PEK POLİTİK EKONOMİK KURAM

POLİTİK EKONOMİK KURAM
E-ISSN: 2587-2567
https://dergipark.org.tr/tr/pub/pek

2021, Cilt 5, Sayı 2, 330-348

Doi: 10.30586/pek.1026685
Makale Geliş Tarihi: 21.11.2021
Makale Kabul Tarihi: 17.12.2021

Araştırma Makalesi

Markets and Economic Institutions: Is New Economic Sociology a Serious Contender?

Piyasalar ve İktisadi Kurumlar: Yeni Ekonomik Sosyoloji Ciddi Bir Rakip Mi?

İhsan Ercan SADİ[1]

Abstract

This paper attempts to evaluate the contributions of mainstream economic sociology on its reconceptualization of markets and economic institutions. By doing so, it discusses whether new economic sociology can be a serious contender to conventional economic thinking. After critically reviewing a selected set of ideal-typical works from the field, ranging from embeddedness/network and field analyses to performativist accounts, it reaches the conclusion that the new economic sociology cannot pose a serious threat to the conventional way of doing economics-- largely due to the fact that both intellectual traditions share a great deal of common understanding of power relations in society. For the new economic sociology to elevate itself from a mere equivalent of imperfect competition in economics, it should rather benefit from a long tradition of scholarly work in political sociology; and institutionalist accounts within the very sub-field itself seem to be the main valid candidate to pursue such a course of action.

Keywords: Market Structure, Imperfect Competition, Status, Transaction Cost Approach, Social Constructivist View of Economic Institutions, Network Forms of Organization.

Jel Codes: B52, D85, L14, Z13.

Öz

Bu makalede, yerleşik ekonomik sosyolojik yaklaşımın piyasaları ve iktisadi kurumları yeniden kavramsallaştırmasına katkısını değerlendirmeyi ve "yeni ekonomik sosyoloji"nin geleneksel iktisadi düşünceye ciddi bir rakip olup olamayacağını tartışmayı amaçlıyoruz. Bu maksatla, "yeni ekonomik sosyoloji"nin toplumsal iç içe geçmişlik (embeddedness)/toplumsal ağlar (networks) ve Bourdieucu alan çözümlemelerinden (field analysis) performativist açıklamalara varana değin bir dizi ideal-tipik çalışmasını eleştirel bir şekilde inceleyip her iki entelektüel geleneğin de toplumdaki iktidar/güç ilişkilerini benzer bir şekilde kavrıyor olmasından dolayı, ekonomik sosyoloji alt-alanının mevcut haliyle geleneksel iktisadi düşünme biçimlerine ciddi bir tehdit oluşturamadığı sonucuna varıyoruz. "Yeni ekonomik sosyoloji"nin yerleşik iktisadi düşüncede zaten kabul görmüş olan "eksik rekabet" anlayışının salt bir eşdeğeri olma konumundan ayrışabilmesi için, toplumsal bilimlerde köklü bir geçmişi olan siyaset sosyolojisinin kuramsal yaklaşım ve kavramsal çerçevesinden faydalanması gerektiğini iddia ediyor; ve alt-alanın kendi içindeki kurumsalcı çalışmaların bu yönde atılacak adımlar için iyi bir başlangıç zemini sunabileceğini göstermeye çalışıyoruz.

Anahtar Kelimeler: Piyasa Yapısı, Eksik Rekabet, Statü, İşlem Maliyeti Yaklaşımı, İktisadi Kurumlara Toplumsal İnşacı Yaklaşım, Toplumsal Ağ Biçimlerine Dayalı Örgütlenme.

Jel Kodları: B52, D85, L14, Z13.

[1] Independent Resercher. E-mail: iercansadi@gmail.com *ORCID*: https://orcid.org/0000-0002-7738-4685

1. Introduction

It can be argued that one of the core pillars of work in economic sociology has been built around the emphasis on the necessity to reconceptualize "markets" to offer a plausible alternative to neoclassical economics. According to this tradition, economists misrepresent market affairs in their conventional thinking, largely due to their failure to take into account various social relationships that are necessarily inherent in market processes, such as the roles of prestige, trust and status; various social forms of capital that give the upper hand to their possessors; power struggles firms engage with each other to receive the state's favor, to name a few. This endeavor has been accompanied with efforts to correct the conventional economic thinking on institutions. In this paper, I aim to investigate how the New Economic Sociology (NES) attempts to distinguish itself from mainstream economics, as well as whether it can overturn the conventional economic thinking. In order to do so, in the first section, I examine a selected set of exemplary works from mainstream economic sociology on the notion of market, ranging from the embeddedness approach to the field analysis. The argument of the first section is that although economic sociological contributions bring about partial novelties to the analysis of markets, they still largely end up sharing the main premises with the arguments posed by the framework of imperfect competition in the conventional economic thought with its neo-institutionalist modifications, and thus remain insufficient as a serious alternative. This is mainly due to the reason that both frameworks characterize power relations similarly in their accounts. In the second section, then, I will investigate the works from another strand in economic sociology that prioritize the explanatory superiority of power relations as the main constructive force in the analysis of economic institutions. It is the argument of this paper that such an institutionalist path can be a valid contender to the mainstream comprehension of markets, since it convincingly shows that economic institutions are not necessarily the most efficient outcomes to economic problems, contrary to how conventional economic thought grasps those. This paper will conclude by pointing out some of the pitfalls the institutionalist path contains, since it still suffers from its overwhelming focus on the interpersonal and situational dimensions of power, while largely dismissing the structural dimension.

