Customer-geared competition

-a socio-Austrian explanation of Tertius Gaudens-

Anders Liljenberg

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PREFACE

This report results from a research project carried out at the Center for Marketing, Distribution and Industry Dynamics at the Economic Research Institute at the Stockholm School of Economics.

This volume is submitted as a doctor's thesis at the Stockholm School of Economics. As is usual at the Economic Research Institute, the author has been entirely free to conduct and present his research in his own ways as an expression of his own ideas.

The Economic Research Institute is grateful for the financial support provided and warmly thanks contributing institutions for their generosity and support.

Bo Sellstedt
Director of the Economic
Research Institute at the
Stockholm School of Economics

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THANKS!

The origins of this essay can be found among the Tuscan hills surrounding Florence where I, as a newly appointed manager within the travel business, was deeply involved as a customer in negotiations for hotel rooms, tourist guides and restaurant services in the late 1980s. After a while my professional experience changed course and instead of trying to convince small family businesses to provide me with the best of *la bella Italia* I found myself preoccupied with intensive discussions concerning the supply of input materials (such as desiccants) for ulcer drugs subsequently to be manufactured by the pharmaceutical company where I was employed. Without the hands-on 'empirical' experience gained in that period the ideas now appearing in this text would never have come to fruition. During those years I had the opportunity to meet with, and learn from, a lot of people that hence are most instrumental in laying the foundation for where I happen to be today. In particular I think of Kjell Sjöberg whose never-ending enthusiasm and complete lack of prestige fueled my interest for how active (thought at times maybe a little bit over-ambitious) customers are in the position to impact suppliers and competition among them. You inspire this work in an array of ways, Kjell!

A phone call made in some trepidation to my old school some years ago happened to end up at the desk of Professor Lars-Gunnar Mattsson. I hope that you do not regret picking up the phone that very day, Lars-Gunnar! This event was the first of many that eventually led to my return to academia after several years of 'business exile'. I guess that changed my life in several ways and I cannot begin to tell how much I appreciate it. Two other people were also paramount in convincing me to take this step and return to the Stockholm School of Economics, my longtime friend (on and off the mountains) Professor Johnny Herre and my colleague Associate Professor Susanne Hertz. I suppose that step *was* done, just like you said.

The working-out of this dissertation would most likely have constituted a futile search in the dark had it not been for the four members of my thesis committee. I hope this text succeeds in reflecting at least some of the meritorious advice that you have been giving during the last few years. Professor Lars-Gunnar Mattsson occupies, as my main thesis advisor, a unique role in this regard. Sitting down in your sofa and being the target of your comments has been an intellectual privilege, Lars-Gunnar! And, as you keep reminding me, I suppose my 'former life' as a buyer *does* matter after all. My inquiry into sociology owes a major debt to Professor Richard Swedberg of Stockholm University whose enthusiastic interest in my case has served as an impetus for my getting to know a new fascinating academic discipline. Thanks to the recurrent comments of Professor Örjan Sölvell I hope I did not completely lose track of my business studies abode. Finally, had it not been for the methodological discussions pursued with Associate Professor Magnus Söderlund (and all of the articles that you kept sending me, Magnus!) I doubt I would ever have been in the position to formulate this very page of the thesis. My warm and sincere thanks to all of you!

It furthermore goes without saying that this text would not have come true had it not been for former and present colleagues at the 'D-section' of the Stockholm School of Economics. I hope that at least some of you finally understand that this thesis is not really about purchasing. It has been a privilege to be among you. THANKS FOR BEING AROUND, ALL OF YOU! There are, still, a few persons that I would like to single out in particular. Associate Professor Ivan Snehota for serving as my extra-committee advisor and for sharing my interest for such vital aspects of life as *calcio Italiano* and Austrian economics. Assistant Professor Claes-

Fredrik Helgesson for, as a room-mate way back, opening my eyes for what academia really is, and for teaching me how to think in abstract terms (although, CF, I must admit I still have not really grasped the performative ontology of yours!). Doctoral candidates (and licentiates of economics) Hans Kjellberg and Michael Kaplan, for being my inspiring running-mates in this last year's race towards the completion of this book. All of you have in addition been most helpful in giving me comments on various manuscript drafts that you somehow managed to read. Helpful advice concerning my interpretation of antitrust legislation and neoclassical economics respectively was furthermore readily provided by Professor Erik Nerep (of SSE) and Associate Professor Sten Nyberg of Stockholm University.

Invaluable administrative assistance has in addition been supplied by Ann-Charlotte Edgren whose copying and courier mail efforts made it all work out. My worst language errors were corrected by George Cook. And the staff of The Market Court provided essential help in my understanding of Swedish antitrust legislation. Many thanks to you and to those employees within Scandinavian pharmaceutical and graphic industries whose 'empirical input' was instrumental in putting me on the appropriate track of inquiry at the outset of this voyage.

During this period I have also had the opportunity of spending some time at three American institutions. My interest and appreciation for Austrian economics stems from the Department of Economics at New York University. Being invited there as a participant in the summer seminar and later on as a visiting student opened my eyes in several decisive ways. Hence my sincere gratitude to Professors Israel Kirzner, Mario Rizzo, and Pete Boettke. The other main 'external' source of inspiration which pillars the reasoning of this dissertation is the discipline of economic sociology. I learned a lot about this fascinating area of inquiry thanks to discussions with Professor Mark Granovetter of Stanford University whose class teaching on the subject must not be forgotten either. Also thanks to you for providing me with the opportunity of spending some time also on the West coast Professors George Strauss and Jim Lincoln of The Institute of Industrial Relations at the University of California at Berkeley!

No academia is an island and it is obvious that friends and family deserve a long overdue mention in this regard. Thanks Mom for supporting me in my sometimes muddled paths of life! Thanks Caroline for being the best sister that there is! Thanks Jossan and Pysen (my niece and nephew) for providing me with such unreserved joy of life! And thanks also Dad for being around and somehow believing in what I am doing! The pea soupers, the Vasa skiers and the Brotherhood of Manners all stand out. *Hyfs!*

Helena, cosa c'era prima di te?
You bring spirit and meaning. You imbue me with hope for the future. Welcome life.

During the years of this study I have had the opportunity of serving as a teacher also outside the realm of the Stockholm School of Economics, in our affiliated schools in Riga and Saint Petersburg. Although not covering more than a few weeks in time, the days spent with the students in Latvia and Russia have for me meant something more than a 'mere' teaching assignment. That is why this essay is dedicated to the efforts of these students to build a promising future for Eastern Europe in the spirit of a capitalism with a human face.

Rome in January 2001,
Anders Liljenberg

REGISTER

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ATT TÄNKA RÄTT ÄR STORT
ATT TÄNKA FRITT ÄR STÖRRE

PROLOGUE

Imagine Atlanta (Georgia, United States) where the 1996 Olympics are well underway in the sweltering heat of late July and early August. At the Sanford Stadium in Athens, the exuberant players of Nigeria are about to conquer the first-ever world soccer title won by an African team by defeating Argentina by three goals to two. A few days earlier, at the Georgia Tech Aquatic Center, the outstanding Russian swimming champion Aleksandr Popov is about to win the men's 50 meter freestyle final in a fraction more than 22 seconds, just ahead of the American Gary Hall. These two epic contests, apparently similar and seemingly unfolding in parallel, are yet so very different. Whereas Popov is only *indirectly* in control of his own result (he cannot affect Hall's performance), this is not the case for the Nigerians. These masters of the green field are in the position *directly* to influence their adversaries, thus benefiting themselves towards the gold medal. The two types of tension hence differ.

Then consider an additional setting found in another time and place. Here, in sixteenth century duchy Florence, members of the powerful Medici family lean back in a satisfactory pose after having critically examined the newly completed fresco 'The return of Cosimo from exile' which they find to their liking. This masterpiece, at present residing in the city's Palazzo Vecchio, is the creation of the artist Giorgio Vasari, selected for this fresco project after critical appraisal by the Medicis of the works of many other contemporary artists.[1]

A certain affinity is apparent between the social processes which lead to Popov's gold medal achievement and the awarding of the fresco painting project to Vasari. That is, there is a similar kind of tension unfolding between themselves and others. *The essence hereof is that the locus of outcome control does not reside with these actors themselves in the sense that they cannot directly affect their respective rivals*, be they other swimmers or other artists. Instead this control is found somewhere else. In Popov's case it is somewhat abstract to distinguish this locus of control whereas the Medicis appear in full control of who is to be awarded their prestigious art project depicting Cosimo's home-coming.

The tension addressed is competition. It can be seen as a social mechanism characterized by *its indirect kind of outcome control*. It is obvious how such a position of control benefits the Medici family. Imagine their satisfaction with the Vasari painting. Given the constant (competitive) tension prevailing among Florence artists such as Sangallo, Botticelli, Verrocchio and others, induced by maecenas~customers such as the Medici and Montefeltro families, this small Tuscan town succeeds in providing invaluable artistic masterpieces. Hence, competent and alert customers invoke tension between artists, something eventually inspiring the latter, the suppliers of art, to perform extraordinarily well. This outcome is then enjoyed by the actively informed customer, and the rest of mankind for centuries to come. That is to say, the customer as an agent behind, and as a beneficiary of, competition.

On the largest scale, [the actively competent and benefiting customer-] *the **tertius gaudens** is represented by the buying public in an economy with free competition.*[2]

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[1]These examples are inspired by Stern (1996, pp 4-5), and Eliasson and Eliasson (1997).
[2]Simmel (1950 (1908), p 156)

Prologue; *Cosimo torna dall'esilio* (Giorgio Vasari (1511-1574))
(Palazzo Vecchio, Firenze)

BLOCK 1, OPENING

I. INTRODUCTION

II. AREA AND OBJECTIVE OF RESEARCH

I. INTRODUCTION

This chapter, the first of two in the Opening Block of this essay, invites the reader to the dissertation. It reasons that this particular study on competition has a special contribution to make which sets it apart from some earlier contributions. Apart from its epistemological aspiration, which is explanation, this thesis adopts a different approach by viewing competition as a mechanism invoked by customers. This perspective allows the perception of things otherwise not seen. Customers are thus agents, and not only beneficiaries, of competition outcome. Some fundamental insights from within neoclassical economics and business studies in the area of competition, illuminating the complementary character of this dissertation, are provided in the sections to come. It is also argued that this customer-based view of competition is particularly apt as markets, on the verge of a new economy, demand likewise adapted analytical tools able to distinguish cooperative (direct!) from competitive (indirect!) aspects of inter-firm relations.

