

ON AUSTRIAN INSTITUTIONS -WHAT'S IN IT FOR A MARKET SOCIOLOGY?-

Many are compelled to provide accounts of the market in order to enrich research and policy agendas. This holds for anything from the discourse on the new economy to the coughing process of European marketization as experienced in transition economies and in controversies surrounding de-regulation procedures. But. The market is a tricky thing. Those who are expected to occupy a primary position in the discourse, economists, hardly do so (confer Zelizer 1996 (1988), Swedberg 2003). From within that discipline itself we learn that the market constitutes an 'empirical difficulty' (Tirole 1995 (1988), pp 12-13) and in consequence it becomes an 'empty generic conceptualization' (Demsetz 1982, p 6). Part of this flaw is well illuminated by Solow (1990, p 281) who, commenting on game theory that often is used to represent market interaction, observes that '...the game has no sociological structure at all.' The case thus made for a progressive market sociology is nicely promoted by Mises (1963 (1949), p 315).

The market is a social body; it is the foremost social body. The market phenomena are social phenomena. They are the resultant of each individual's active contribution.

Such a market sociology stands to benefit significantly from drawing on insights made within the Austrian school (confer Boettke 1998, Boettke and Storr 2000). This strand of 'human' economics displays substantial food for thought concerning the progressive development of new economic sociology as endorsed by Granovetter (1990) and others. The paper here underway discusses one particular aspect of this potential contribution, the Austrian conception of institutions and how it is in the position to enrich a market sociology. It starts out by briefly recapitulating how facets of institutionalism enrich economic sociology's conception of the market as a social construction. It is then assumed that this edifice could be improved by additional bricks in the areas of institutional dynamics and the shouldering of market uncertainty by institutions. Thereafter the intuitive firsthand choice, new institutional economics, is turned to whereupon the Austrian alternative is introduced. This latter view of institutions is then brought forward as a workable source of inspiration for a market sociology in the making, an argument that is deepened in the final section of the text that also reaches out to actor-network-theory.

The market as a social construction

In his 2002 Nobel banquet address, delivered in the Stockholm City Hall, Vernon Smith introduces the market as ‘humanity’s most significant creation’. This laureate statement is a feasible point of departure for anyone believing in the potential of a market sociology-to-be for at least two reasons. Firstly it makes clear that the market is not anything that just happens – it has to be consciously and deliberately constructed. Over and over again. Secondly it tells about the agency behind this creation – mankind that reasonably means a large number of interacting humans. This platform is nicely framed by Swedberg and Granovetter (1992, p 21) commenting upon the very nature of the market’s foremost device of information conveyance, prizing. ‘There is nothing “natural” about the fact that something has a price; a price, like everything else in the economy, has to be socially constructed.’

The introduction of the social element is hence one alternative way of enriching market understanding. If now some enduring properties are bestowed upon this element and it is attributed the role of a conduct compass it follows that the market can be envisaged as a set of ‘social practices that are regularly and continuously repeated, ... sanctioned and maintained by social norms ... [having] a major significance in the social structure’ (Abercrombie et al 1994, pp 216-217). The market is then seen as an economic institution the social aspect of which is particularly promising when the orientation and location of economic action is to be explained. Such an institution is both mildly orienting and sharply regulating in character as it safeguards social compliance (Triglia 2002, p 2). The prevailing ‘established patterns of behavior’ are on the verge of an ‘industry recipe’ (Spender 1989), a kind of business wisdom (Hellgren and Melin 1992) that appears as ‘patterns that, over time, take on prescriptive forces and evolve into rules’ (Thomas and Soldow 1988). That is to say, how business is done with respect to the past, the other, and the contextual meaning at hand.

This conception of the market as formed by interacting individuals in concert means it appears in the guise of a socially constructed institution. These social practices constituting the market are produced by the manner in which actor conduct is informed by intentions and aspirations unfolding in everyday interaction practice (confer Berger and Luckmann 1971 (1966)). It fairly well corresponds to the position taken by White (1981) according to whom supplier interaction

structures produce the market under the influence of customers. He furthers that markets are social formations wherein customers and suppliers can be distinguished by their enacted occupation of different 'transposable role structures'. This is a social construction of a market reality that produces and reproduces its own assumptions via signals and expectations that are rational subject to information that is imperfect. Such beliefs are self-fulfilling but neither random nor automatic, but the best deliberate guidance available and thus sought for. As observed by Swedberg (1987, p 110), '[b]usinessmen act as *if* the market had a stable structure and consequently it gets one'. A market structure then mirrors its own dependencies in retrospect as they are mutually mentally constructed by the producers therein. If now competition is conceived of as a key market constituent it can be explicitly targeted by way of 'human activity as an ongoing input-output cycle in which subjective interpretations of externally situated information become themselves objectified via behavior' (Porac et al 1989, pp 412-413). The resulting enactment processes entails the mental construction of the market in the guise of ie a cognitive oligopoly subject to which own conduct unfolds. That is to say, the market construction is derived from the identification of competitors.

As observed by Swedberg and Granovetter (1992, pp 17-18, 19) the essence of institutions as constructions with some impact on economic sociology can be depicted by means of three pillars. Such an emphasis of economic institutions as social constructions of reality matters in particular in order to separate sociology from economics. What is discerned ex-post is not necessarily the most efficient market solution but the result of an interplay between the aspirations of strong individuals and the social structure whereof they are a part.

1. Institutions are an outcome of 'slow, social creation' in a hardening and thickening process ultimately resulting in how things are done.
2. Institutions are subject to path-dependent development trajectories.
3. Institutions develop as resources are mobilized by means of social networks that matter in particular at early stages of progress prior to trajectory formation.