2. The Notion of Markets in New Economic Sociology

With the institutionalization of neoclassical economics as the orthodoxy of the discipline,[2] the scope of the field was narrowed down "in terms of both space and time" (Özveren, 1998: 471): as for the temporal dimension, the long-term dynamic analysis was replaced with a short-term static one; and as for the spatial dimension, the holistic study of historical societal institutions devolved into a mere analysis of "the supreme optimality of the market" (Shaikh, 2016: 4). Equating the notion of "market" with that of "economy", neoclassical economics thus establishes the boundaries of the economic study

> as an abstract realm of impersonal exchange of homogenous goods by means of voluntary transactions on an equal basis between large numbers of autonomous, fully-informed entities with profit-maximizing

[2] The term "neoclassical economics" was first coined by Thorstein B. Veblen. He criticized Alfred Marshall and his colleagues "for having not parted with two quint essential presuppositions of their forefathers, namely a strict adherence to a hedonistic conception of man as the economic agent, and an exclusive focus on equilibrium-centered frame of analysis" (Özveren, 1998: 471).

behavioral motivations and able to enter and leave freely (Harriss-White, 1995: 87).

In such a conceptualization, there exists no room for three vital phenomena of social reality, all of which are germane to institutions: time, uncertainty and power (Sadi, 2008: 731-40). Many criticisms to such an understanding of markets as *friction-less constructs* came initially from within the economics discipline itself; yet, instead of re-defining the market proper, such critical-minded economists often posed their corrections by easing the assumptions held by the mainstream.[3]

Being one of the pioneers of the embeddedness approach, which would later become the core of the NES analysis, Harrison White (1981), in contrast, developed an alternative conception of markets in his seminal paper, *Where do Markets Come From?*, by particularly asking how markets acquire their own structures. White starts his criticism by pointing out that conventional economic analysis is one of “pure theory of exchange”, because it dismisses the fact that “markets are self-reproducing social structures among specific cliques of firms and other actors who evolve *roles* from observations of each other’s behavior” (1981: 518; emphasis added). This re-definition is proposed to add two properties of crucial importance to the conception of markets. First, instead of analyzing firms as taking decisions independently as in the conventional economic analysis, in this reconceptualization, producers *watch each other*. Second, contrary to the mainstream understanding of firms as being identical to each other, White’s definition suggests that there is a “market schedule”, which is determined by the production decisions that are taken by self-reproducing cliques of firms that seek stability by establishing “role structures” (i.e., they strive to create or fill in a market niche so as to secure stable outcomes) in order to cope with uncertainty which emanates from competitive forces within the market. In this framework, the market structure is operationalized by White as W(y); where revenue (W) is analyzed as a function of volume of production (y). Moreover, the nascent market situation can sustain itself only as long as cost structures match taste structures (i.e., with the appreciation of products by buyers), where each of these is ranked by quality. He further argues that markets gain their structures (e.g., paradox, grind, crowded, or explosive markets) by recourse to their corresponding market schedules. To sum up, White’s contribution is to offer an alternative understanding of markets that are socially constructed by firms whose decisions not only create, but are also embedded in, sequentially ordered market schedules (White, 1981; see also Swedberg, 2005 and Knorr-Cetina 2004).

White’s conception of markets as reproducible role structures is further elaborated by Joel Podolny (1993), who shifts the focus of analysis from *roles* to *status*-positions. In other words, Podolny’s main concern is not to spell out a typology of different market structures as White does, but it is to investigate how a producer’s status-position within *a* market affects its costs, revenues and prices. Defining status as “the perceived quality of [a] producer’s products in relation to the perceived quality of that producer’s competitors’ products”, Podolny also takes status as a *signal* of the underlying quality of a firm’s output (1993: 830-1). The crucial point in this definition is that, since *perceptions* form the basis of status, the linkage between a signal and what it is supposed to manifest, namely quality, is often loose. The existence of such a loose linkage has two main implications. First, firms can have a control over their status -at least to

[3] Due to space limitations, I cannot elaborate such corrections here. One can refer to Sadi, 2021 and Sadi, 2022 for a more detailed account.

some extent- independent of the changes in the quality of their products: by manipulating consumer's perceptions via other social and economic variables such as their network relations, advertisements, market shares etc. Second, and more importantly, high-status firms can bend the rules of competition, and secure stable outcomes by benefitting from hierarchies that establish the market order via varying status positions. That does not mean to suggest that high-status firms are not concerned with the quality of their goods. Rather, it suggests that, controlling for the quality of the good, those producers with higher statuses always enjoy a more competitive position in the market by internalizing advertising costs, transaction costs, financial costs, and to some extent even labor costs.

Three conclusions can be derived from Podolny's analysis of markets as a reproducible status-order. First, *status as a social construct* does have an impact on economic outcomes. Second, because production decisions are fundamentally shaped by status and identity concerns, firms can set and sustain mark-up prices above competitive market price levels—though, note that, not in order to drive their competitors out, but to secure their status-positions within the market proper.[4] Last, and relatedly, in the absence of an exogenous shock, market hierarchies are stable and self-reinforcing even in the presence of high-status firms that enjoy profit rates significantly above average competitive levels.