Thus every Part was full of Vice,
Yet the whole Mass a Paradice;
Flatter'd in Peace, and fear'd in Wars
They were th'Esteem of Foreigners,
And lavish of their Wealth and Lives,
The Ballance of all other Hives.
Such were the Blessings of that State;
Their Crimes conspired to make'em Great;
And Vertue, who from Politicks
Had learn'd a Thousand cunning Tricks,
Was, by their happy Influence,
Made Friends with Vice: And ever since
The Worst of all the Multitude
Did something for the common Good.[1]

i. Some initial remarks about competition

Competition is ambiguous. The most pertinent reason for this is discerned in the enigma formulated by Bernard Mandeville some 250 years ago (and hinted at in the quotation above) as to the cohabitation of private moral vice and societal economic virtue.[2] That is, how is it that individual selfishness pursued results in collective benefits?[3] This Mandeville's *succés de*

[1] B Mandeville (1970 (1705), pp 67-68). This excerpt from The Grumbling Hive (part of The Fable of the Bees) epitomizes the kernel idea of Mandeville's, the *Private Vices, Publick Benefits* of capitalist societies.

[2] In this brilliant satiric metaphor of Mandeville the story goes that the beehives (representing society at large) are well off as long as each individual bee sticks to egotistic behavior. Then Zeus the God enters the colony and eventually convinces the bees to start adhering to conventional moral standards and hence cooperate, discarding the selfishness that had prevailed. As a result, all progressive activity underway amongst the hives ceases and the outcome hereof is a major loss in collective welfare. As noted by Kirzner (1976 (1960), pp 26-27) this ironic and provocative way of reasoning, implying the beneficial character of egotistic selfishness, goes against the going moral argument of the time, something inducing criticism from most contemporaries of Mandeville's. This also means that his work, criticizing contemporary thinking in a cynical manner, becomes the subject of vigorous moral debates of the epoch (confer Dennis (1977, pp 46-47)).

[3] Georg Simmel (1955 (1908), p 17) argues in a similar manner as to how 'something which is negative and

scandale, '[implies] an incubus of which neither he nor his successors to the present day could ever quite free themselves' (Hayek (1984b (1978), p 176)).[4]

The concept itself is founded by the Romans and further elaborated in the seventeenth century within the emergent discipline of political economy (today's economics), and ever since competition carries the meaning of 'a meeting' between actors (Secher (1995)). A most generic definition is that of Dennis (1977, pp x-xi) who identifies competition as 'a) the striving, b) of two or more beings, c) with one another, d) for the same object'. That is, there are some purposeful, mutually excluding, actions present that unfold in parallel towards the same goal. This meeting is difficult to understand concerning its inherent properties, functions and consequences. It is opaque and hence compelling for so many to look into. Why is that?

One plausible clue touched upon above is the close way in which competition is interwoven with the very idea of markets. Any argument on either also applies to the other. This is far from surprising given that competition in the majority of interpretations is a driving force within the market and is a consequence of it. It follows that any ambiguity eventually associated with the market concept necessarily spills over to competition. And vice versa. Brunsson and Hägg (1992, p 23) emphasize that as competition is a central part of the modern market idea, it constitutes 'a fundamental prerequisite for market legitimacy'.[5] That is, the institutional prevalence of the market rests heavily upon the presence of competition therein. In consequence, to those adhering to the idea of a market economy, competition is seen as universally desirable for several reasons. Some of these are democracy, the free will of man, innovation and an efficient allocation of given resources (confer Scherer and Ross (1990, pp 18-19), Burke et al (1991, p 62)). Others are not *as* enthusiastic, however, and consequentially record the misfits also endemic to competition (confer Kohn (1992 (1986)), The Group of Lisbon (1995)). From a societal point of view this paradox of competition, which echoes Mandeville, can be summarized as follows.

> *The political problem of every society is the practical one: how to secure maximum values of competition, that is, personal freedom, initiative, and originality, and at the same time to control the energies which competition has released in the interest of the community.*[6]

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damaging between individuals if it is considered in isolation and as aiming in a particular direction, does not necessarily have the same effect within the total relationship of these individuals. ... All this is very obvious in the competition of individuals within an economic unit'.

[4]To Hayek (1984b (1978), pp 185, 188-189) it is further clear that once Mandeville's writing is considered in its entirety, it displays the reason for why human order cannot ever be purposefully man-made but only a non-intended consequence of unfolding spontaneous institutions. Hayek goes on to assert that 'he [Mandeville] made Hume possible', the latter inspiring Ferguson to coin the notion of social order as 'results of human action but not of human design'. This phrase is of central importance to Austrian economics in general and to Hayek in particular.

[5]author's translation

[6]Park and Burgess (1925, p 512)

This fundamental ambiguity cannot ever be enlightened unless there is a viable framework at hand by means of which competition can be understood. As for scientific inquiry in general, von Wright (1971, pp 1-2) claims that it can be articulated along two major threads of reasoning, the discovery of facts via pure description and the analytical formulation of theory. When applied to the understanding of competition it is likewise possible to distinguish a divider between two principal alternatives. Within the first, competition is grasped as to its *instrumental* properties, that is, how *do* actors actually compete, and how *should* they compete given some desired-for outcome of relevance for these actors? The resulting scientific inquiry is either *descriptive* or *prescriptive* in nature. The other line of reasoning is very different in the sense that it takes more of an overarching approach and revolves around *analytical* competition. A study of competition within this field is either *predictive* in the sense that it tries to foresee certain outcomes. Or it is *explanatory* in its aiming at an understanding of the causal workings of competition given the association between certain events. There is no doubt that neoclassical economics experiences some kind of monopoly regarding a first right of competition interpretation. This holds in particular within the field of 'analytical competition' but also for 'instrumental competition' that otherwise at large is the domain of business studies.[7] The neoclassical position is mostly influential through the idea of perfect competition. Accordingly it also frames the view of competition in many normative ways, not least at an aggregated societal level. This is seen, for instance, in academic curricula and legal frameworks. Furthermore, the understanding of competition as taking on a prominent position within political economy – economics, is valid since long which is only natural given the opinion expressed by John Stuart Mill in 1848 (cited by Backhouse (1990, p 58). '[O]nly through the principle of competition has political economy any pretension to the character of a science'. The claim is echoed by Demsetz (1982, p 1) who asserts that competition constitutes in fact a prerequisite for the area of economics as part of the social sciences. This alleged predominance of neoclassical thought in the area of competition is of course not undisputed. One aspect of the controversy is endemic to the lack of an elaborated *explicit* definition of the market wherein competition is to prevail (confer Swedberg (1994, p 257)). If this arena is not properly defined it must likewise be difficult to come to grips with the forces at work therein. According to Brunsson (1992, p 128), this ambiguity is obvious since there is a difference at hand between the 'idea' of the market and the 'reality' hereof.[8] McNulty (1968, p 641) argues in a similar vein by relating the difficulty '[of distinguishing] between the idea of competition and the idea of market structure'.

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[7]In the following the notion 'business studies' will be drawn upon to encompass contributions which appear within both corporate strategy and marketing. It is akin to what in Swedish is labeled *företagsekonomi* ('business administration').

[8]He (Brunsson (1992, p 128)) also claims that the making of simplifying assumptions is what renders the neoclassical view of the market particularly appetizing.

ii. The subject matter of this essay

This dissertation is about analytical competition in general and its explanation, that is the search for a causal working mechanism, in particular. The thesis pursued has it that this particular aspect of competition is relatively underdeveloped and that analytical competition merits additional attention in a manner that *complements* the neoclassical notion. A major impetus for this is the latter's mostly insufficient *workable* idea of the market.[9] This, in fact, renders it less apt also as a source of inspiration for the understanding of instrumental competition.

Apart from this general epistemological observation (which constitutes the overall aspiration of this piece of work), this dissertation has it that competition, much like the wording in the core idea of marketing, can be understood as *a customer-induced market phenomenon*. That is, (supplier) competition cannot really be explained, let alone fully understood, unless the customer, thus 'controlling' competition, is made the sine qua non of the analysis.[10] *In this manner the text sets out to see things that are not seen when either suppliers (the mainstream neoclassical agenda) or product characteristics (the argument on monopolistic competition) are at the core of analysis.* In practice, this further means that the customer (for instance a consumer) cannot really be expected to reap the benefits of competition unless also his / her own agency in this sense is recognized. It simply sounds out of tune to draw on consumer welfare as the major normative legitimacy for competition without recognizing that this customer category, like others, has a role to play for the attainment of competition benefits. Hence, this dissertation has it that it is not viable to presume a mostly reactive consumer when the ambiguities inhering in competition are to be overcome, by antitrust policy for instance.

> *Whether they be consumers, savers, users of public services, employees or taxpayers, the Union's citizens enjoy the fruits of the competition policy in the various aspects of their everyday life. ... However, the Commission's competition policy is not limited to protecting consumers from the dangers that face them. It also seeks to preserve and stimulate their ability to operate on the market in such a way as **to contribute to the competitive process**. Ensuring that consumers are able to make choices which affect the conduct of firms is also a means of guaranteeing that markets function on a competitive basis.*[11]

This essay comes forward in the guise of the construction of an explanatory model a) fueled by theoretical insight, b) tried out by an analysis of argument, and c) illustrated by aspects of antitrust law. The text further relies upon a number of assumptions which embody its customer-impact emphasis. Apart from rendering the argument 'clean' in the restraining sense of the word, some of them, the 'working assumptions' following below, by their joint

[9]See Chapter III.

[10]To clarify, 'competition' in this text is, unless otherwise stated, competition between suppliers. This is not to say that monopsony, oligopsony et cetera do not matter, but they simply do not constitute the main subject matter here.

[11]Monti (2000a, p 5, added boldface)

prevalence constitute what makes this thesis stand out from some others.