If now 'institutions' in the above is replaced by 'the market' these observations foreshadow the potential residing in conceiving of the market as a social construction, something endemic to the emergent character of a market sociology. There is still a tangible need for conceptual refinement

in this realm as ‘relatively little attention has been paid to the theoretical side of the elaboration of the notion of the economic institution itself’ (Swedberg and Granovetter 1992, p 16). As such an endeavor is pondered upon it seems wise to identify a few areas that stand out regarding their potential enrichment of a market sociology’s conception of institutions and hence the market. Some of these are already identified (confer Granovetter 1996 (1992)) whereas others belong to any informed discourse on the market as an institution in its own right. This paper chooses to single out two particular issues that seem particularly promising in light of neoclassical economics’ bent towards equilibrium and stringent knowledge assumptions.

- Market dynamics; how do institutions form and develop?
- Market knowledge; how does uncertainty diminish via institutions?

The argument here is that these areas require some refinement in order for a market sociology to make analytical progress. But such a refinement must be made in a most deliberate manner and is in need of a rigorous theoretical framework (Granovetter 1996 (1992), p 271).

A theoretically persuasive economic sociology must ... provide an attractive alternative that improves upon the explanatory power and predictive ability of existing accounts. ... I stress the contingencies associated with historical background, social structure and collective action, and the constraints imposed by already existing institutions; but my aim is still that of finding general principles, correct for all time and places. This requires that the contingencies themselves be systematically explored and incorporated into the theoretical structure. ... [A] sophisticated economic sociology will neither throw the valuable corpus of economic reasoning out the window, nor be seduced by it as to produce a ‘rational choice’ argument that loses touch with the classical sociological tradition; rather, it will seek to understand how modern economics can be integrated with a social constructionist account of economic institutions, and what the division of labor must therefore be between sociology and economics.

Such inspiration will here be reached out for in two areas, firstly new institutional, and then Austrian, economics.

The new institutional economics alternative

The inroad to institutional impact par préférence taken by economists in these days is that provided by new institutional economics. According hereto institutions are purposefully created formal and informal constraints that inform social interaction, in the guise of customs, constitutions, codes of conduct and legislation (North 1990). As observed by Williamson (1994) such institutions are however mostly kept constant by economists who scrutinize governance of

economic organizing, typically by means of transaction costs. Still an oftentimes held position in the social sciences has it that such new institutional economics efforts provide a remedy for parts of mainstream economics' downside as alluded to. This holds in particular concerning the purely technical element of positive economics that disregards historical, cultural, and social aspects of the market process. That such an endeavor, despite its promising signs, is not a straightforward exercise is observed by Rutherford (1996 (1994)) who relates the adherence to formalism, individualism, reductionism, anti-interventionism and inclination to rationality and clean models as a problem that new institutional economics still has to tackle. This is discerned in the referred habit of keeping constant phenomena that by themselves host significant explanatory potential. The market is not made the subject of attention but prevails as an eternal though still invisible background. It is not really an institution but a passive mirror that reflects some institutional properties of actor conduct. And in consequence the market can hardly be made the subject of institutional analysis in its very own right.

A similar argument is put forward by Granovetter (1996 (1992)) who posits that the neoclassical bricks of the new institutional edifice are still too salient for this building to be able to accommodate the promising seeds put in the ground some time ago by classical institutionalism. The major reason is new institutional economics' panglossian reliance upon economic efficiency as the main explanans for the emergence and prevalence of institutions. If economic efficiency is the locus of attention it follows that price/cost ratios become the primary handrail to cling to. And in consequence price theory, with its assumptions regarding a few specific market features such as the number of actors and the level of goods homogeneity, take the lead. No wonder then that other institutional aspects are kept constant and remain unexplained. Another issue is the non-social character of new institutional economics' social institutions, implying that market accounts by and large cannot go beyond the assumptions stated above (confer Swedberg and Granovetter 1992, p 13).

In light of Granovetter's observation concerning the malpractice of relying upon institutional efficiency as the locus of interest it is worthwhile to look into one particular most influential contribution that takes pains to downplay this particular facet of new institutional economics. North's (1990) *Institutions, institutional change and economic performance*, by all means the

epitome of a trailblazing effort of new institutional economics, takes issue with this dictum and some others (ie that institutions always carry desirable properties).¹ ‘There is nothing ... that implies that the institutions are efficient’ (North 1990, p 25). Despite being closely tied to an equilibrium framework North’s effort provides some relevance for the understanding of markets. It is more promising than transaction cost analysis (confer Williamson 1975) in the sense that it manages to reach out for the market as a whole beyond the mostly dyadic focus of the latter. Now assuming that North has got something to say about markets, how does he approach the two areas identified above, dynamics and knowledge, as enrichment potentials in the area of institutions for a market sociology in the making?

The argument on dynamics can be framed as an inquiry into how institutions are formed and how they develop. Once the efficiency argument of transaction cost economics are let down it is simply not enough to state that they just emerge reflecting a need for the reduction of such costs. Something else is needed. Remember how Granovetter (1996 (1992), p 270) observes that dynamics must be central to a sociological account of institutions construction beyond the comparative statics endemic to equilibrium analysis and pure culturalism, functionalism and historicism. In (implicitly) reacting to arguments on multiple equilibria, that endorse change per se but that does not shoulder the process by means of which a revised state of equilibrium is reached, North (1990, pp 6, 89) furthers that ‘the single most important point about institutional change ... is that [it] is overwhelmingly incremental [and not discontinuous]’. That is to say, the revolutionary laps sometimes identified when an equilibrium is suddenly broken do not find their ways into an understanding of institutional dynamics.² This given, two sources of change are identified, relative prices and customer taste, and once these set the process in motion there are two trajectory compasses that orient the shape of change, increasing returns and transaction costs. As relative prices change the incentives that inform conduct are likewise revised and taste is impacted.

¹Confer Swedberg (2003, p 117), for an appreciation of North’s efforts with ‘the market as a distinct social institution’.

²‘I believe that a social constructionist account can help make ... dynamic [multiple stable equilibria] economic models of institutions more sophisticated. These models are frustrating because there is little substantive way to resolve their under-determination’ (Granovetter 1996 (1992), p 275).