Podolny recognizes the static nature of his account. He also acknowledges the fact that low-status firms can "attempt" to replace high-status firms, or change the status order entirely; while such an attempt would expose them to "vagaries and uncertainties that they would not otherwise have to face" (1993: 846). How, when and why they would take the decision to make this "attempt" is not clear in his account, though. Moreover, although he also points out the "complex role of innovation in status-based competition" as an important factor to bring out change, he does not analyze the conditions under which these innovations are systematically introduced (1993: 867-8). In other words, since price-cutting strategies are not the only available weapons to firms, and since -even in the presence of "bidding-wars"- prices can be manipulated via non-economic factors, there exists no systematic pressure on firms that are endogenously generated within market processes to introduce more efficient production techniques and applications. Innovations rather appear as exogenous factors whose conditions are left unexplained in Podolny's framework.[5]

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[4] In order to answer the question why high-status firms do not use their status-position to drive out lower-status firms of the market so as to monopolize the entire field, he suggests: "[t]o the extent that a higher-status producer attempts to expand into the position of a lower-status competitor, it changes its reputation and thus alters the cost-and-revenue profile that provided it with the initial advantage. As a result, just as status processes help reproduce
inequality by constraining those at the bottom of the status hierarchy, so status processes also place limits on the higher-status producer's expansion into the lower end of the market" (1993: 845).

[5] Quite interestingly, Richter criticizes Podolny for not having attacked the conventional economic analysis as powerfully. He suggests that "[Podolny] supplements Burt's interpretation of competition as a struggle of actors for profitable positions within a market network by adding the advantages of 'status improvements' to Burt's 'information benefits' and 'control benefits'. [Instead, he could have argued that], if status and product quality are loosely linked and if producers' market status can be cultivated by other means than only costly quality improvements, then producers of a 'status-prone culture' may find it more profitable to invest in the promotion of their market status instead of in quality improvements of their products" (2008: 173). I think Richter's criticism is unwarranted. Podolny's analysis implies precisely what Richter thinks is missing in his account.

In an effort to develop an analysis which situates firms relationally to all other agents, Pierre Bourdieu (2005: 75), likewise, offers a metaphor of the *field*: "the weight (or energy) associated with an agent, which undergoes the effects of the field at the same time as it structures that field, depends on all the other points and the relations between all the points, that is to say, on the entire space". In this relational field structure, what determines the relative weight of each agent, or in other words, what gives power to each agent in order to keep the ongoing struggle for domination over the field is characterized by various forms of capitals they possess: financial capital, cultural capital, technological capital, juridical and organizational capital, commercial capital, social capital, symbolic capital, and etc. to name only a few (!).[6] Capital, in this regard, is operative "both as weapons and as stakes in the struggle to gain ascendancy over those fields" (Emirbayer & Johnson, 2008: 11). Since any given firm would necessarily differ from all other firms in the field in terms of the volume and composition of the capital it possesses, this would imply that outcomes of economic processes are determined by how effectively each firm utilizes its own capital at a specific point in time. To overcome such indeterminacy, Bourdieu (2005: 79-81) suggests that three factors are prominent: the size of the firm (since it is usually associated with the amount of capital they possess); timing of the firm's entry into the field (first movers are usually the ones that set the terms); and lastly, the firm's established ties with the state (to win over the "competition for power over state power"). To complete his analysis, Bourdieu further elaborates on what bridges the structural positions of firms ["*the field*"] with the struggles for position-takings ["*various forms of capital*"], namely the role of agency, by offering a theory of what he calls *habitus*. I could not find a satisfactory definition of the notion of habitus, but Dobbin (2008: 58) suggests that "for Bourdieu, habitus is more than simply worldview in the classical sociological sense, but worldview is probably the closest approximation". [7] In this way, according to Bourdieu, "social agent is a collective individual or a collective individuated by the fact of embodying objective structures" (2005: 84). In short, markets in Bourdieu's (2005: 81) account are defined as:

> the totality of relations of exchange between competing agents, direct interactions that depend … on an "indirect conflict," or, in other words,

[6] Bourdieu's (2002: 281) account of various forms of capital resembles Weber's analysis, rather than that of Marx: "the capital, in the sense of the means of appropriating the product of accumulated labor in the objectified state which is held by a given agent, depends for its real efficacy on the form of the distribution of the means of appropriating the accumulated and objectively available resources; and the relationship of appropriation between an agent and the resources objectively available, and hence the profits they produce, is mediated by the relationship of (objective and/or subjective) competition between himself and the other possessors of capital competing for the same goods, in which scarcity – and through it social value – is generated". The crucial difference between Bourdieu's analysis and Marx's analysis is that, as exemplified with the above citation, according to Bourdieu what creates inequality is not the exploitation of the labor's surplus within the production process by the capitalist, but the domination over others by those agents with appropriate forms of capital within the field via monopolizing resources and utilizing exclusionary mechanisms to block their access. In other words, various forms of capital in Bourdieu's framework do not have their capitalists, but only their bearers.

[7] Emirbayer and Johnson's cites Bourdieu's definition as follows: "the durably installed generative principle of regulated improvisations" – a definition which does not say much to me. Their own description of the notion is more intelligible: "a system of dispositions conditioned by social origins and subsequent trajectories [that] gives rise to a sense of the possible position-takings, that is, to the "space of possibles" open to that person in a given field of practice (2008: 27). If I am not misunderstanding, the reason to create the entire jargon is to avoid simply repeating what Marx (1978: 595) once brilliantly put in just one, extremely clear sentence: "Men make their own history, but they do not make it as they please; they do not make it under self-selected circumstances, but under circumstances existing already, given and transmitted from the past".