- Competition is seen as a *social* phenomenon that unfolds between acting humans.
- Competition is seen as not only static, but also *dynamic*.
- Competition is seen as *indirect*.

That is, this effort purports to further an overall customer-based understanding of competition that is at the same time genuinely social, static-dynamic and indirect.

Similar ideas in the area of competition of course prevail over many years. It suffices to mention here the works of Max Weber (1968 (1922)) and Ronald Burt (1992) as to the social aspect of competition, Friedrich Hayek (1948d (1946)) and Israel Kirzner (1973) concerning its dynamic properties and Georg Simmel (1955 (1908)) and John Kenneth Galbraith (1993 (1952)) as regards its indirect character (according to which it is the customer who ultimately is the propellant of competitive outcomes). These ideas are *individually* present in mainstream contemporary works in the area (confer Porter (1980, pp 113-114) as to a glimpse of the social reality of buyer-seller relationships and Porter (1990, pp 89-91) relating the impact of customer conduct as one of the factors subjecting industrial competition intensity). But the three are hardly conceived of as a composite function, at least not in the contemporary (analytical and / or instrumental) agenda which mostly views competition as a non-social, static only, and direct phenomenon devoid of customer interference.

As the thesis unfolds, its particular idea of competition will come forward within the realm of an emergent market sociology. *The general idea* of such a sociology is what Swedberg (1994, pp 255, 264-274) is after when he delineates the market like a social structure as seen in 'some kind of recurrent and patterned interaction between agents that are maintained through sanctions'. In the light of hitherto achievements within economics and sociology it seems obvious that there is a major potential for such an endeavor (confer Swedberg (1994, p 271)). That such efforts are not the exclusive preoccupation of sociologists but also of economists and other social science scientists is equally clear. One could always debate whether a 'sociology of markets' (the Weberian expression in fact subscribed to by Swedberg) is a term more appropriate here than a 'market sociology'. By the latter term is here meant an understanding of the market by means of sociological ideas and tools, whereas a 'sociology of markets' (confer Lie (1997)) seems to represent more of an overall market scrutiny seen from several theoretical angles.[12] *The particular idea* of the market sociology aimed at here is that advanced in the so-called new economic sociology as seen in the works of Mark Granovetter. Therein economic action is embedded in a network of market relationships that are constantly

[12]The same verbal reasoning holds for 'economic sociology' as the understanding of economic phenomena by means of adherence to 'the sociological perspective' (confer Smelser and Swedberg (1994, p 3)).

re-created by means of social constructions. That is, the social aspect is the overarching domain subject to which the phenomenon competition is scrutinized. Further this is particularly apt since competition is a feature that hitherto is not really looked into at any depth within market sociology given the latter's foremost preoccupation with cooperation. Without wishing to pre-empt the next chapter it is however necessary to furnish a background in relation to which the argument to emerge can be properly positioned and appreciated.

iii. Are instrumental and analytical competition mutually exclusive?

A frequently quoted opaqueness concerning the allegedly irreconcilable perspectives of instrumental and analytical competition is that of McNulty (1968, p 641).

> *As it is, it is one of the greatest paradoxes of economic science that every act of competition on the part of a businessman is evidence, in economic theory, of some degree of monopoly power, while the concepts of monopoly and perfect competition have this important common feature: both are situations in which the possibility of any competitive behavior has been ruled out by definition.*

In consequence, what 'laymen' actually mean by competition is the converse of the meaning which 'economists' put on the word. There is, in the words of Dean (1954) a difference between the 'inside' view of the businessman and that 'outside' perspective adhered to by the theorist. The tools for competition of the former hence epitomize the foremost impediments to competition according to the latter. Why is this? As further noted by Dean (1954, pp 24-25), the goals aimed at by means of competition are different. To the businessman it is obvious that the most salient reason for applying a certain mix of pricing, quality, et cetera is to survive commercially by generating a dividend sufficient to cover costs and ultimately assure *himself* at least some fundamental wealth, be it as material, or as intangible non-monetary, assets. If one adopts the theorist's stance instead, this striving for own wellbeing is replaced by collective consumer welfare as the overriding final aim of competition. Alternatively, one could maintain that while the latter is concerned with analytical competition the former mostly cares about instrumental competition. But must this necessarily be a contradiction?

A more general statement of this conceptual difficulty, in part reminiscent of the argument of Mandeville's, is that of Park and Burgess (1924, pp 505, 552).

> [C]*ompetition, if carried to its logical conclusion, ends in the annihilation of competition. In this destruction of competition by competition we seem to have a loss of freedom by freedom, or, to state it in more general terms, unlimited liberty, without social control, ends in the negation of freedom and the slavery of the individual. But the limitation of competition by competition, it needs to be said, means simply that the process of competition tends invariably to establish an equilibrium.*

This 'destruction of competition by competition' argument, however rests on the assumption that analytical competition is in any sense directly comparable to instrumental competition.

And on the same grounds. But while the former notion has the character of an analytical device by means of which markets can be scrutinized, the latter pertains to the instrumental tool endemic to long-time market survival of market actors via conduct inducing competitiveness. *In consequence they are not really comparable* despite the fact that they deal with one and the same phenomenon. That is, explaining and predicting competition is one thing. Describing and prescribing conduct manifest in competitiveness is something else. Not making this simple though still crucial distinction is similar to comparing apples and pears and lamenting that they are not the same.

As a comparison, consider a Formula One race (extending over two hours) and equate with the race result. *The race itself is then understood as instrumental competition described via the actual unfolding of events. And analytical competition is when the result is explained as various events of the race are causally tied to each other.* Ponder for instance the prevalence of pit stops. These entail tire changes (rubber wears out after a while due to friction at high speeds) and gas refills (there is no way in which a F1-racer can accomplish a contest by relying only on the original fill of gas). In the actual 'race' sense of the word pit stops are an important part of the description of the contest. *By describing the occurrence of pit stops the race is hence understood as the unfolding of some particular events.* To be able to *explain* how come Ferrari is able to outperform McLaren in the final race of the year 2000 season (at Sepang in Malaysia) it is not enough merely to count which team had the fewest pit stops. Instead the whole complex underlying pit stops, such as driver ability, technological superiority, team administration et cetera, must be taken into account. The causal factors leading to an individual pit stop, and how various pit stops relate to each other, are thus sought by means of *other factors*. That is, *a truly analytical understanding of the race result is attained by explaining the occurrence of pit stops via underlying causal factors, and by explaining how one pit stop relates to another.* In consequence, pit stops can be drawn upon both as events that *describe the race* and as events *that explain the result of the race.* So it is obvious that the race itself and its outcome will always differ regarding the understanding at hand apart from the fact that one is inherently more static than the other. This is the same as saying that the description of ongoing competitive activities of business people is not equivalent to an explanation of the subject matter, competition per se. Different questions are asked and different answers will be obtained.

The claim of this dissertation is that the gulf thus seemingly prevailing between the layman and the theorist in the area of competition is artificial. This contributes to the general opaqueness. It will always be the fact that the two perceive competition in different guises since they look at two different things, instrumental competition and analytical competition. But does this necessarily mean that they cannot enrich each other? Of course not. This is readily seen through the way in which industrial organization theory inspires strategy writings. Instead these two concepts of competition should be scrutinized as two mutually reinforcing facets by means of which the market at large can be better understood. That is, the taking of an analytical perspective does not in any way rule out instrumental applications thereof. On the contrary, the understanding of how companies in fact do, or how they ought to, compete, is likely to be enriched by studies closer to the generation of theory itself.

This argument is crucial for appreciating the entirely analytical (as opposed to instrumental) line of scientific inquiry undertaken here, a methodology very distant from the disciplinary approach normally found among its academic peers. As will be argued at some length in successive chapters there is every reason to believe that the present contribution is in the position to enrich business studies, although from a rather unconventional angle. As cases in point, consider the manner in which elaborated explanatory accounts inspire descriptive / normative dittos (Chapter II) and how thorough conceptual development is a prerequisite for the pursuit of progressive empirical studies (Chapter V). To be able to judge and / or position this contribution it is however necessary at this juncture to provide brief accounts of the areas most often associated with studies on competition. First, a most fundamental insight will be provided of the going neoclassical (analytical) idea of competition.[13] Then instrumental competition will be touched upon as discerned in writings within business strategy and marketing.

iv. A few kernel ideas of neoclassical competition

The most generic idea of competition to be advanced by a leading neoclassical scholar is that of Stigler (1987, pp 531-535) who identifies it as 'rivalry ... [that] arises whenever two or more parties strive for something that all cannot obtain.' That is, the objectives of at least two actors, as manifest in their behavior, are mutually exclusive. This view, sufficiently general to be widely acceptable, however seemingly transforms as it is being more articulated through the formulation of precise characteristics. The 'central elements of competition', identified by Stigler as the (complete) freedom of resource deployment and their exchange at any price, is reminiscent of the original conditions formulated by Edgeworth. These are 'an indefinite large number of independent traders on each side of the market' and the presence of 'perfect knowledge' as to exchange opportunities. Under such a regime of perfect competition every seller is a price-taker. And price is a mere parameter. That is, an individual seller cannot affect the going market price for a product by altering the volume of that product produced.

As will be further commented on below, the neoclassical treatment of competition is subject to its mostly predictive aspirations. And since the predictive power of any model resides in the strength of its assumptions it is necessary for an analysis of this kind to start out by

[13]This will be elaborated in Chapter III.

formulating these key assumptions. Typically these apply to the character of goods, the number of actors and a few other areas. However, they also encompass facets of actor conduct. And, as these assumptions are being articulated, *in fact competition is also being conceived of in parallel.* That is, by deliberately choosing to make these suppositions pertaining to various market features, states of competition are also assumed, although at times in an implicit manner. In consequence, competition must necessarily conform to one or other market type, and there is broadly speaking not much left to analyze regarding competition itself. It is already supposed to have a distinct character. And, as it appears only as endemic to a set of structural assumptions it must necessarily by itself also be structural, that is, static. Hence, after the making of a few key assumptions, markets are characterized as to their 'competitive structure' and only thereafter are *other phenomena*, such as price, predicted. Among other things this follows from the parametric character of price under this regime. '[I]t is determined by market forces and not subject to the individual seller's conscious control' (Scherer and Ross (1990, p 16)). That is why competition conceived of as a market structure is mostly found within the realm of price theory and not 'on its own'. It is an input into further predictive analysis. That is, *competition is typically not really scrutinized in its own right but only as a facet of the assumed market structure which thus signifies a particular state of competition with unique consequences for the parametric prediction of price.* With this analytical input, price is then predicted as equal to marginal cost in ideal-type cases of perfect competition whereas monopoly entails a price above this level. This is so as the sole monopolist is not a price taker and can 'afford' to equate its marginal revenues and costs by offering less quantity which buyers will still go for. More elaborated accounts of competition might display several intermediate market types as discerned below.