The process of institutional change can be described as follows. A change in relative prices leads one or both parties to an exchange ... to perceive that either or both could do better with an altered agreement or contract. An attempt will be made to renegotiate the contract. However, because contracts are nested in a hierarchy of rules, the renegotiation may not be possible without restructuring a higher set of rules In the case of a norm of behavior, a change in relative prices or a change in taste will lead to its gradual erosion and to its replacement by a different norm.³

This kind of reasoning can however be opposed on grounds similar to those raised against transaction cost economics once the agency of social construction is allowed some priority. Where are the human efforts that in concert supposedly inform institutional dynamics? The alluded to ‘change in relative prices’ merely seems to happen, and so is an alteration of taste. In all brevity this implies an agenda of dynamics according to which *change is exogenous and not endogenous to human action*. That is to say, economic action still comes by via agents that in close coherence with the neoclassical paradigm are mere takers, and not makers, of price, quality characteristics et cetera. This impression is strengthened once more is learned about how ‘human beings perceive and react to changes in the opportunity set’ and how ‘change typically consists of marginal adjustments to the complex of rules, norms, and enforcement that constitute the institutional framework’ (North 1990, pp 7, 83). If these incentives would originate in the efforts of others, change agency would still inhere in human interaction, but none of this is laid bare. This is a paradox since it is also said that the ‘altering [of] the existing institutional framework at some margin’ originates with the entrepreneurs’ perceptions by means of their ‘systematic investment in skills and knowledge’ (North 1990, pp 8, 80). This reliance upon change as something imposed from the outside is also discerned as long-term dynamics are envisioned in the guise of path dependence. Given the doubtless analytical value that this concept brings with it for institutional analysis it appears different whether combined with a strong call for the social construction of the economy (as alluded to by current economic sociology) or with dynamics as something imposed from the outside. This means that once ‘subjective models of reality’ are put to the fore the discourse stays well out of the neoclassical realm but this impression fades as it is learned that ‘[a]lterations in the path come from unanticipated consequences of choices, external effects, and sometimes forces exogenous to the analytical framework’ (North 1990, p 112).

Now turning to the second area where there seems to prevail an enrichment potential for an emergent market sociology the call is out for how institutions relate to market uncertainty. North

³North 1990, p 86

(1990, pp 6) initially observes that uncertainty is the sine qua non of institutions as they ‘reduce uncertainty by establishing a stable ... structure to human interaction.’ They constitute the rules of the game devoid of which everyday life would entail a recurrent struggle for social guidance. The source of these uncertainties is twofold. On the one hand there are the complexities associated with the problems to be solved. On the other there are the shortcomings of the individual when it comes to shouldering this uncertainty. Actors are hence uncertain firstly concerning how to straighten out a problem and they are then not sure if they themselves are in the position to do so given their abilities. Both the object, the problem, and the subject, the actor eventually to solve the problem, is a source of uncertainty. The shortcomings of the mind hence give rise to institutions that constitute a set of choice, in particular those considered as informal such as habits et cetera. The fact that human interaction is stressed and several individuals face this challenge by all means imply additional uncertainty, something however not really elaborated upon by North.

The computational limitations of the individual are determined by the capacity of the mind to process, organize, and utilize information. From this capacity taken in conjunction with the uncertainties involved in deciphering the environment, rules and procedures evolve to simplify the process. The consequent institutional framework, by structuring human interaction, limits the choice set of the actors.⁴

It is obvious that North diverges from the most conventional economics arguments that center on perfect market information, but how much beyond that does he actually move? It seems obvious that this thread of new institutional economics conceives of information as imperfect. Institutions are of no need ‘in a world of complete information’ whereas incomplete information entails that ‘solutions break down unless institutions are created that provide sufficient information for individuals to police deviations.’ But this means that we still know what we do not know. We are not lost in a vacuum of ignorance from the start. Uncertainties arise concerning the particularities of problems and how do deal with them given bounded mental capacity. The nuts and bolts of the problem, the structure of the uncertainty, is known. The only thing missing is the set-up of parameters by means of which the thus identified problem structure can be sorted out. Such an impression is reinforced as North (1990, pp 27, 29) discusses the costliness of information in terms of transaction costs as found in agreement reinforcement. ‘The information costs in

⁴North 1990, p 25

ascertaining the level of individual attributes of each unit exchanged underlie the costliness of this aspect of transacting.’

The Austrian market

Any claim that the Austrian school is akin to new institutional economics is simply not correct (confer Rutherford 1996 (1994), Hodgson 1994). This is evident as the Austrian turn on the market and institutions, the two connected concerns of this paper, are dealt with. The essence hereof is that Austrian stream of thought is far better equipped than most other facets of economics to inspire an unfolding market sociology, something that will turn evident once more is learned according to the below. Some features of the Austrian market process account are laid bare in this paragraph whereupon the essence of the corresponding argument of institutions are turned to in the following.

Although at times merely conceived of as a branch of microeconomics (confer Endres 1997) the Austrian school of human economics constitutes an alternative to mainstream thinking ever since its inception by Menger’s work at the time of the marginal revolution. In addition to recognizing marginalism, opportunity cost and the timely tying of production to consumption (all of which embodies the onset of the neoclassical paradigm) Austrians emphasize market dynamics stemming from the eternal prevalence of ignorance and uncertainty (Kirzner 1987, p 148). This entails abolishing two core mainstream assumptions, equilibrium and human decision making subject to maximization. Instead equilibration tendencies and purposeful learning by imagination are emphasized when the market emerges as a process of opportunity discovery.