> on the socially constructed structure of the relations of force to which the different agents engaged in the field contribute to varying degrees, through the modifications they manage to impose upon it, by drawing, particularly, on the state power they are able to control and guide.

Thus, Bourdieu's conception of markets as field struggles suggests that, in order to understand the notion of competition within a market, one should take into account not only how firms exert power both onto each other and on the structure of the market (which, in a "hermeneutic circular" manner, determines how firms wield power in turn), but also how personal and organizational habitus characteristics match the positions in the field of the agents that are endowed with it. Lastly, since hierarchies within the market as a field tend to reproduce themselves, Bourdieu contends that "changes within a field are often linked to changes in the relations with the *exterior to that field*" (2005: 80; emphasis added).

Conceptualizing *markets as politics* and putting more emphasis on how change is realized in the formation, stability, and transformation stages of markets, as well as discussing how markets are embedded in broader social structures in such a way to show that markets and states are intimately linked, Fligstein (1996) offers almost an identical analysis to that of Bourdieu, while perhaps making it more intelligible.[8] To start with, similar to Bourdieu, Fligstein also sees market processes as both internal firm power struggles and the power struggle firms engage with each other. Second, he sees state-intervention as foundational to the formation of markets since states establish property rights, governance structures and conceptions of control to create and enforce rules of exchange. The main argument of Fligstein's paper is that "the social structures of markets and the internal organization of firms are best viewed as attempts to mitigate the effects of competition with other firms" within three phases of market development; namely formation [emergence], stability and transformation [crisis] stages (1996: 657-8). Again, similar to Bourdieu's distinction between leaders and challengers, Fligstein classifies firms within two broad categories as well: i) incumbent firms, that set the terms of conceptions of control; and ii) challenger firms, that submit their actions to the conceptions of control that are set by incumbent firms, and strive to find a market niche in order to secure gains. Basing upon these premises, he develops several testable hypotheses, but I will elaborate here the ones that are most related to the conception of markets. He argues for instance that market competition "exact its greatest toll" when a new market is first created, due to "market's lack of social structure or conception of control" (Fligstein, 1996: 665). As markets get mature and gain stability, on the other hand, competition loses its regulating power, since "in markets with stable conceptions of control, there is a great deal of agreement by market participants on the conception of control and the status hierarchies and strategies it implies" (1996: 667). In such stable markets, similar to White's, Podolny's and Bourdieu's claims, Fligstein also suggests that both incumbent firms and challenger firms watch the actions of incumbent firms since these are the ones which would reproduce status hierarchies by reinforcing governing conception of control. Lastly, when crisis hits, incumbent firms begin to lose the control over competition and fail. Interestingly, and as it is common to all other ideal-typical economic sociological work I examine here, Fligstein also argues that "transformation of existing markets results from *exogenous* forces: invasion, economic crisis, or political intervention by states" (1996: 669; emphasis added).

[8] Interestingly, nowhere in this article he refers to any of Bourdieu's works.

Before moving on, the stark contrast between Schumpeter's understanding of market competition with that of the NES strand dealing with the reconceptualization of markets in general, and that of Fligstein in particular, needs to be emphasized. It is worth first to point out the similarities between the two approaches. As Foster (1986: 69) points out: "under conditions of oligopolistic rivalry, competition is, to use Schumpeter's term, "co-respective", each firm carefully taking into account the price, output, and investment strategies of its major oligopolistic (or monopolistic) competitors".[9] In Schumpeter's own words (1994: 90), "old concerns and established industries, whether or not directly attacked, still live in the perennial gale. … [there is also] in the case of industries that have sown their wild oats but are still gaining and not losing ground, such a thing as orderly advance". However, he does not forget to add that --this is the point where his analysis differs from the ideal-typical scholarly work of the NES--:

> No firm which is merely ran on established lines, however conscientious the management of its routine business may be, remains in capitalist society a source of profit, and the day comes for each when it ceases to pay interest and even depreciation. … We visualize new production functions as intruding into the system through the action of new firms founded for the purpose, while the existing or "old" firms for a time work on as before, and then react adaptively to the new state of things under the pressure of competition from downward shifting cost curves (Schumpeter, 1939: 92)

Contrary to Fligstein's argument that competition hits most powerfully in the emergence and crisis phases of market formation, then, Schumpeter's argument leads to the conclusion that technological innovations are originally abrupt when they are first introduced, but they slow down as they are absorbed by other economic agents. In other words, "entrepreneurial profits" sustaining monopoly profits decline as inventions are imitated, lose originality, and reach the zero-profit level; thus the cycle goes on to completion before another entrepreneurial creation is observed: "[entrepreneur's profit] is the premium put upon successful innovation in capitalist society and is temporary by nature-- it will vanish in the subsequent process of competition and adaptation" (Schumpeter, 1939: 103). Schumpeter's analysis then provides two fundamental implications for the study of market order and processes. First, contrary to the notion of stability which occupies the central place both in the neoclassical and NES analyses (Overdevest, 2011), the characteristic feature of disequilibria is "precisely that they recur with some regularity and that they can be absorbed only by means of a distinct and painful process. This is because only some firms carry out innovations and then act along new cost curves, while the others cannot and have merely to adapt themselves, in many cases by dying" (Schumpeter, 1939: 95). Second, as it is inherent in his dis-equilibrium analysis, firms in capitalist markets are always incentivized to introduce innovations; or, in other words, contrary to all ideal-typical works