	NUMBER OF SELLERS		
TYPE OF PRODUCT	ONE	A FEW	MANY
HOMOGENEOUS	pure monopoly	homogeneous oligopoly	pure competition
DIFFERENTIATED	pure multiproduct monopoly	differentiated oligopoly	monopolistic competition

Table Ia; Supplier market structure types[14]

It goes without saying that what is claimed above applies less rigidly once works are considered which emanate from the imperfect character of competition elaborated by Chamberlin (1969 (1933)). What necessarily renders competition imperfect herein is either the (low) number of sellers and / or the (differentiated) product type. Within this realm there are ideas of monopolistic competition and all of oligopoly theory that revolves around actor interdependence. Most of them meet within industrial organization theory. Adherents to this structure-conduct-performance paradigm do not make a complete stop at the initial 'structural

[14]Scherer and Ross (1990, p 17)

phase' once they aim for an understanding of competition. To them structure, *and* conduct, *and* performance all *reflect* competition, be it as company behavior or societal welfare underpinnings. But, and this is the crucial point, this type of analysis still starts out in a number of structural 'givens' that condition (competitive) conduct.

As commented upon by Backhouse (1990, pp 78-81) and Burke et al (1991, pp 53-61, 68-69), several contemporary neoclassical works on competition can be found within either game or contestability theory. They partly join in downplaying one key structural feature endemic to the perfect competition paradigm, the sheer number of firms. *Contestable market theory* (confer Baumol et al (1988)) hence takes explicit issue with this structural feature of perfect competition by furthering the idea that the number of incumbent firms by itself is not always crucial for whether prices will approach marginal cost or not. This pure *number* of actors might instead be 'replaced' by the threat enacted by incumbents in light of potential competition inhering in the eventual entry of industry newcomers. The argument goes that in markets where entry is free (newcomers' products are fully accepted by buyers and produced at existing sellers' cost) and firms can exit without incurring any (sunk) costs that they cannot recover, sellers will be price-takers. In consequence the price will converge around marginal cost despite the structural absence of a large number of firms. Actual and potential rivalry, and not just industry structure, thus jointly make up part of the conditions necessary for (perfect) competition to prevail. A crucial assumption here is furthermore that newcomers' moving in and out of a market is faster than incumbents' reaction to such moves by price adjustments.

Game-theoretic approaches on the other hand (originating outside of economics) assume certain rules to apply depending on (among other things) whether games are cooperative or non-cooperative. Or whether they are continuous or not. The rules of the game, the 'assumptions', are the different strategies adhered to by the players depending on whether there are two or more actors who eventually might induce cooperative or conflictual moves and counter-moves. There is, then, one main assumption pertaining to reactions following an original move. Either these are non-responsive or responsive in a leader-follower manner (Weitz (1985, pp 231-232)). What matters most, however, is the realized interdependency of players (id est what do they foresee about each others' moves), and not just their sheer numbers. A game might be zero-sum, or not, and is a particularly apt way of grasping oligopolies where there are only a few firms in a market. Finally, the solution to a game is most often a set of strategies found to be in a Nash equilibrium wherein there is no incentive for a firm to change its strategy unilaterally even though this might be offset by the undertaking of collusion (confer Tirole (1995 (1988), pp 423-448)).

The overall posture of neoclassical economics in terms of scientific inquiry (confer von

Wright (1971)) is firmly rooted in the analytical (as opposed to the instrumental) realm. As noted by Stigler above, the neoclassical account of competition does not set out to provide more than a 'first approximation ... [of] concrete studies of markets'. That is, it is mostly *non*-descriptive in character.[15] Instead, as argues Friedman (1953, p 7), the aim of ('positive') economics is 'the development of a "theory" or "hypothesis" that yields valid and meaningful (ie not truistic) predictions about phenomena not yet observed'. Furthermore, this stance is also crucial for the bringing forward of normative (policy) statements as these which, regarding their viability, rest 'on a prediction about the consequences of doing one thing rather than another' (Friedman (1953, p 5)). Following the reasoning of von Wright (1971, pp 1-2) this firmly places the Friedman account of neoclassical economics within the analytical field in general ('the construction of hypotheses and theories') with an emphasis of prediction ('to anticipate new facts') in particular.[16] Does this however also imply that neoclassical economics can explain? Hausman (1981) firmly opposes this idea on the grounds that any scientific explanation must necessarily entail auxiliary hypotheses that are at least 'approximately true'. What is more, an explanatory account *of competition* seems unlikely, said that competition-as-market-structure is a mere intermediate step in the neoclassical analysis by means of which *other phenomena*, id est prices, are understood. Following the argument of Stigler and Friedman accounted for above, this however does not seem to be too much of a problem as explanation is not the major concern of neoclassical economics. That is, it cannot be criticized for something it does not try to come to grips with.

Neoclassical economics often becomes the straw man of vigorous attacks which claim to uncover its inherent deficiencies. It is crucial to point out that this dissertation, although taking an entirely different stance, does not set out to challenge neoclassical thought. It hopes to constitute a complement by scrutinizing things from a different angle and thereby seeing things that most often are not seen. It sets out to answer different questions by making other fundamental assumptions. And in this vein it will naturally have its own merits and weaknesses as do economics in general. For an idea of a well-known position, similar to the one in this dissertation and thus being appreciative but not succumbing, complementary but not substitutive, see Nelson and Winter (1982, pp 6-11).

> *It is a caricature to associate orthodoxy with the analysis of static equilibria, but it is no caricature to remark that continued reliance on equilibrium analysis, even in its more flexible forms, still leaves the discipline largely blind to phenomena associated with historical change. ... Thus, although it is not literally appropriate to stigmatize orthodoxy as concerned only with hypothetical situations of perfect information and static equilibrium, the prevalence of analogous restrictions in advanced work* [id est the

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[15]Confer Friedman (1953, p 14), '[t]ruly important and significant hypotheses will be found to have "assumptions" that are wildly inaccurate descriptive representations of reality, and, in general, the more significant the theory, the more unrealistic the assumptions.'

[16]'[T]heory is to be judged by its predictive power for the class of phenomena which it is intended to "explain"' (Friedman (1953, p 8)).

assumption of economic actors as rational in an optimizing sense] *lends a metaphorical validity to the complaint.*

v. A few accounts of business studies competition

Business studies rely, for their scrutiny of instrumental competition, upon the market imperfections that are assumed away by the neoclassical idea of perfect competition. Broadly speaking, this instrumental approach to competition can be discerned along two main lines of inquiry. One is more inclined towards the overarching issue of 'where' to compete in terms of product and customer markets. That is *strategy*. The other line of inquiry, *marketing*, is more tactical in nature and revolves around 'how' to compete (confer Brownlie (1989)). Apart from relating competitive conduct both look into how this eventually leads to competitiveness as seen in the notion of competitive advantage relative to others. The roots of both approaches in modern times can be found in the advent of inquiry into the nature of the imperfections of competition inspired by the coming into being of monopoly theory. As argued by Galbraith (1969, pp 19-20) a key event is the 1926 publication of a work by Piero Sraffa, The laws of returns under competitive conditions. Therein he challenges the going view of that time which says that even though there are fragments of monopoly around in real markets, these are mere frictions in relation to the generally prevailing competition. What Sraffa does is to turn the entire argument 180 degrees around by claiming that frictions such as these are what really counts in an economy. And in consequence equilibrium is monopolistic, and not competitive. That is, any market understanding must necessarily start out in the assumption of prevailing monopoly, wherein pockets of competition can be found. The work of Sraffa subsequently inspires the appearance of two books, Joan Robinson's Economics of imperfect competition and Edward Chamberlin's The theory of monopolistic competition, the latter of which is to have a direct and decisive impact on business thinking. As further noted by Galbraith (1969, p 21), the main contribution of Chamberlin is the deepening of market analysis by introducing several intermediate market forms (id est duopoly and oligopoly) between the thitherto uniquely prevailing cases of perfect competition and monopoly. This claim is of particular importance for a business understanding of competition. Chamberlin frames in theoretical guise the obvious fact that any product in any market must necessarily, to at least some extent, be inherently differentiated (be it in hands-on terms of trade or more of intangible 'circumstances surrounding ... [its] sale'). He then goes on to assert that this entails the conception of the market arena as a 'network of related markets, one for each seller', that is, virtually a sort of bilateral monopolies (Chamberlin (1969 (1933), pp 56-70)). The thus theoretically recognized importance of non-monopoly like imperfections of competition constitutes the very sine qua non of both strategy and marketing thought.

The microeconomics-inspired view of business *strategy* emanates from the structure-conduct-performance inquiry line of industrial organization. Therein, the pricing and production conduct of major business actors is allegedly subject to the structural features of an industry, such as seller concentration, product differentiation and entry / exit barriers (confer Scherer and Ross (1990, pp 4-7)). That is, there are a few generic type strategies at hand, such as low cost focus, by means of which competitors can be 'beaten' (confer Porter (1980)). Competition is here typically interpreted as rivalry which prevails at the level of an industry. An industry is by itself a supply-side defined concept following for instance the applied production technology. This means that the borderline between an industry and its 'outside-world' is crucial as actual competition among incumbents is one thing and potential competition from new entrants is something else. As identified by Hunt (1972) there are also sub-structures within industries, strategic groups, that constitute another entity with distinct impact on how competition comes about.