Market dynamics stem from two facets of change, what is exogenous and what is endogenous (Kirzner 1992, pp 38-39, 42). The former pertains to structural alterations of supply and demand by way of underlying variables (ie technology and preferences) whereas the latter appears as revisions of induced variables (such as prices, production methods, qualities and quantities) decided upon by market participants. Underlying variables impact the generation of induced dittos, but not in a 1:1 predetermined fashion as in conventional equilibrium theory. In a market process context induced variables are only loosely coupled to the underlying layer, instead they are self-generated as human agency, most succinctly recognized as entrepreneurship and

alertness. That is to say, whereas prices in process theory are decided upon by actors subject to decisions on quality et cetera, they just come by in the equilibrium approach where they are automatically provided by changes in technology, consumer tastes et cetera subject to an array of stringent assumptions.

We distinguish, among the forces causing changes in the [induced variables,] a distinct set of forces unleashed, at each moment by the absence of equilibrium. The changes induced by these forces constitute the market process. ... It is the central tenet of market process theory, under this present variant of it, that, despite their complexities thus induced by continually changing [underlying variables], the essential character of the market process as a matter of historical experience, does remain largely intact.⁵

The market process is systematically tending towards equilibrium as coordination of actor plans. But a steady state is never attained since induced variables do not directly follow the mechanics of supply and demand forces. Instead induced variables keep on changing reflecting spontaneous human action. The equilibrating tendencies reside with the profit incentives that originate in the prevalence of unexploited market opportunities. Once these are realized they no more constitute a source of profit. In their place others will come as underlying variables keep on changing. The prevalence of such profit potentials implies that equilibrium cannot be as there will always be scope for better fitting interaction between buyers and sellers (Kirzner 1992, 1997).

The Austrian market logic is anchored in the axiom of human purposeful action as manifest in social order and alertness (confer Mises 1963 (1949)). Such order is approached by exchange with others in the expectation of having something in return. Two actors are tied to each other in a social relation subject to reciprocity. 'Interpersonal exchange of goods and services weaves the bond which unites men into society. The societal formula is: *do ut des.*' That is why '[s]ociety is concerted action, cooperation' (Mises 1963 (1949), p 143). This is also why the Austrian school represents a human strand of economics as coordinative social cooperation, appearing as relations endemic to exchange, guides the market process. But there is something more than the social, something less structural and more propellant that drives the market process. That is discerned in how the nature of knowledge informs the market in the direction of a social order as relative coherence of prices and costs. This is the reasoning of Hayek (1948a (1937)) who stresses the manner in which the dispersed character of knowledge is coordinated via the pursuit of actors'

⁵Kirzner 1992, p 43

intentions to act. His notion of equilibration starts out in the observation that any action is preceded by plans. An individual's planned action pattern is in equilibrium to the extent that it is coherent. What really matters is however considering an array of (simultaneously formulated) plans that originate with many people and their eventual coherence. Such an equilibrium is approached when several individuals expect the same external events to occur in parallel to them reasonably well anticipating others' plans-in-the-making. Hayek alludes to the complicated task of constructing a house where individual plans (of brickmakers, engineers, plumbers, et cetera) must be in harmony, also in light of how each of these interpret external events such as weather forecasts. A coordinative communication device is needed for plans to match. This tool is the price system whereby prices jointly constitute signals of data that can be reflected and acted upon as knowledge. With reference to this system's unique transparent properties it is sufficient for an individual to access but a glimpse thereof and still remain rather informed. Eventually the whole of the market landscape is covered as an infinite number of bits of knowledge overlap thus embodying the coordinating mechanism. 'Through ... [the price system] not only a division of labor but also a co-ordinated utilization of resources based on an equally divided knowledge has become possible' (Hayek (1948b (1945/1946), p 88)).

Knowledge has a decisive role for the market process as it is unequal distribution of relevant insight regarding market opportunities that spurs the opportunity for profit (Kirzner 1973). It is crucial to observe that this does not mean that knowledge is scarce in the conventional sense of the word. Scarcity means that one is informed about the knowledge that one misses out on. Austrian knowledge instead stems from relatively less market ignorance than what others display. To know more than others about market opportunities pays off. This is not a uniquely Austrian insight but what renders it sophisticated is the particular kind of knowledge, originating in discovery and not search, which matters. One does not know what one does not know but one can be alert by exposing oneself to potential market opportunities. Such alertness appears in light of others' sheer ignorance, them not realizing their lack of insight regarding the market potential. The discovery eventually accruing to some at the expense of others by means of alertness means that an initial state of ignorance is reduced so the entire market process is converging towards equilibrium. This comes by as coordination of plans successively improves, more actors can buy and sell following their wishes. The market decision pattern will always differ over time since

discoveries create the potential for further alertness within the realm of an entirely new plan set-up.

This alertness is even closer associated with entrepreneurship than with knowledge. Mises (1963 (1949) pp 252, 253, 254) says that due to the ever-presence of market uncertainty entrepreneurial speculation is endemic to human action. 'In any real and living economy every actor is always an entrepreneur and speculator as ... [t]he term entrepreneur ... means: acting man exclusively seen from the aspect of the uncertainty inherent in every action ... acting man in regard to the changes occurring in the data of the market.' The passing of time means uncertainty that opens up the possibility for speculation, anticipation of consumer demand, eventually resulting in market gain. To be entrepreneurial means to ponder upon the consequences of conduct thus reaching out for some kind of systematic market coordination. 'The profit-grasping actions of entrepreneurs dispel the ignorance which was responsible for the profit opportunities, and thus generate a tendency towards coordination among market decisions' (Kirzner 1992, p 12). Entrepreneurship prevails jointly with pure calculation, sometimes entails errors, and has got an air of action surrounding it. That is not the case for alertness that constitutes the micro-foundation of entrepreneurship. Alertness implies 'the propensity to see, discover, market (profit) opportunities' in terms of new means-ends frameworks by way of market experience gained. It is 'the knowledge of sources of knowledge in terms of market data', 'the propensity to know where to look for information' (Kirzner 1973, pp 67, 68), '[the] motivated propensity of man to formulate an image of the future' (Kirzner 1985, p 56). To scrutinize how alertness comes about is difficult. Kirzner (1985, pp 11, 27) claims that it is the opportunity of profit that 'switches on the alertness' just like an alarming device. Prices act as 'flashing red lights'. The kernel of this device however remains unknown, something being inherent in the logic itself. 'We [simply] cannot explain how some men discover what is around the corner before others do' (Kirzner 1979, p 8). Because if we could, alertness would necessarily cease to prevail as a unique prescience of the few.