[9] Contrary to the claims posed by the NES scholars, the observation that *producers watch each other* was thus not a novel one at all. Many decades before the NES was born, as a matter of fact, a long line of scholars within the monopoly capital school of Marxism based their analysis precisely on that observation (see, Hilferding 1981; Lenin 1999; Baran & Sweezy 1966; Mandel 1975, among others). Yet, monopoly school Marxists were not lone heretics in this respect. Even such giant scholars, ranging from Alfred Marshall to Joseph A. Schumpeter, whose works can be deemed as hostile to Marxist way of thinking had already made this observation (see Marshall 2013; Michaelides & Milios 2005).

within new economic sociology examined here, change in Schumpeter's framework is *endogenous* to the market:

> what dominates the picture of capitalistic life and is more than anything else responsible for our impression of a prevalence of decreasing cost, causing disequilibria, cutthroat competition and so on, is innovation, the intrusion into the system of new production functions which incessantly shift existing cost curves … because the firms which, [are] rushing down along intervals [of decreasing costs], are upsetting existing industrial structure and heading toward monopoly, are in general precisely those which have set up new production functions and which are struggling to conquer their market (Schumpeter, 1939: 85).

If the networks and field analyses offer the reconceptualization of markets from the perspectives of the embeddedness approach and the relational method, performativist economic sociologists are the ones who focus most on the socially constructive effects of the relationship between economic agents and technological processes on economic outcomes.[10] Defining markets as "calculative collective devices" (Callon and Muniesa, 2005: 1230), performativists try to show that markets consist of calculable goods, calculative agencies and calculated exchanges. Although they never analyze where innovations come from, the novelty performativists bring about is due to their dual claims that first, not only humans but objects, techniques and ideas are also embedded in networks of calculative relations (Fligstein & Dauter, 2007); and second, scientific discoveries and economic theories are of the active constituents of the market proper as well. As for the former, Callon and Muniesa (2005) take the transaction within a "microstructure" as a point of departure and argue that those calculative agencies who possess the best equipment would have the most calculative powers, and this is where "asymmetries" originate from. As for the latter, following Callon's assertion of the performativity of economics, MacKenzie and Millo (2003) argue that Black-Scholes-Merton model of option pricing theory showed enormous empirical success for some period of time in financial markets, particularly in Chicago Board Options Exchange, because the model itself provided a guide to traders themselves.

Alongside with others, Swedberg (2004), for instance, claims that Callon's notions of performativity and actor-network theory can provide new economic sociology the necessary equipment to go beyond the nowadays-highly-criticized embeddedness approach in the sub-discipline for its structuralism. I will not provide a separate criticism for the newly emerging and widely acclaimed performativist vein in new economic sociology. Rather, Portes' (2010: 228) fair warnings for the limits of predictive/self-fulfilling prophetic claims of performativism should suffice: "There has been nothing more "performed" than the complex set of derivatives and other instruments on which financial capitalism, investment banks at the forefront, has been based in recent years. Proliferating hedge funds employing mathematical models created their own reality, multiplying many times the value of the original loans. But when the underlying collateral for those loans plunged in value and the debtors defaulted en masse, reality came back with a vengeance. This was a situation that could not be simply manipulated at will".

[10] Although all economic sociologists I examine here hold that the economic reality is socially constructed, the performativist account is the only one that is truly loyal to the *constructivist* tradition in sociology as developed by Berger and Luckmann (1967).

To conclude this section, let me summarize the main premises and findings of the new economic sociological literature on markets as follows. First, the NES takes concrete markets as its point of departure (Swedberg, 2005). Second, it argues that market agents are inter-dependently related to each other via such relational ties as resource dependence, embedded networks, cooptation, flow of information, status-order, trust and so on (Burt, 1995; Uzzi 1996, 1999; Lie, 1997; Beckert, 2009). Third, although cognition and action are contextualized by varying degrees of uncertainty, market rules, power relations, and norms and conventions, etc. (Akerlof 1970; Geertz, 1978; Abolafia, 2001; Biggart & Beamish, 2003);[11] especially in the performativist branch of the sub-field, via such "centers of calculation" as "collective hybrids" of humans and technology, actors' strategies (and sometimes even techniques and ideas like economic theories) can mold economic reality in such a way to have a transforming impact on the structure of markets around the actor-networks axis. In short, in the NES tradition, "the market is a social structure in at least three sense: it often consists of patterned exchange, it is influenced by extra-economic affiliations, and it serves as a basis for mutual orientation among economic agents" (Zuckerman, 2003: 562).

These premises lead to the following conclusions. Under conditions of prevailing uncertainty, firms both create and seek stability. This process is manifested in such tactics and strategies as filling market niches, occupying structural holes, reproducing role structures or status order, establishing trust relations via cooperative behavior, creating or appropriating various forms of capitals, trying to secure direct or indirect government cooptation, relying on product differentiation or diversification. As a result, the following predicted outcomes are obtained:

i) firms are sequentially ordered within the market proper, and those within the upper echelons develop the capacity to influence market price and the ability to set mark-up prices significantly above average competitive market price levels, and instead of price-cutting strategies, they either manipulate the volume of their production, or start to adapt collusive pricing behavior;

ii) with the increasing market stability, high-status firms employ governing conception of control as a part of their entry-preventing strategies;

iii) optimally embedding themselves within social networks insofar as they benefit from trust relations, better access to information and joint problem-solving procedures, or by creating or acquiring various forms of capitals, firms persistently enjoy higher profit rates significantly above average competitive levels.

