999.

Hunter, D. J. "The Changing Roles of Health Care Personnel in Health and Health Care Management." *Social Science & Medicine* 43, no. 5 (1996): 799–808.

Kula, Witold. *Measure and Men,* translated by R. Szreter. Princeton, N.J.: Princeton University Press, 1986.

Le Grand, Julian. *Motivation, Agency, and Public Policy: Of Knights and Knaves, Pawns and Queens.* Oxford and New York: Oxford University Press, 2003.

Light, D. W. "Managed Competition, Governmentality, and Institutional Response in the United Kingdom." *Social Science & Medicine* 52, no. 8 (2001a): 1167–1181.

——. "Comparative Institutional Response to Economic Policy: Managed Competition and Governmentality." *Social Science & Medicine* 52, no. 8 (2001b): 1151–1166.

Marx, Karl. *Capital.* 1887. Reprint, Berlin: Dietz, 1990.

McGuire, A., J. Henderson, and G. Mooney. *The Economics of Health Care: An Introductory Text.* London: Routledge and Keegan Paul, 1988.

McMaster, R. "A Socio-Institutionalist Critique of the 1990s' Reforms of the UK's National Health Service." *Review of Social Economy* 60, no. 3 (2002): 403–433.

Milgrom, Paul, and John Roberts. "The Economics of Modern Manufacturing: Technology, Strategy, and Organization." *American Economic Review* 80, no. 3 (1990): 511–528.

O'Hara, Philip. *Marx, Veblen, and Contemporary Institutional Political Economy: Principles and Unstable Dynamics of Capitalism.* Cheltenham: Edward Elgar, 2000.

Parsons, Talcott, and Neil J. Smelser. *Economy and Society: A Study in the Integration of Economic and Social Theory.* London: Routledge & Kegan Paul, 1956.

Polanyi, Karl. *The Great Transformation.* Boston: Beacon Hill, 1944.

Robbins, Lionel. *An Essay on the Nature and Significance of Economic Science.* London: Macmillan, 1932.

Rosenbaum, Eckehard F. "What is a Market? On the Methodology of a Contested Concept." *Review of Social Economy* 58, no. 4 (2000): 455–82.

Schor, Juliet. *The Overworked American: The Unexpected Decline of Leisure.* New York: Basic Books, 1992.

——. *The Overspent American: Upscaling, Downshifting, and the New Consumer.* New York: Basic Books, 1998.

van der Geest, Sjaak, and Kaja Finkler. "Hospital Ethnography: Introduction." *Social Science & Medicine* 59 (2004): 1995–2001.

van Staveren, Irene. *The Values of Economics: An Aristotelian Perspective.* London: Routledge, 2001.

Waller, William. "Institutions as Boundaries and Valuational Metrics." Paper presented at the Association for Evolutionary Economics meetings, January 3–5, 2004, San Diego, California.