Business strategy's likewise Chamberlin-inspired counterpart in *marketing* can be found in two streams of thought that unfold somewhat in parallel during the 1950s. One is the Danish 'parameter theory' perspective. The other is the functionalist exchange-based view of Wroe Alderson. The main idea of the former, as seen in the works of Arne Rasmussen (1955) and Gösta Mickwitz (1959), is that (earlier) price theory is too confined since additional variables, such as quality and advertising, are simply not taken into account at all in the economics analysis of competition. 'The marketing theory, which is concerned with the study of the parts played by the various means of competition has stated that it is the interplay between *different* means of competition that is the principal characteristic of business activity today' (Mickwitz (1959, p 11, added italics)). Alderson's (1957) approach is firmly based in the assumption of markets as 'organized behavior systems' characterized by heterogeneity. By focusing firms' search for 'differential advantage', which provides 'an edge over what others in the field are offering', and pinpointing this search as continuous, Alderson (1957, pp 102, 108) argues in favor of a dynamic view of competition. '[It] is a war of movement in which each of the participants is searching for strategies which will improve his relative position.' The crucial impact of these two streams of thought is readily seen in the predominant contemporary marketing (mix) view (confer Kotler (2000)).[17]

A more elaborated account of instrumental competition, as coming forward within the fields of business strategy and marketing is provided in Appendix A. Those pages display an overview of some ideas that relate how companies actually do compete, and how they allegedly should do so in order to prosper. That is, in contrast to neoclassical accounts of competition, most of which are imbued with predictive aspirations, these perspectives are

[17]In the very first edition of this book, Kotler (1967, pp 263-287) gives an account of 'marketing programming' (determination of 'the level, mix, and allocation of marketing resources in the pursuit of marketing objectives') by way of microeconomics' marginal analysis and therein explicitly refers to Chamberlin, Alderson, and Mickwitz as his foremost sources of inspiration.

mostly descriptive and / or prescriptive. They are akin in emanating from the ideas of Chamberlin regarding the imperfect character of competition. But thereafter they take somewhat differing routes which follow their respective roots within the structural and / or resource-based 'strategic' and systemic and / or parametric 'marketing' views respectively. Contemporary 'business' accounts of competition within both fields share the following features.

- The once sharp divider between resource-based and structural perspectives to instrumental competition is becoming more blurred.
- The mostly static conjectures with an emphasis of the positional concept are being supplemented with more dynamic ideas wherein interactive game-like rivalry is instantaneous and latent.
- Markets and industries are assigned a cognitive character of their own, 'climates', within the frames of which competitive logics (norms and rules) emerge subject to collective 'sensemaking' and individual interpretations.
- Little by little, social accounts of competitive rivalry are obtaining a footing within the mainstream business discourse as a few relational works pay attention to the network-like character of markets.

The most provoking of later contributions within the field of instrumental competition are those that manage to reconcile some of these trends in an integrated manner. Most, but not all of the above contemporary features of business competition, are manifest in a Swedish slant in the borderland between instrumental and analytical competition tied to 'innovative performance' (Sölvell and Bengtsson (1997, 1998, 1999, 2000)). The thread of reasoning here is that performance is seen as an outcome of the ruling 'competitive climate' within an industry, something mediated by static and dynamic 'competitive intensity'. That is, climate represents the intercompetitor 'relational structure' whereas intensity, be it exclusively via the focus of price ('static competition') or via the pursuit of multi-faceted market behavior ('dynamic competition'), reflects competitive conduct that is a function of the aforementioned connectivity structure. A thus performance-impacting competitive climate has furthermore got three main aspects to it, a) industry norms (that can either be adhered to or broken), b) degree of symmetry between competitors in terms of closeness of relationships, and c) mutual attitudes. By relating a number of empirical findings, four types of competitive climates are identified.[18] A 'hot and destructive' climate then stems from lots of static competition whereas little thereof gives rise to a 'cold and friendly' climate. An additional 'cold' (and also

[18] 1. Competitor symmetry gives rise to static competition whereas asymmetry in this regard is the root of dynamic competition. 2. The acceptance of industry norms is negatively associated with dynamic competition. 3. Friendly attitudes are negatively related to static competition. 4. The degree of competitor symmetry is connected to both of the other climate pillars, norm adherence and mutual attitudes (Sölvell and Bengtsson (2000, pp 24, 27)).

'regulated') climate, which entails no true rivalry, is the outcome of low levels of dynamic competition whereas lots of the same entails a 'hot and creative' climate (Sölvell and Bengtsson (2000, pp 6, 7, 26-27)). The implications for various facets of innovative performance ('static' product and 'dynamic' process development respectively), thus spurred by competition, following each climate should be obvious.[19]

Despite the prevalence of works like that of Sölvell and Bengtsson, adjacent to analytical competition, where company conduct is not only described but also analyzed, there is fair reason to say that the lion's share of business accounts of competition is firmly based within the instrumental sphere. That is, they describe competitive conduct, often with a 'managerial implications' undertone which implies a normative message regarding 'how to' proceed in order to establish competitive advantage and hence display competitiveness. This is however but natural given the domain of business studies that revolve around the behavior of individual organizations. As noted by Valdelin (1982) it is however plausible to argue that, in addition to improved business *descriptions*, there is a need to reinforce also *explanatory* business accounts, both being overshadowed by *normative* works.

vi. Why this effort is different

A key epistemological concern of this thesis, inspired by the von Wright (1971) characterization of scientific reasoning, is that the understanding of competition can broadly be conceived of as unfolding along two lines of inquiry. On the one hand there is *instrumental competition* preoccupied with how companies in fact do compete and how they should do so in order to be competitive. This is mostly the realm of business studies as discerned in works within strategy and marketing. On the other hand there is *analytical competition*, foremost seen in neoclassical economics that is most often concerned with predictions. This strand of thought mostly starts out in assumptions that in and by themselves characterize competition as a purely structural feature by means of which other phenomena, typically price, can be

[19] Whereas this effort tries to come to grips with both static and dynamic aspects of competitive conduct it is most unidimensional in the sense that the role of customers is only mentioned in passing in a manner akin to that of structural equivalence within sociology (confer Sölvell and Bengtsson (2000, p 19)). In comparison to Dyer and Singh (1998) it is furthermore devoid of an overall socio-structural perspective to the industry. This is far from surprising given that one of the propelling pillars is that of hypercompetition according to which (at least in the D'Aveni (1994) account) social considerations lead an obscure life, to say the least. A crucial insight by Sölvell and Bengtsson (1997, pp 5, 7) is however that the classical destruction-of-competition-by-competition paradox (the striving for individual competitive advantage hampers overall competition in an industry, whereas competition by itself means that incumbents will earn less), is only valid within the realm of a static notion of competition focusing structure. As a dynamic view of competition is at hand, the reverse is true as 'firms are expected to perform better as intensity increases'. Since dynamic competition further rests on the assumption of entrepreneurship, the industrial arena will necessarily be *asymmetric*. In consequence, they say, 'dynamic competition can be described as a struggle among different solutions and ideas rather than as competitor action and reaction related to different business activities'. The authors hence oppose game-like approaches as that of Smith et al (1992). On the other hand, once there is *symmetry*, there will be an intense game-like rivalry discerned in moves and countermoves, something then fostering 'a static competitive play'.

predicted.

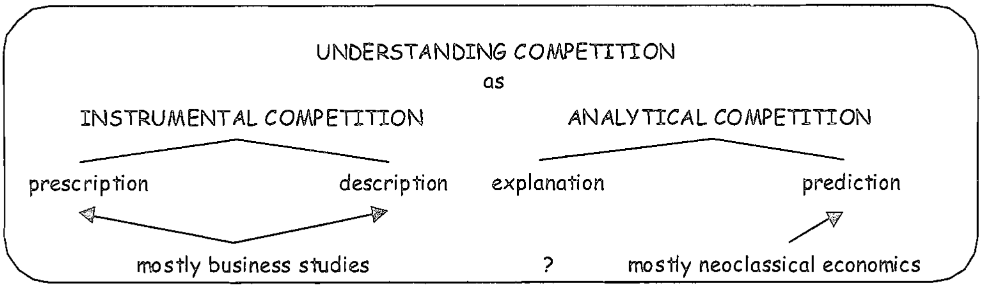

Figure Ia: Scientific inquiries into competition[20]

What business studies and neoclassical economics both have in common, however, is to be relatively devoid of works which set out to *explain* competition (confer Brunsson (1982) and Hausman (1981)).[21] That is why the epistemological aspiration of this dissertation is to provide an explanatory account of competition. *This is the first major reason why this effort diverges from some others.*

The second, and major, reason why this dissertation is different, is its claim that competition can be understood as stemming from customer impact. By looking at competition in this manner there is reason to believe that one can see what otherwise, in more conventional accounts, cannot be seen. One crucial implication hereof is the need to distinguish between the customer as on the one hand an agent, and on the other as a beneficiary, of competition. *It is hence necessary to focus not only customer welfare as a potential outcome of competition, but also the role of customers for how this competition emerges between suppliers in the first place.* This view is mirrored in the joint application of the three working assumptions of competition as a social, static and dynamic, and indirect market feature. As argued at the outset of the chapter these ideas are by no means absent in isolation, either in neoclassical economics or in business studies. But they are hardly conceived of together, as they will be during the course of this text. The three working assumptions are commented on below in relation to some efforts within business studies and economics.