The prevalence of entrepreneurship means a market process context far from conventional equilibria. Entrepreneurship are those dimensions of human action that are not merely calculative but also somewhat daring since they necessarily constitute steps into the unknown dark which might also entail errors. The construction of plans epitomizes entrepreneurship and this endeavor

depends from the prospect of discovery that does not come true until alertness actually works out in real time by way of surprise. Whereas entrepreneurship constitutes the lubricant of the market system thus making it go around, it is alertness that fuels it in the direction towards equilibrium when actor plan coordination is improved.

Institutions in an Austrian guise

Any facet of institutionalism may intuitively seem as irreconcilable with Austrian thought as does any holistic versions of methodological individualism (confer Langlois 1992, p 165), Gloria-Palermo (1999, p 149)). Such an impression is confirmed by the manner in which some Austrians at times propose institutional accounts that contradict what is suggested above by Mises regarding the core feature of the social relationship for the market process. Lachmann (1971, p 73) openly opposes any notions of social systems as ‘networks of social relationships’ and how such a whole carries with it institutional meaning in thus ‘guiding social action’. Although this stance criticizes the functionalist essence of some institutionalism (much in the same vein as Granovetter 1996 (1992)) there does seem to prevail a challenge when it comes to reconciling what is crucial for market dynamics, entrepreneurship, with what is central for an enduring market structure, relationships (Ricketts 1992, p 82).

*But the arbitrage conception of the [Kirznerian] entrepreneur requires that the **durability** of exchange relationships is always precarious and may be disturbed at any time by alert entrepreneurial intervention. ... If ... long standing agreements to trade in a certain way are in existence, and if assurances concerning the durability of such agreements were required to make them initially acceptable, entrepreneurial intervention could prove very destructive. Kirzner's theory of the entrepreneur, in other words, does not take account of the **relational** or **obligational** aspects involved in long-term contract.*

Kirzner (1979, p 12) in part recognizes this kind of flaw while observing that the emergent Austrian approach to market institutions ‘holds considerable promise. Much work still needs to be done. It would be good to know more about the institutional settings that are most conducive to opportunity discovery’. Starting out in a subtle observation by O’Driscoll Jr and Rizzo (1996 (1985), p 34), there are two main intertwined facets of Austrian institutional market reasoning. ‘People with whom one expects to engage in one exchange per year may be of less importance to the success of one’s plans than people with whom one trades every day.’ There is firstly the conviction that the emergence and development of institutions is the coming into being and transformation of social order. To repeatedly trade with someone could impact how business

success is attained. Secondly, there is the belief that institutions links closely with the reduction of uncertainty via knowledge. The reason why repeatedly trading with someone should prove successful is that such trade is more informed, open to learning, about market opportunities than would be more of an ad-hoc approach.

The first argument is fundamental in conceiving of institutions like a social order that arises spontaneously as an outcome of non-deliberate collective human action. What is purposeful though unintentional at the individual level works out as spontaneous and non-orchestrated order for the social whole. This causal-genetic process of unintended spontaneously emerging institutions, manifest in mutually coordinated behavior, is at the heart of early Austrian analysis as proposed by Menger, for instance in the case of language, law or money (Witt 1992, p 226). The implication is that '[Austrian] [i]nstitutions are effects and not causes'. They are 'unexpected', 'composite', 'organic' phenomena of an 'invisible-hand' character stemming from social interaction (Langlois 1994b, p 536, Gloria-Palermo 1999, pp 146, 153). 'In this way, a social institution may be said to result from individual human actions, although the individual actions at issue were not motivated by the desire to produce the social institution' (Rutherford 1996 (1994), p 84). Such institutions are effective as a function of generally beneficial spillover effects that originate in the striving of each individual when seen in separate (Vaughn 1998 (1994), p 30).⁶ This means that institutions (or social order) cannot ever be decided upon by design in advance, the main reason of which is the scattered character of uncertainty-biased knowledge, something at the heart of Hayek's evolutionary kind of analysis. Being precise, a social order is a structure of relations that result from the prevalence of certain other institutions (Gloria-Palermo 1999).

It is the contention that, by tracing the combined effects of individual actions, we discover that many of the institutions on which human achievements rest have arisen and are functioning without a designing and directing mind; that, as Adam Ferguson expressed it, "nations stumble upon establishments, which are indeed the result of human action but not the result of human design"; and that the spontaneous collaboration of free men often creates things which are greater than their individual minds can ever fully comprehend.⁷

⁶Confer Langlois (1992, p 167). 'Thus, by making the behavior of others more predictable, institutions reduce the amount of information we need to behave effectively in society. ... Institutions – viewed as rules, customs, routines, habits, or conventions – contain or embody knowledge about effective behavior. This economizes on the explicit knowledge one must have to behave effectively.'

⁷Hayek 1948c (1945/1946), pp 6-7

The second main facet of Austrian institutional market reasoning pertains to the role of knowledge for social order as seen in that ‘[i]nstitutions are, in an important sense, congealed social knowledge’ (O’Driscoll Jr and Rizzo 1996 (1985), p xxii). Institutions here, much like the argument of North’s (1990), are a device by means of which uncertainty is shouldered aside. They do not eradicate uncertainty by providing correct solutions to upcoming problems but they assist in overcoming the effects of what is not known. ‘[I]nstitutions reduce, but do not eliminate uncertainty ...’ (O’Driscoll Jr and Rizzo 1996 (1985), p 32).