To sum up, with the NES contributions to the reconceptualization of markets, all three dimensions of social reality that are missing in the neoclassical account, namely time,

[11] Sociologists in general and economic sociologists in particular tend to over-emphasize the role of conventions in their analysis. In Biggart and Beamish's recent article alone (2003) I did count more than 35 different concepts to identify what can be conveniently called "regularities of action", where they use all of them interchangeably with 'conventions'. I am skeptical for what we gain by such an inflation of concepts: "habits, customs, routines, standard practices, established arrangements, social rules and regulations, routine conduct, manifest and latent rules of conduct, taken-for-granted assumptions and modes of conduct, genre, (rules of) practice, repertoire, and routine, professional standards, professional canon, industry standards, habituated routines, habitualized conventions, habitus, shared views, habituated normativity, largely tacit routinized views, behavior repertoires, organizational codes of conduct, protocols, conventionalized conduct, internalized and naturalized cultural rules, conventionalized behavior, action repertoires, communicative genre repertoires, rules of appropriateness, socially approved scripts, behavioral regularities…"

uncertainty and, to an extent power, can be argued to be brought back to the analysis. However, what they ended up suggesting differs in no significant way from the arguments put forward by the scholars of imperfect competition in the conventional economic analysis with its neo-institutionalist modifications.[12] This is especially due to their treatment of power relations. A more radical thus more appropriate, yet again insufficient, view of power relations can be found in another strand of economic sociology that specifically deals with economic institutions, which I will discuss next.

3. The Notion of Economic Institutions in New Economic Sociology

Acknowledging the fact that "power" is an extremely sophisticated social phenomenon, I will keep my discussion on how new economic sociologists treat power relations specifically be recourse to how they criticize the conventional economic thought on institutions. As such, there exists a literature which is mostly based upon the embeddedness/network relations as well as resource dependencies -and to some extent, cultural- approaches which understand and study *power relations as constructive of economic institutions*. This tradition's main argument is that, contrary to the conventional economic analysis, institutions should be understood *not* as the most efficient responses to economic problems, but rather as an outcome of historical processes on the course of which powerful actors can have an impact, at least to some extent. Population ecology, interlocks research and studies on corporate power can also be seen as extensions of this tradition. Relatedly, especially from neo-institutional perspectives, some of the new economic sociologists studied how state policies create constraints and incentives for firm behavior mainly by establishing the ground rules of economic exchange.

The literature on how conventional economics "discovered" the importance of institutions and thus their necessary inclusion in the analysis is vast, but a few notable examples should suffice for the purposes of this paper. To start with, the critiques from early on to the neoclassical limitations, that emanate from its *one-dimensional view of power*[13] (which is either ignored or taken as exogenous), targeted at the mainstream enthusiasm to "search for a fixed point, a particular vector of prices and quantities for which all the system's equations are simultaneously satisfied" (Langlois, 1990: 8). The Nobel Laureate Ronald Coase, for instance, stressed that "there is a cost of using the price mechanism" (1937: 21), thus firms exist because they reduce what later-to-be-called *transaction costs* such as enforcement costs, contractual costs or search costs;[14] and that "a private-enterprise system cannot function properly unless *property rights* are created in resources, and, when this is done, someone wishing to use a resource has to pay the owner to obtain it. Chaos disappears; and so does the government except that *a legal system to define property rights and to arbitrate disputes is*, of course, *necessary*" (Coase, 1959: 14; emphasis added).

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[12] See Calnitsky (2014) for an excellent discussion on how mainstream economic sociology "often collapses into disequilibrium economics". In many respects, Marxist monopoly capital approach, as well as the great French historian Fernand Braudel's unique theoretical categorical polarization of market economy and capitalism, also suffer from the exact same pitfalls of conventional economic thinking, including both of its neoclassical and more heterodox variants. For a more detailed critical elaboration of those, see Sadi, 2022.

[13] Here, I refer to three-dimensional view of power, specified by Steven Lukes (1974). For a good investigation on how this framework can be applied to different schools of economic thought, see Young (2002).

[14] In other words, "when it is costless to transact, the efficient neoclassical competitive solution obtains. It does so because the competitive structure of efficient markets leads the parties to arrive costlessly at the solution that maximizes aggregate income regardless of the institutional arrangements ... *when it is costly to transact, institutions matter*" (North, 1990: 18-19; emphasis added).

In one of the classical papers in this tradition, Herbert Simon (1962) further contributes to Coase's analysis with an instructive parable: Hora and Tempus were two very talented watchmakers, and their phones never stopped ringing because new customers constantly called to buy their fine watches. However, Hora prospered and Tempus got poorer and poorer and finally lost his job. The reason was due to different designs each watchmaker employed to make watches, all of which were consisted of 1.000 parts: while Hora's watches were consisted of hierarchically structured sub-assemblies of ten elements each, Tempus' watches were made of 1.000 pieces connected to each other in a single set of interlocking parts to form the watch. Thus, Tempus had to re-start the process of assembling the whole watch every time his phone rang, while Hora only had to re-start the last sub-assembly he was working on. Although this parable is at a high level of generality, it carries one important implication in conventional economic wisdom: hierarchically structured complex systems with stable intermediate forms – or with one word, *institutions*- are efficient outcomes that emerge through evolutionary processes.