The least strong case for the particular quality of this thesis in the light of contemporary business studies is its embracing of static *and also* dynamic aspects of competition. This is a recurrent theme of a myriad of instrumental business accounts as discerned in the idea of hypercompetition (D'Aveni (1994)). One must however observe, as does Thomas (1996, p 223), that an in-depth conception of dynamic competition is more than just mirroring it over

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[20]Confer von Wright (1971)

[21]What explanation here actually entails is the subject matter of the next chapter.

time.[22] What a genuinely dynamic perspective instead entails is an elaborated reasoning regarding how competition propels the market which in consequence in and by itself must be conceived of as a process. To speak of dynamic competition in the light of a static or underdeveloped view of the market is like telling half the truth and still claim to provide a full account hereof. This *is* a problem for instrumental competition that does not provide a full market account. It is simply beyond its reasonable reach. This is so despite the fact that, as argues for instance De Man (1994, p 443), later works by Porter revolve more around (analytical) 'competition', and less around (instrumental) 'competitiveness'. Still, the market account there provided is firmly biased in being supply-side based as '[t]he basic unit of analysis for understanding competition is the industry' (Porter (1990, p 33)). As for broadly conceived neoclassical economics, the mostly non-dynamic character of its dealing with competition is but obvious once its overall predictive aim is considered. That is, competition is necessarily static since this is endemic to the fundamental structural assumptions which enable the predictive neoclassical project. This naturally inheres in all equilibrium accounts drawing on the idea of perfect competition.[23] There are of course highly sophisticated contributions discussing multi-, and intertemporal equilibria. But the most distinct effort in this area must reasonably be the advent of Schumpeterian-influenced evolutionary economics. As change here is 'institutionalized' it is however doubtful whether this can be classified as neoclassical economics at all.[24]

An additional working assumption is the notion of competition as a social phenomenon. This claim is readily seen in Weber's classical notion of the 'taking others into account'. It is crucial since it serves as the theoretical compass that places this effort within an emergent market sociology. This social bias however also applies to the scrutiny of markets, wherein competition unfolds. That is, once markets are viewed as social phenomena, competition will necessarily also appear in this guise. It is obvious that, apart from a few markets-as-networks-inspired efforts (confer Snehota (1990), Dyer and Singh (1998)), the social nature and hence structure of competition is all but assumed away in most business studies. The obvious reason for this is the manner in which non-social and atomistic market accounts, endemic to most of microeconomics, inspire efforts foremost in strategy. The idea of markets as cognitive social structures, as seen in the works of Porac et al (1989), is different but it still misses out in the formulation of an elaborated social market perspective.[25] Some works are furthermore simply 'superficially social' in their view of competition since they pretend to deal with

[22]This a criticism is easily attributed to several 'time-based' writings within strategy.

[23]Confer Stigler (1987, p 535) who comments on '[t]he limitations of the concept [of perfect competition] in dealing with conditions of persistent and imperfectly predicted change'.

[24]The latter allegedly handles change in an ad hoc or mechanistic manner. If at all. Confer Nelson and Winter (1982, p 24)).

[25]Confer Weick (1995, p 17) concerning the social nature of sensemaking whereof the work of Porac et al is taken as an example.

'relationships between competitors'.[26] This position however becomes very problematic once a relationship is interpreted in terms of 'mutually oriented interaction between two reciprocally committed parties' (Håkansson and Snehota (1995, p 25)). This is hardly what competitors are into unless they collude.[27] It is no less than a truism that the vast majority of neoclassical contributions are *as* non-social in their market accounts. Such a stance naturally renders a truly social view of competition less suitable. This is not to say, of course, that economics does not preoccupy itself with social phenomena, as discerned in the works of Gary Becker (confer Becker (1993 (1964))). *But that it does so in an non-social manner.* Neither the individual nor his relationships to others really matter(s). 'Traditional equilibrium theory does best when the individual is of no importance – he is of measure zero. My theory also does best when all the given theoretical problems arising from the individual's mattering do not have to be taken into account' (Hahn cited by Boettke et al (1994, p 75)). This is also discerned as relationships between acting humans mostly being assumed away.

> *Nonetheless, the structure of neoclassical theory is such that a different notion of competition is required. The classical emphasis on mobility must be supplemented by* ***a precise definition of the relationships presumed to exist between individual agents.*** *The fundamental concept of 'perfect' competition, for example, encompasses the idea that the influence of each individual participant in the economy is 'negligible', which in turn leads to the idea of an economy with indefinitely many participants.*[28]

That is, the very notion of something 'social' is by some seen as the epitome of *what is not* competition. 'Economic relationships are never perfectly competitive if they involve any personal relationships between economic units' (Stigler cited by Hayek (1948d (1946), p 97)).[29] According to this view there should thus be an inherent contradiction between competition and what is social. This dissertation takes strong issue with this position as, inspired by Weber, it claims *that what is competition, is what is social.*

Consider finally that which epitomizes the customer-based view furthered in this thesis, the indirect perspective on competition. To look upon competition in this manner might be reminiscent of the-emperor-has-no-clothes tale of Hans-Christian Andersen. 'But of course the customer has got a decisive role to play for competition between suppliers, it is so extremely obvious'. *In that case, how come it is not told?* Competition is mostly treated as a

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[26]Confer Easton and Araujo (1992, pp 66-73, who however in part recognize the problem by treating competition also in the light of indirect relationships) and Bengtsson (1994, p 26)).

[27]See also Johanson and Mattsson (1992, p 208) defining a relationship as 'mutual orientation of two actors towards each other .... prepared to interact ... in order to coordinate and develop interdependent resources...'. From a semantic angle one could thus posit that to have a relationship is not necessarily the same as standing in a relation to each other. The latter would then, as opposed to the former, be a suitable description of how competitors can be associated (in Swedish *att ha en relation med varandra* vs *att stå i en relation till varandra*).

[28]Eatwell (1987, p 540, added boldface)

[29]Confer Knight (1921, p 78) who puts forward that ,'every member of the society is to act as an individual only, in entire independence of all other persons', as one of the conditions which characterizes the 'imaginary society' of competition.

unidimensional phenomenon, both in business studies and economics, where horizontal rivalry is seen as more or less isolated from the other vertical market dimension. This is very much seen in comments like '[c]ompetition means preventing others from being successful' (Addleson (1994, p 101)). When buyers are included, this is typically as one of several other phenomena with similar weight as to competitive impact. But their role is by no means perceived as being in any way decisive.[30] This is only natural, however, considering the manner in which markets are mostly regarded, namely in a detached non-social manner. This means that market dimensions hardly appear in clear light concerning their mutual dependency.[31] A striking exception hereto within business studies is however Araujo and Mouzas (1997), a kind of work towards which this thesis sets out to contribute. Integrated bidimensional (horizontal *and* vertical) market views are in fact more salient in marketing than in strategy. They inhere in the Oxenfeldt and Moore (1978) inquiry into the customer and / or competitor orientation of organizations. Seizing in on both customers *and* competitors hence really embodies a bidimensional market approach. This necessarily entails the seeing of competition as indirect. Nowhere is the call for such an indirect approach to competition more explicit than in the rules-based view of Thomas and Soldow (1988, p 72).

> *As is true in other marketing problems, the key to a rule-based approach may well be in the complex interplay between horizontal (competitive) and vertical (buyer-seller) relationships. Instead of pursuing an orientation based exclusively on one or the other, researchers probably should examine the relationship between them.*

When it comes to neoclassical economics, the assumptions made mostly seem to exclude the genuine taking into account of customer impact on supplier competition in addition to relatively standardized response functions on an aggregated level. The making of assumptions is complex enough also to be able to accommodate customer conduct. That is, as it is so difficult to grasp oligopoly, how could it ever be envisaged once various vertical bargaining features are also taken into account? There is of course a set-up of readily available structural ideal-types such as bilateral oligopoly, pure monopsony et cetera. But these merely describe a state of competition in relation to which price can be predicted. Scherer and Ross (1990, p 519) thus have it that '[t]he theory of bilateral monopoly is indeterminate with a vengeance'.

To summarize, this dissertation differs in relation to most other writings on competition in at least two distinct major ways. *Firstly,* through its adherence to an explanatory line of scientific inquiry, it takes on an epistemological stance mostly not encountered in similar attempts. *Secondly,* by seeing competition between suppliers as a customer-induced market phenomenon it furthermore perceives things in markets otherwise not seen. This perspective

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[30] For a distinct exception, see however Galbraith (1993 (1952)).

[31] Another reason for this bias is the recurrent preoccupation with consumer markets wherein customers by definition will be reactive and passive.

leaves behind the view that customers, be they consumers or organizations, are only relevant as beneficiaries, but not as agents, of competition. This claim, which echoes some fundamental insights within the discipline of marketing, is pillared by three working assumptions by which competition can be seen as a social, static *and* dynamic, and indirect market feature.

vii. Why bother right now, and in this manner?

There is however also more of an applied ground why it is apposite to come up with a complementary interpretation of competition as framed in this text *right now*. The claim of this dissertation is that the advent of a 'new' economy is good reason to conceive of competition as subject to customer impact. This is why.

> *The general feeling today is that our societies are going through a new industrial revolution, which is characterized by the emergence of the so-called new economy. ... European competition policy ... must today contribute to facilitate the emergence of the new economy and access to all its networks and services.*[32]

The idea of a revised kind of post-industrial economy, which implies market logics hitherto not seen, is dealt with in a variety of guises. See for instance Piore and Sabel (1984), Saxenian (1996 (1994)) and Lazerson and Lorenzoni (1999).[33] The meaning hereof is far from undisputed but does encompass features such as non-physical communities, social capital, coopetition, deregulation, regional district advantages, information technology, diseconomies of scale, intangible assets, ecommerce, transparency, globalization, mass customization, outsourcing, company shrinkage, et cetera, et cetera (Browning and Reiss (1998)). More of a macroeconomic account tends to emphasize the fact that steady economic growth does not imply increased inflation, as it mostly 'should' according to established wisdom. This allegedly stems in part from gains in productivity at a magnitude not experienced before following the genuine breakthrough of advanced information technology (confer Hammar (1999)). Probably the most ambitious and wide-reaching way of reasoning in this vein is that of Castells (1996) regarding the coming into being of contemporary society. Basically, his analysis starts out with the immense impact of information technology which 'embodies' globalization, something thus constituting the 'network society'.

> *For the first time in history, the basic unit of economic organization is not a subject, be it individual (such as the entrepreneur, or the entrepreneurial family) or collective (such as the capitalist class, the*

[32]Monti (2000b)

[33]There is of course some genuine doubt as to whether this end-of-millenium icon is 'real' at all. A case in point here is to seize in on the alleged soaring importance of the service industry *at the expense of* the manufacturing industry as do Romo and Schwartz (1993). Their fundamental argument is *that services gain in importance only insofar as they depend from manufacturing*. That is, the interrelation of these two are complementary rather than substitutive in character.