Human action in society is interaction. Each plan must take account of, among many other facts, favourable and unfavourable, the plans of other actors. But these cannot all be known to the planner. Institutions serve as orientation maps concerning future actions of the anonymous mass of other actors. They help the planner by making the social world a little less uncertain than it would be otherwise. ... [That is,] [a]n institution provides means of orientation to a large number of actors. It enables them to co-ordinate their actions by means of orientation to a common signpost.⁸

In this manner institutions, ie social relationships, embody the Hayekian types of knowledge that are endemic to various kinds of potential discovery of opportunities (Kirzner 1992, pp 163-179). The rise of social institutions is then explained as a function of the two-faceted knowledge problem identified by Hayek. The A-problem is that people do not know for sure about the attitudes of others and in consequence they become over-optimistic regarding market clearance. The B-problem is that people are over-pessimistic since they fail to take in opportunities that might have been exploited had they had ‘more accurate knowledge concerning what others *might* have been prepared to do’. That is to say, whereas the A-problem revolves around expectations of others’ behavior that will not unfold, the B-problem relates the situation where a promising potential is in not realized (Kirzner 1992, pp 167-169). What is crucial for the emergence of fundamental stable social institutions is the solution of the A-problem as people by and large correctly learn to anticipate what others will do. For relatively superior institutions to arise it is crucial also for the B-problem of knowledge to be solved by entrepreneurship.

What has nurtured the spontaneous emergence of such benign cultural norms and institutions, Hayek maintains, is the circumstance that social processes of spontaneous co-ordination have been able to evolve. It is only in this way that a social fabric consisting of innumerable threads of mutual expectations – a fabric the totality of which displays a complexity transcending the capacity of any single mind, could possibly come to be woven.⁹

⁸Lachmann (1971, pp 12-13, 49-50)

⁹Kirzner (1992, p 165)

Given the Austrian emphasis of institutions' dynamic character there is an obvious main problem at hand. Without some stability institutions cannot serve their purpose as a trustworthy map of orientation, something that matters in particular in light of methodological subjectivism.¹⁰ But too static a handrail in this sense does not fit the process character of the market (Lachmann 1971).¹¹ Consider as a case in point how it is assumed that the very spread of knowledge stabilizes the market (the social web is self-reinforced) while in parallel the discovery of prizing is most dynamic in bringing about revision of individual actor plans (Dulbecco 2003).

There are hence two distinct but related aspects of the Austrian approach to institutions, both of which crucial for the Austrian view of the market as kept together by social exchange and pushed forward by means of entrepreneurial alertness. There is firstly the idea that social institutions are causal-genetic orders of individuals' spontaneous and non-orchestrated conduct. There is then the reason for being of these institutions, uncertainty, and their own subsequent impact for the reduction of this uncertainty. This is carefully articulated by Lachmann as the 'orientation map' character of institutions. Such social uncertainty-reducing order is the epitome of behavior regularities that ultimately are conducive for the discovery of market opportunities. '[S]ince institutions are used to explain the transmission of information and knowledge, which is integrated in the formation and revision of plans, they represent the "key link" that makes it possible to complete the reasoning chain of the Austrian theory about market processes' (Dulbecco 2003, p 235). According to Boettke et al (1994, p 69) this view renders manifest the Austrian position as found 'somewhere between antitheoretical institutionalism and ahistorical formalism.'

As regards how the Austrian approach to institutions could enrich a market sociology in the making in the areas of market dynamics and knowledge the following is accounted for in the above paragraph. Austrian dynamics basically stem from change that is endogenous to human action, or change in induced variables and only to a lesser extent from exogenous change. Change

¹⁰From an analytical viewpoint, the theory of institutions ... aims at reducing the indeterminism that emanates from the extension of subjectivism to expectations in a context of radical uncertainty. ... Institutions are recurrent patterns of conduct which limit the volatility of actions, henceforth providing a kind of fixed reference point within the kaleidic society in which individuals interact' (Gloria-Palermo 1999, p 136).

¹¹Confer Vaughn (1998 (1994), p 157). 'No society can function with continual flux in its institutional structure, but a society that never permits its institutional structure to change will suffer increasing inefficiencies.'

comes about as actors themselves ponder upon decisions regarding prices, qualities et cetera and then carry out plans in accordance herewith. They are makers and not takers of price and are only inspired to a minor degree by underlying change as discerned in technological leaps and overall changes in taste. It follows that the market as an institution, and the sub-institutions making it up, is very much the unintended non-designed consequence of such human action. This means that institution dynamics evolve as a spontaneous outcome of actors pursuing their own agendas that are not intended to render such change come by. It just happens as new market opportunities are ignored, discovered and acted upon. When it comes to the Austrian conception of knowledge, by means of which market uncertainty is shouldered aside, it is obvious that institutions have got a key role to play. The crucial point of departure is however that what is not known is not known. To talk about imperfectness or incompleteness of information is meaningless as there does not prevail an idea regarding what perfect information would entail. In the language of Langlois (1994a) Austrian uncertainty, thus partially shouldered aside by means of institutions, is structural in character as opposed to mere parametrical uncertainty according to which the problem skeleton is know but devoid of precise values.