Along with these two important "efficiency-generating" constructs, namely *transaction costs economics* and *property rights approach*, one should also add the *relational and incomplete contract theory* to complete the trio that build up the core of the neo-institutional analysis in conventional economic thinking, which "focuses on informational asymmetries that can arise between the parties to a (usually longer-term) contract on one side and a third party on the other. An important objective of such contracts is to overcome the post-contractual opportunism" (Furubotn and Richter, 2005: 36). Thus, the neo-institutional variant of conventional economic thinking can be summarized as the *transaction cost analysis of property rights and contracts*. As Rutherford (2001: 187) puts it clearly:

> In this literature, institutions and institutional change have been analyzed as ways of reducing transactions costs, reducing uncertainty, internalizing externalities, and producing collective benefits from coordinated or cooperative behavior. There has been a strong tendency in this work to argue that institutions tend toward providing "efficient" solutions to economic problems.

It is, thus, one of the criticisms against such an analysis of institutions that has united sociologists in general, and new economic sociologists in particular, around the universal contention that institutions should instead be understood as *socially constructed*, and thus, as *necessarily embodying power relations*. In other words, institutions are traditionally conceived in sociology not as the embodiment of a *state of equilibrium* as it is in the conventional economic analysis, but as an end result of an *interest struggle*. Contradictions, dysfunctions, and inequality are almost unexceptionally assumed to exist in the entire discipline.

One of the early responses in this regard, however, again came from an economist, Stephen Marglin (1974), in a seminal paper called *What do Bosses do?: The Origins and Functions of Hierarchy in Capitalist Production*. In this paper, Marglin argued that, contrary to the conventional economic wisdom, neither the capitalist division of labor that characterized the putting-out system nor the development of the factory system which was based on the principle of centralized organization was the result of evolutionary processes that favored more technically superior (i.e., "efficient") forms of organizations over less efficient ones. On the contrary, these organizational forms came into being because they served i) entrepreneurial

interests for capturing a larger share of profits by depriving the workers of control of product and process; and ii) capital’s accumulation function by imposing a system of discipline and supervision at the factory level. In a similar vein, Perrow (1986) analyzed the causes of organizational hierarchies and concluded that rather than the issue of narrow efficiency, power relations are the main factor which determines the types of economic organizations. Thus, he claimed that such factors as appropriation of profit streams of other companies, market power and dominance, state intervention, and etc. shape firms’ decisions on the types of organizational forms and size, because the aim for every firm in capitalism is to realize as much gross size of potential profits as possible, and not necessarily increase efficiency by decreasing transaction costs.

Putting the struggle for survival at the center of their analysis where it is not the institution that evolves into the most efficient form but the environment that optimizes the combination of organizations; organizational analysts and population ecologists, on the other hand, suggested that selection mechanisms and adaptive learning processes are two sources of organizational change, (i.e., organizational variety) and structural inertia (i.e., organizational isomorphism) (Hannan and Freeman, 1977; Meyer and Rowan; 1977). In other words, the NES scholars generally suggested that many institutional forms and arrangements survive not because they are the most efficient responses but they are usually seen as appropriate and legitimate (DiMaggio and Powell, 1991; Krier, 1999; Baron and Hannan, 1994).

Likewise, powerful actors such as top managers of large corporations at the core of the inter-corporate network voluntarily makes decisions on organizational forms which then serve as analogies and shared norms for less powerful ones (Davis, et al. 1994; Stearns and Mizruchi, 2005). Moreover, within this framework, organizational variety exists because there is more than “one best way” for organizational effectiveness. This point is most powerfully exemplified by Italian industrial districts, where focal firms that occupy a strategically central positions in a network benefit from both strong and weak ties they establish, small firms also benefit from the presence of large firms through contract work, transfer of knowledge, corporate spin-off, and so on (Lazerson and Lorenzoni, 1999). In an endeavor to emphasize the importance of the struggle for contradicting interests more forcefully, Granovetter (1992) also argued that the electric utility industry in the United States from 1880 to 1930 was organized as private investor owned utilities rather than two other possible alternatives (i.e., public ownership and private generation of electric power) again *not* due to the fact that the institutionalized solution was the most efficient one, but because of the winning coalitions of key actors. Moreover, it has also been shown that the CEO-Board relations and the content of interlocks in particular and interlocking directorates in general can facilitate or hinder collusion, cooptation, and strategic cooperation between firms. Thus, they can serve as an instrument of corporate control and monitoring in the case of bankers, or a vehicle of legitimacy to secure resources in the case of firms (Gulati and Westphal, 1999; Mizruchi 1996). Last but not the least, it has also been argued by many sociologists that “interlock networks among large corporations [are] indicative of the cohesion within the capitalist class, which [help] solidify business into an effective, and dominant, political actor” (Mizruchi, 1996: 284; see also Swedberg, 1997, and Dobbin, 2005, among others).