> *corporation, the state). ... [T]**he unit is the network**, made up of a variety of subjects and organizations, relentlessly modified as networks adapt to supportive environments and market structures. ... Networks constitute the new social morphology of our societies, and the diffusion of networking logic substantially modifies the operation and outcomes in processes of production, experience, power and culture. While the networking form of social organization has existed in other times and spaces, the new information technology paradigm provides the material basis for its pervasive expansion throughout the entire social structure.*[34]

A corollary claim is that of Fukuyama (1999). He observes that since network structures are devoid of formal rules there are instead links as social capital. These social bonds then embody a sort of spontaneous order which originates in the decentralized character of information. The network logic here serves as a moral impetus and draws in parallel on both strong and weak ties between actors. However, this development is not devoid of challenges, one of them being identified by Castells (1996, p 3) as 'structural schizophrenia between functioning and meaning'. This is discerned in the relation between the 'historically rooted' self and the 'abstract, universal' surrounding net-like context. That is, society and market institutions are turning inside-out with vast consequences for individuals and organizations. In the market arena this is readily seen in an increased emphasis of interorganizational ties subject to which companies act. As for the proof-of-success of business organizations that already seem to be constituent parts of the Castellsian network society, it is enough to have a look at commercial activity in California's Santa Clara County. In relating Silicon Valley to its once Eastern high-tech predecessor Route 128 in Massachusetts, Saxenian (1996 (1994)) argues that a unique regional advantage renders this area the epitome of a progressive business climate which promotes organizational prosperity in a particularly dynamic market. One of the features that explains the unique success of the net-embedded 'Silicon actors' discerned by Saxenian is the parallel existence of cooperation and competition in interorganizational horizontal relations.[35]

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[34]Castells (1996, pp 198, 469)

[35]Confer Piore and Sabel (1984, pp 5, 29, 38, 298) for arguments on competition and cooperation inhering in non-mass production industries ('In the classical view, competition drives humankind to discover the best of all currently possible worlds; the victor of every contest is also a hero of universal efficiency. In the [flexible specialization] world of all possible worlds, competition pits one potential way of combining machines and skills against another; the way that succeeds - the technological breakthrough - does so because of the conditions of the moment – not because it is necessarily the one best way. ... For flexible specialization requires a fusion of competition and cooperation that cannot occur in the model of market transactions. In the market model, economy is distinct from society, and firms are independent, competitive units. By contrast, within a system of flexible specialization, firms depend on one another for the sharing of skills, technical knowledge, information on opportunities, and definitions of standards. Structure here shades into infrastructure, competition into cooperation, and economy into society.'). Confer Brandenburger and Nalebuff (1996), and Browning and Reiss (1998) for accounts hereof as 'coopetition'. An additional related contribution is that of Best (1990, pp 11-21, 274-275) who coins 'the new competition' as the joint coming into being of a) the firm organized as 'the collective entrepreneur', b) coordination of production activities via 'consultative coordination', and c) the parallel prevalence of competition and cooperation on a sectoral network industrial level mirrored in 'strategic industrial policy'. Of particular relevance here, argues Best, is the way in which customer-supplier relations are transformed from 'anonymity' to 'partnership'.

> *These cooperative arrangements* [the requirement that competing sub-suppliers share both functional specifications and manufacturing knowledge as well as technology transfer between competing customers and the like] *seem unusual in part because of the intensity of competition in Silicon Valley. Competitive rivalries were often highly personalized, since status was defined by technical excellence and innovation as much as by market share. ... Even under relentless competitive pressure, an underlying loyalty and shared commitment to technological excellence unified members of this industrial community. Local firms both competed for market share and technical leadership and simultaneously relied on the collaborative practices that distinguished the region. The paradox of Silicon Valley was that competition demanded continuous innovation, which in turn required cooperation among firms. ... What appeared to both the actors and the outside world to be the outcome of individual entrepreneurial achievement and competitive markets was in fact the result of a complex, highly social process rooted in an industrial community. While they competed fiercely, Silicon Valley's producers were embedded in, and inseparable from, these social and technical networks.*[36]

The above reasoning of Saxenian exemplifies the need for a customer-based perspective to competition that is both social and indirect. It goes without saying that it also has to be dynamic. *To commence*, it is obvious that commercial arenas characterized in this vein demand a mode of analysis where the relational aspect is not only taken into account, but constitutes the very sine qua non of markets. In consequence competition, given its close interlinkage herewith, must necessarily be understood in a similar, thus social, manner. *What is more*, competition somehow seems to coexist with cooperation as competitors relate to each other in a manner earlier not come across. It still exists, but now in a guise previously not seen. This implies a call for an indirect view of competition since the co-existence with cooperation in relation to the same competitor simply renders the 'traditional' striving for mutual destruction superfluous. The subject of competition is no longer 'uniform bodies' but 'bundle complexities' that cannot even be 'competed away' as they are embodied in the entire network (Powell and Smith-Doerr (1994, p 384)). The implication of this can in part be understood by relating how organizations try to 'control' their environment. Following Fligstein (1990, pp 118, 123, 297) it is then possible to assume that the extent to which competition is direct or indirect changes over time subject to the ruling 'focus of control'. Under the rule of 'manufacturing focus', companies directly encounter each other whereas the era of marketing, is characterized by 'customer focus' under which companies meet each other in more of an indirect manner. As '[m]anagers in firms ... [fight] over market share, not the right to exist' it follows that the outcome of competition is more in the hands of the customer and thus indirect.[37] That is, the role of the customer becomes more decisive as more of marketing concern inspires organizations. This is echoed as the interlinkage of cooperation

[36]Saxenian (1996 (1994), pp 45-46, 56-57). On the role of customer-induced status for competition, see Podolny (1991).

[37]'As a result of reckless competition for business and unbusiness-like methods in vogue, the forms of contracts and the conditions under which paper was sold to the consumer, and the whole question as to what price the manufacturer was to receive for his paper, had practically passed out of his hands into those of the middlemen and the consumer' (Fligstein (1990, p 63) commenting upon the situation for a CEO in the paper industry already in 1898).

and competition renders the traditional emphasis of pure horizontal market battles more or less obsolete. Organizations cannot possibly aim at the destruction of one of their collaborators.

In consequence, competitors cooperate directly but compete indirectly.

The former activity is subject to their (mostly) own decisions whereas the latter *also* depends very much from the conduct of their customers. That is, the locus of control differs.[38]

In sum, the complex of conceptual problems that surrounds competition is likely to become much more pronounced with the advent of a 'new' economic paradigm underway. As argued by Monti (2000b) it is necessary also for competition policy to embrace and support this development. However, this calls for a revised view of competition not really seen. The computation of Herfindahl-Hirschman indices[39] and similar to understand competition loses much of its adequacy in the embedded type of market found in Silicon Valley. This environment epitomizes the advent of a capitalistic logic hitherto not experienced at any real depth. Accordingly, it is no longer feasible to treat competition as detached from the customers that it is supposed to benefit.

To conclude, the labeling of this text as 'particular' is not intended as the deconstruction of previous works on competition, be it within economics or business studies. This dissertation is a complement that draws on others. The thoughts provided are not really new but are hopefully combined in a manner that can inspire some new insights with particular relevance for the early 21st century.

The idea of this chapter is, essentially, twofold. By recapitulating some central tenets of competition theory, an introductory background is drawn mostly from within neoclassical economics and business studies. This background depicts the overall phenomenological territory in which this dissertation aspires to make its contribution. Then, by briefly sketching the particular manner in which this contribution is to be made, the reader is invited beforehand to appreciate this text vis-à-vis others that deal with the same market phenomenon, and in relation to the emergence of a revised market logic (a 'new economy') contemporarily underway. The core idea furthered is that there is a need for a truly customer-based view of competition, wherein the buyer has a role not only as a beneficiary, but also as an agent. This view is supported by the

[38]Confer Markoff (1999) on the coopetitive state of affairs, 'An Uneasy Coexistence', unfolding between Microsoft and Sony as to the future reigning of consumer electronics. Despite a general consent on cooperation concerning the 'informatization' of future consumer electronics, both parties seem to recognize each other as a fellow combatant in the very same contest. As says Howard Stringer, head of Sony, USA, '[s]ometimes we waltz and sometimes we stand on the opposite side of the dance floor. ... And just like dancing, it's best not to talk about the bedroom while you're on the dance floor, because who knows where you might end up'. The inevitable role of the customer for competition is well illustrated in Markoff's own closing words. 'And in the end, it will be the consumer who decides whether the future will be a post-PC or a PC-entric world'.

[39]This refers to the concentration rates of firms within a particular industry given supply side technology.

vision of competition as a) social, b) static and dynamic, and c) indirect. The two distinct characteristics of this dissertation, its epistemological aspiration and its particular customer-bias, thus provided will be clearly discerned in the explanatory argument of customer-geared competition now to be established in the second chapter and onwards.

II. AREA AND OBJECTIVE OF RESEARCH

No research attempt lives its own life outside the realm of the ambiguity that it seeks to address. In a like manner, any scientific effort needs to be precisely articulated, or it will not be properly evaluated on its own terms. That is, the research problem and the purpose of the effort underway both need to be defined. The latter is the manner in which the problem is to be shouldered. Only when these two issues have been properly dealt with is there time to address the overarching research goal in greater depth and the particular line of scientific inquiry (the epistemology) to be embarked upon. These research features are of course truisms but they are nevertheless crucial and their particular application in this thesis constitutes the contents of this chapter. Whereas the preceding chapter provides the first rough strokes of the brush, applying a general background to the subject matter, the following pages are more focused in character. The aim is to narrow down the sphere of reader attention by homing in on the particular approach to competition here to come forward. This will be seen as the research problem, 'competition in market-as-networks sociology' is illuminated by the purpose of this thesis, the formulation of an explanatory model of a particular customer-geared competition as a social mechanism. When this is in place, a few key assumptions will be accounted for, inclusive of the relevant delimitations. The time will thereafter be right for a few words about the overarching research goal and the epistemological aspiration of this essay. This unfolds as the former is presented as refinement of market sociology and the latter is introduced as a discourse on scientific explanation. The reader will hence be fully familiar with the research problem and the manner in which it is addressed via a) the dissertation purpose, b) the research goal and, c) the aspired-at epistemology. In addition, the thesis assumptions, thus illuminating the conceptual fundamentals of this effort, will be known. This second chapter concludes by delineating how the argument will unfold in the successive chapters.

i. The research problem

This essay on competition, though appearing within the discipline of business studies, aspires to contribute within the area of an emergent market sociology too. To 'contribute to' here denotes that this dissertation, as its overarching research goal, has the refinement of this very facet of social market theory. This theory refinement can furthermore only be appreciated in light of the more precisely stated research problem. To delineate this research problem is the idea of the section now following.