A brief ‘new institutional-Austrian’ comparison

When thus comparing facets of how new institutional economics and the Austrian school as delineated in this paper approach institutions in terms of market dynamics and knowledge a few things stand out clearly. The most salient impression is that concerning the origin of institutions. Whereas the agenda of North (1990) mostly looks upon institutions as an exercise of archeology, discovering what is to be unraveled, Austrians are more inclined towards architecture by paying interest to the very shaping of institutions as an unintended outcome of human action. Such an exercise is hardly accomplished in the realm of maximizing behavior subject to given ends (that North resorts to despite some signs of the contrary). In Menger’s language (related by Quéré and Ravix 2003, pp 275-276) Austrian institutions are organic, spontaneously emerging ‘from the pursuit of individual actions without any collective and conscious will’. The opposite institutional origin is labeled pragmatic, is akin to new institutional economics, and requires initial organized efforts that are designed beforehand. A slightly different but connected way of relating this is to distinguish between more or less purposeful institutional implementation and needless to say there is a certain correlation between a pragmatic origin and a purposeful implementation. In

Kirzner's (1992) language it is also obvious how exogenous forces (ie a new emergent technology) imposed upon actors as constraints characterize new institutional dynamics whereas Austrian institutional change is mostly endogenous as discerned in how human action entails the pondering upon both means and ends. Market participants are active makers, and not passive takers, of offer qualities and hence institutional revision. It follows that what to new institutional economists seems like a key concern, the explicit recognition of differences between formal and informal institutions, loses much of its relevance when pondered upon by Austrians. The sharp distinction that the former make between relationships and law does not prevail for the latter who view the coming into being also of legislation as a spontaneous process given the uncertainties associated with its implementation.

Such market uncertainties constitute the second area where some inspiration for a market sociology is sought for here. Austrian and new institutional economics converge in openly asserting that institutions serve to reduce uncertainty. So far so good. But the particular modus of shouldering aside this uncertainty differ since the two schools do not relate the same kind of uncertainty. Following the reasoning of Langlois (1994a) it is feasible to posit that whereas new institutional economics' uncertainty is parametrical its Austrian correspondence is structural. What is not known is known vs what is not known is not known. In the former case it is meaningful to distinguish between perfect and imperfect information and more is learned by way of deliberate search whereas spontaneous discovery that characterizes the latter case means that such distinction does not make sense. To label information imperfect means that it is realized what would entail perfect information. The scattered character of knowledge implies that problem structures will always remain unknown. These different appearances of uncertainty go very well together with the position taken regarding institutional dynamics as delineated right above. Parametric uncertainty means that there is a scope for deliberately designing institutions in order to address some particular identified problems, something not possible when these problems are not really known. The reasoning can also be applied to the A- and B- knowledge problems respectively once identified by Hayek (and commented upon above by Kirzner 1992). An A-problem solution, expecting the correct behavior from others by knowing about their attitudes, means the emergence of stable institutions akin to a context where uncertainty is not entirely structural in character and could possibly be conceived of also by a new institutional economics

framework. The B-problem solution however, the realizing of market potentials as the essence of dynamics, requires entrepreneurial alertness that could only come about by the emergence of superior institutions, something implying that the corresponding uncertainty is truly structural in character.

What's in it for a market sociology, and what is still needed?

As should be clear by now there is a tangible difference between the inspiration that an emergent market sociology could derive from Austrian and new institutional economics respectively when promoting its own agenda of the market as a socially constructed institution. Notwithstanding any valuable ideas to be found with new institutional economics, this concluding section revolves around the features of some Austrian inspiration yet to be had. Starting out from the meritorious idea about the market as a social structure, risks for reductionism and the static character of such structures are identified as two areas where progress needs to come by. Whereas social constructionism as conceived of above through institutions counteracts claims of reductionism when social structures are related, the dispelling of their alleged static character still needs to be addressed. How this could come about is foreshadowed below by referring to competition and economic action as two issues whereby the dynamics of a market sociology could be framed.

There is no doubt that some of the most promising seeds of a market sociology are found among contributions that conceive of the market as a social structure (confer Swedberg 1994). Out of these the observation made by Baker (1984) is probably the most compelling one. More actors could actually entail lower market efficiency as they form sub-structures, something vehemently opposing the key assumption of the neoclassical agenda. That is to say, not only does the social structure matter, but it proves to be the very feature that jeopardizes the key element of a most successful market paradigm as discerned in legal frameworks et cetera. Two criticisms are often encountered here. Structural studies are allegedly reductionist in character (not very much is explained outside the particular area of attention to the extent that the analysis loses much of its value). And they are too static, thus displaying an inability to handle market change. It goes without saying that a progressive market sociology must shoulder such criticisms or it will face substantial difficulties in promoting its own agenda. The drawing on the market as a socially constructed institution, as furthered by new economic sociology, and as tentatively enriched by

some Austrian insight of above, is an obvious firsthand remedy to encounter any risks of reductionism. Despite some meritorious efforts by Burt (1992) and some others it still however seems as if much remains to be done in the area of market dynamics for a sociological agenda really to move ahead (confer Swedberg 1998, p 169). What Burt does is to delineate the spanning of structural holes as an act of entrepreneurship (Kirzner is even explicitly referred to in one of the endnotes) that despite its promising features is not carried much further. There seems to be two main entries here. Firstly there is a need for an elaborate account of competition (beyond structural notions such as position or status) that by all means is the fuel that powers market dynamics. Secondly economic action must be dealt with in a manner that extends further than noticing its social orientation and its network-like embeddedness in time and space.

Much in the spirit of Weber's (1968 (1922)) ideas on market appropriation according to which foreclosed relationships seal off the market, Austrians identify the crucial role of (actual and potential) market entry as a fundamental prerequisite for competition and thus dynamics (confer Baumol et al's 1988 argument on market contestability). In practice this means to reach out for the mechanisms that keep a market network stable though not inert but open. This is already nicely illustrated by Granovetter's (1996 (1992)) allusion to 'social mechanisms of coupling and decoupling' according to which one could postulate that oversocialization entails market foreclosure whereas market anarchy void of any institutional order is associated with undersocialization. This does not mean that prevailing relationships always have to be broken for competition to prevail but there must be a healthy realization by both parties that this could in fact happen, and thereby the market process is spurred by recurrent renewal. A second feature of this competition (that by definition always is 'imperfect' as there are always some actors who cannot fulfill their plans which means market opportunities always prevail) is that customers take on a crucial role in making this come by. Such an argument, implicitly residing in White's (1981) reasoning, originates with the ideas of Hutt (1940) and are expanded upon by Mises (1963 (1949)) in the guise of consumer sovereignty (confer Podolny 1993 for some steps in this direction). That is to say, customers invoke competition among suppliers, something most characteristic for the kind of new economy competition that is learned about in the works of Saxenian (1996 (1994)). A third and encompassing feature is the manner in which this account of competition relates to the issue of knowledge, by all means a connection very much à la mode in