As for the state’s constructiveness of economic institutions, Dobbin and Dowd (1997) contributed to the new economic sociological literature by reversing the arrow of causality from powerful societal actors to shape economic relations to the question of how polity shapes

economy. Scrutinizing the three periods of policy regimes [public capitalization, pro-cartel, and antitrust] between 1825 and 1922, they showed that Massachusetts railroad founding patterns fluctuated with public policies; increasing under pro-cartel and public capitalization polities due to the availability of resources and mitigated competition, while contracting after the passage of antitrust laws as firms under this policy regime get mainly incentivized by intensified competitive forces to drive out their rivals of the market. Similarly, Dobbin (2018) showed that similar patterns held for national variances as American market model, French dirigiste model and British entrepreneurial model, all creating industrial structures compatible with their own rail policies. In this respect, one can claim they would totally agree with the conceptualization of the state by a prominent neo-institutional economist, a Nobel Laureate, Douglass North (1991: 107), who suggested that "the evolution of capital markets was critically influenced by the policies of the state, since to the extent the state was bound by commitments that it would not confiscate assets or use its coercive power to increase uncertainty in exchange, it made possible the evolution of financial institutions and the creation of more efficient capital markets".

In short, all of the ideal-typical NES analyses I tried to elaborate above are based upon the idea that institutional forms are *historically contingent* outcomes of *path-dependent* processes. In other words, different organizational configurations are observed both inter- and intra-societal levels at various points in time (Fligstein and Freeland, 1995). Historically, limited but multiple options are available since early developments are deeply embedded in particular political environments. However, once established, a particular system becomes self-reinforcing by creating the incentive structures and associated behavioral regularity and hence the institutional resilience/development; while the road not taken becomes an increasingly elusive alternative (Pierson, 2004; Pierson, 2000). Lastly, even inefficient organizational forms can prevail as long as they are backed by powerful actors. In short, they appear to follow what Veblen suggested long ago: "(evolutionary) economics must be the theory of a process of cultural growth as determined by the economic interest, a theory of a *cumulative sequence of economic institutions stated in terms of the process itself*" (Veblen, 1898: 393; emphasis added).

Although I do think that the path dependence framework as it is utilized in the NES provides a powerful analysis of "multiple markets model" (Zelizer, 1988), it suffers from at least three main problems. First, I do totally agree with Zald (1987: 705) who finds it "extraordinary how sociologists tend to ignore issues of profit and efficiency in their thinking about capitalism. To deny profit maximization and hyper-rationality is one thing; to deny, as some of my colleagues seem to, that a search for profits and efficient modes of production drive much of organization choice is another". In this regard, I would also side with Landes (1986: 606-7), whose criticism resonates more with me, than the arguments of the NES scholars: "[n]o, what made the factory successful in Britain was not the wish but the muscle: the machines and the engines. We do not have factories until these were available, because nothing less would have overcome the cost advantage of dispersed manufacture". Second, in the NES tradition, as it is most obviously missing in Dobbin's works, what brings about the changes in the policy regimes is generally not problematized at all, let alone being specified. Same can be said for differing patterns in shared norms that are 'voluntarily' chosen by powerful actors to serve as model to others. In other words, although the NES scholars are successful in analyzing institutional stability and impurity, they lack a convincing analysis of how endogenous institutional change occurs— an analysis of the background of "once established" is equally demanding. Third, by taking

explicitly either state-centric or society-centric positions, the NES scholars that I examined here cannot utilize the explanatory power of analyzing state-capital relations.

Conclusion

In this paper, the issue of whether the criticisms put forward by economic sociology to mainstream economics around the notions of markets can pose a serious threat to how the conventional economic analysis deals with those was problematized. In this respect, a wide range of some of the most cited works within economic sociology as ideal-typical examples of the arguments advanced in the sub-field were examined. It was argued that although the new economic sociology's understanding of markets has served to correct some of the deficiencies in conventional economic analysis via underlying the importance of social relationships in shaping of the markets, its criticisms and contributions are severely limited since both traditions largely dismiss the dimension of power emanating from the structural dynamics of capital accumulation processes in modern societies. Another strand in economic sociology whose ideal-typical works investigated in this paper, namely the economic sociological analysis of economic institutions, closes this gap to an extent by putting emphasis on the constructive impact of social relations as well as that of a degree of power relations on economic outcomes. Thus, it can be contended that the latter path is a more valid candidate direction to take for the economic sociology if it wants to raise as a serious contender to conventional economic thinking. Yet, this path is also limited in its narrow focus on power, since it merely focuses on interpersonal and situational dimensions. For instance, although the latter strand in the NES tradition successfully shows how the changes in policy regimes have an impact on economic outcomes, it is still mostly silent on the structural dimension that bring about these policy changes through the interplay of power relations. To understand how the capitalist states can successfully fulfill its functions and introduce policy regimes, the analysis needs to be complemented with a perspective on state-capital relations that transcend individual actors. Such an endeavor would require us to turn our gaze into such issues as relative state autonomy combined with state capacity/cohesiveness and state embeddedness in [industrial] society within the constraints of the *structural dependence of the state on capital*, emanating from the *dictates of the market*.[15] Such a political sociological framework is also powerful to bring the class-analytical structural dimension back into the analysis, which is the missing part in the new economic sociology. To conclude, political sociological analysis of state-capital relations within a class-analytical perspective that relies upon political economic premises can not only enrich the scope of both economic sociology and conventional economic thought, but also help us better comprehend the social and economic reality around us.

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