present-day business economics. As observed above this is tied to how institutions are conceived of and any views of uncertainty as merely parametric cannot reach out very far since they are too connected to the paradigm of information as imperfect in that we are aware of what we do not know. As observed by Hayek (1948c (1946)) competition is akin to a discovery procedure whereby entrepreneurship works out relative to hitherto ignored (not-known-of) market opportunities that ignite the spark of alertness. A furthered understanding for such alertness, the unique prescience to see what others do not see, is in addition endemic to what is meant by the market as a social construction, an indeterminate process in the guise of an elastic web of embedded exchange relationships.

While economic sociology since long recognizes the social character of human action -that habit, interests and emotions propel behavior that takes not only own utility but also others into account (confer Swedberg 1998)- the tying of this to the market as a dynamic construction yet remains to be seen. And this could prove problematic as such conduct is also embedded in webs of dependencies that stem from the orientation also towards others. The Austrian conception of human action is subject both to such social considerations (in the guise of social exchange) and to entrepreneurship that comes about via alertness (Mises 1963 (1949)). Market novelty and order is hence produced in parallel by what is implied by these two aspects of human action. An additional facet of this conduct is the manner in which it constitutes the formulations of individual action plans that subsequently add up to a social whole, the essence of which is an overarching market order as an outcome of spontaneous behavior but not deliberate design. This is not to say that economic actors are not purposeful, they sure are, but when looked into in the aggregate the outcome is unintended and cannot be foreseen. To say that human action is purposeful means that it considers the entire means-ends framework, not only the means as in conventional accounts of rationality. It can furthermore be argued that it is subject to both social filtering and individual calculation and that it entails the learning from errors of the past and thereby inspires future intentionality. Two preconditions (not yet worked out in the realm of the Austrian agenda) are necessary for this account of human action. Firstly individualism must be dealt with in a social manner (confer Granovetter 1996 (1992)) which entails a midrange position akin to that endorsed by Agassi (1975)). The relationship then takes on a key role as resulting from spontaneous interaction that gives rise to social institutions, in essence the embeddedness of

the individual.¹² Secondly, the subjectivism endemic to the social construction of the market must take into account change and intersubjectivity. It results as dynamic intersubjectivism according to which the world is a subjectively constructed phenomenon by means of daily human interaction subject to ever-changing means-ends frameworks.¹³

The dynamics that inhere in this framework of human action can furthermore be expanded upon by inspiration from the particular sociology of knowledge that argues in favor of a performative view of the economy (confer Callon and Latour 1981, Callon 1998, 1999). These works, as seen in the tradition of so-called actor-network-theory, tie nicely to the Austrian agenda of human action when they emphasize the role of market practice as subject to the recurrent efforts of ideas and actors to perform the economy (confer Quéré and Ravix 2003 for a similar argument on how Austrian economics and ANT go together). This is the epitome of a process whereby the result comes about not from design but from spontaneous constructive efforts in establishing what is to be exchanged.¹⁴ This is nicely alluded to by Swedberg and Granovetter (1992, p 16) as they refer to how the strawberry market in Sologne stems from human construction processes, this time by a recent graduate of economics who sets out to shape this market according to the microeconomics textbook (confer Callon 1998).

A final word

This paper takes up the call put by Swedberg (2004, p 11) according to whom ‘economic sociology is indeed alive today and [is] progressing very fast, [but] it is still somewhat short of good ideas’. As argued extensively elsewhere (Liljenberg 2001, 2004a, b), the author of this paper is convinced that the combining efforts of economic sociology and Austrian economics is most instrumental for the coming into being of a progressive market sociology, that is the explanation of the market process by means of sociological tools and insights. This promising ground, thus shouldering aside some of the evident shortcomings of neoclassical analysis (such as

¹²This is ‘the priority of the individual over the social while allowing for the social conditioning of individuals’ (Rutherford 1996 (1994), pp 32-33).

¹³The three notions of human purposefulness, social individualism and dynamic intersubjectivism in fact constitute some of the bricks by means of which it is feasible to argue that Austrian sociology and economic sociology are in fact coherent agendas (confer Liljenberg 2001 for a much elaborated discussion of this argument).

¹⁴Confer Granovetter 1996 (1992), p 273 who comments upon the coming into being of institutions. ‘[T]hey are constructed by individuals whose action is both facilitated and constrained by the structure and resources available in social networks in which they are embedded.’

negligence of the social element, market dynamics and the tacit character of strategic knowledge), is foreshadowed in this paper that seeks to address some implications of viewing the market as a socially constructed institution. To improve such a market sociology's conception of institutions there is a need to learn more about the formation and development of these institutions and the particular manner in which they assist in reducing uncertainty. While new institutional economics provides some good food for thought in these areas this paper contends that Austrian reasoning could prove more beneficiary. This by and large stems from the fact that this school of thought, by way of its elaborated conception of the market as a process of spontaneous discovery, manages to come to terms with market dynamics and knowledge to an extent much beyond what new institutional economics manages to do given its firm anchorage in the bay of equilibrium. Consider as cases in point how Austrian change is endogenous to the market actors and how uncertainty is structural, something at the heart of any elaborated conceptions of knowledge. Moving beyond facets of institutionalism, competition and economic action are furthermore two distinct areas where a market sociology could derive inspiration from Austrian reasoning. As regards human action, an additional promising path ahead seems to be importing insights from actor-network-theory and its emphasis of the market as a laborious construct wherein intertwined processes of norms, exchange and reproduction shape the market (confer Helgesson et al 2004).

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