As discussed in the preceding chapter it is feasible to speak of market sociology once a market is interpreted with reference to its social structure (confer Swedberg (1994)). This structure can eventually be thought of as a network, a web of interconnected ties that impacts the manner in which this market is understood. Such a 'market-network' can furthermore be related in either of two ways (Powell and Smith-Doerr (1994, pp 368-369)). Either it is an abstract analytical tool which embodies social relationships. Or it is a mode of organization, a logic of governance with more direct empirical implications. A similar classification is that of Gerlach (1992, p 64) who distinguishes between a formal methodological and an informal metaphorical usage of 'network'. The first 'abstract' approach is mostly found in sociology and studies of organizations (confer Lorrain and White (1971)) whereas the other is a hallmark of more empirical 'industrial' studies (confer Hertz (1993)).[1] The former, from now on labeled the 'formal-analytical network approach' ('FAN'), is explicitly sociological in its intellectual heritage and application of methods. The latter, here labeled the 'informal-governance network approach' ('IGN') is only indirectly so as it emerges from within marketing and distribution theory with only scattered direct sociological references and impacts. Some characteristics of the formal-analytical and the informal-governance network approaches is the subject matter of Appendix B.

> *A **market network** is a specific set of economic linkages among a defined set of economic actors, where the set of exchange linkages are constitutive of a price-making system and both supply and demand crowds (actors) are present.*[2]

Whether the one or the other, it is natural for writings on *markets-as-networks* to position themselves as an antidote to neoclassical economics. This is often accomplished in a rather explicit manner. White (1981, p 518) describes the own approach as '[the] embedding [of the] economists' neoclassical theory of the firm within a sociological view of markets' whereas Hägg and Johanson (1982, pp 31-39) choose to contrast the market heterogeneity of their own stance with its neoclassical, mostly homogeneous, counterpart. A property of the general argument thus pursued is the emphasis of what predominant economic theory allegedly does *not* come to grips with. One case in point is here cooperation (confer Axelrod (1984)). This is what 'makes up' markets via relationships. The understanding of competition (be it instrumental or analytical), so very central and undisputed in more conventional accounts, is far less straightforward in these socially inclined (network) slants on markets. As noted by Swedberg (1993a, p xviii), sociology in general traditionally focuses on trust and cooperation (and not competition). The study of industrial networks (as noted by Mattsson (1985, p 269)) is here most representative.[3]

> *Compared to recent efforts to develop industrial organisation based analyses of corporate strategy ... we stress heterogeneity, complementarity and cooperation rather than homogeneity, substitutability and competition.*

That is, works which take the social reality of actors into account, be they found either within sociology as a broad discipline of inquiry, or in any markets-as-networks approach, *in large* seem to have conceded the territory of competition to neoclassical economics and business studies. There are of course a few distinct exceptions. On the one hand there are the FAN-

[1]Confer Mattsson (1995b, p 761) who comments on such an industrial approach. '[D]ue to its origin in a subfield of business administration, ie marketing, its empirical foundations consist of detailed observations, most often over time, of buyer and seller behavior on markets. Such empirical research is rarely found in economics, sociology or organization studies.'
[2]Baker (1981, pp 14-15)
[3]Granovetter (1993, p 10) traces a similar bias in works of anthropology where substantivists downplay the role of conflict in the realm of altruism and cooperation.

inspired efforts of White (1981), Baker (1981, 1990), and Burt (1992), all writing within economic sociology and inclined towards an analytical understanding of competition.[4] On the other there are a few works within the IGN-tradition. These are mostly instrumental in character and look into how individual competitiveness is enhanced by way of cooperation with others (confer Hägg and Johanson (1982) and Hammarkvist et al (1982)). Snehota (1990) and Mattsson (1992) are however more analytical in character as they set out to connect descriptions of individual actor behavior in order to understand markets.

Why is it then that market sociology, *broadly speaking*, pays so sparse attention to competition? A *first* fundamental reason is that this discourse confines itself to areas where there is *not* that much of a neoclassical first right of interpretation, which undoubtedly is the case for competition. One simply, for one reason or the other (like sociology in general at the turn of the century, confer Swedberg (1987, pp 17-20)), concedes some ground while concentrating in other areas, such as cooperation. A *second* basic reason is that competition is not of any major interest to some of the most influential pioneers of modern sociology. As a discipline it is, in the French guise of Comte and Durkheim, more inclined towards the scrutiny of what actually keeps the societal web together (confer Giddens (1997, p 570)). In that sense competition is simply a bit alien to this sociology and any discourse derived from there. This is the argument of Turner (1991, pp 181-202) who claims that, following the Durkhemian-inspired functional theory of Parsons, conflict (whereof competition is seen as a sub-aspect) is since long underemphasized in sociology. This is allegedly so despite the still influential contributions by Marx, Simmel and Weber, all of whom explicitly formulate the roots of a sociology on conflict.[5] A *third* related reason for not really bringing up competition within contemporary sociology-influenced studies is due to how markets are conceived of here. That is, 'conventional' competition fits very well in an atomistic market discourse but much less so in an embedded market interpretation that relies on the presence of long-term relationships. The heterogeneity of these social ties also implies that complementarity and not substitutability, the latter since long tightly connected to competition, is the foremost area of interest (confer Hägg and Johanson (1982, p 49)). In essence, then, the traditional ground for competition is not there when markets are conceived of in terms of social dependencies such as relationship networks.[6]

Yet more crucial for the alleged 'disciplinary absence' is that competition traditionally is very

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[4]Burt (1992) is clearly the most succinct interpreter of competition.

[5]Turner (1991, p 202) further argues that the 'dialectical approach' of Dahrendorf, the 'conflict functionalism' of Coser, the 'exchange conflict approach' of Collins and the 'critical theory' of Habermas are the four major contemporary streams of thought on social conflict theory.

[6]In addition, some network analyses such as IGN-studies are very 'close' to empirical data. This is so following the method of inquiry mostly adhered to, that is case studies carried out through interviews. In these settings it is but natural to assume that respondents, via the kind of data gathering method at hand, rather tell about instances where they relate 'friendly' to others, id est through cooperation, than about instances of conflict.

object-centered both in terms of 'with whom?' and 'for what' one competes. *In a network setting competition hardly takes place for transactions but for relationships* and the identity of those going after these relationships is hard to grasp following the delimitation problem inherent to any network structure ('where does the network begin and where does it end?'). In consequence, to try to come to grips with 'traditional' competition, but from a 'network angle' is most challenging. One is forced to bring forward entirely new and innovative concepts (such as Burt's idea of structural holes). This is very much manifest in the words of Mises that go after competition in a social context.[7]

> [S]***ocial competition***, ... [is] *the striving of individuals to attain the most favorable position in the system of social cooperation.*

In light of the scant attention thus paid to competition in the sociological realm, *the goal of this thesis is to elaborate on part of the sociological insights by an effort devoted to analytical competition.* In terms of the initial network dichotomy accounted for, the thesis is close to FAN-studies by drawing on networks as an abstract analytical logic, but reminiscent of IGN-inquiry as it seeks to understand concrete network-like market arenas also beyond the purely structural impact thereof. One could thus posit that inspiration from the informal-governance network approach is *conditioned* by its theoretically more refined purely sociological counterpart within formal-analytical network scrutiny. The underlying idea is furthermore close to that of Baker (1981, pp 54, 92) since it sets out to get rid of a theoretical void that later must necessarily be filled in and detailed in order for it to gain widespread acceptance and application.

> *Due to the lack of cogent theory applicable to markets as networks, one principal goal of this* [Baker's] *study is to develop a theory of markets-as-networks. ... Since the market has been presumed to be featureless, this research ventures into uncharted territory. My primary research objective, therefore, is to map the general typography of networks in the market, leaving the detailed cartography of networks to future research.*

This dissertation has it that competition is *as* an 'uncharted territory' *within* an emergent market sociology. That is, this theoretical framework's coming into being will not be complete without a thorough and explicit treatment of competition, in void of which it can never pretend to furnish a reliable complement to the neoclassical treatment of markets.

The research problem of this dissertation is competition in market-as-networks sociology and the goal of this effort is to refine market sociology by elaborating a conception of competition from within a networks perspective.

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[7]Mises (1963 (1949), p 273), confer Snehota (1990, p 132).

ii. The dissertation purpose

Whereas the research problem (identified above) links to white spots within theory, the dissertation purpose (to be covered below) is to demonstrate just how these white spots turn black, or at least gray. The purpose is hence the precise manner in which a research undertaking culminates in a 'result'. It is the programmatic yardstick only in relation to which an effort can be appreciated. To assess the purpose ex ante, that is its relevance in relation to the research problem, is then one thing. To evaluate whether the purpose will have been fulfilled or not ex post, is another.

The white spot of relevance for this dissertation, the research problem, is identified above as competition in markets-as-networks sociology. This means that any purpose related to competition, and appearing subject to certain fundamental assumptions endemic to this theory is, in essence, viable. What is said so far is that this dissertation purports to furnish an account of competition as a customer-induced phenomenon that is to be explained by relying on three jointly working assumptions. This renders it particular in relation to other like efforts.

With regard to the research problem and the explanatory line of inquiry, the argument to follow is that customer-geared competition can be interpreted as a *social mechanism*. Following Hedström and Swedberg (1996), Schelling (1998, pp 32-33) and Coleman (cited by Hernes (1998, p 75)), this social mechanism is here interpreted as *a plausible hypothesis abstractly reproducing competition thus constituting a 'sometimes-true theory' situated midway between a social law and pure empiricism.* As noted by Hedström and Swedberg (1998, pp 3-4), economists to a certain extent treat the *market* as an overall abstract mechanism according to which phenomena coming forward therein can be understood. Hernes (1998, pp 89-91) expands thereupon and inquires into market mechanisms wherein competition is the agency, or one of the agencies, that make 'the least profitable firm go bankrupt'. This text is similar though yet different. *The market is not the mechanism but the arena wherein the social mechanism of customer-geared competition unfolds.*[8]

The claim of this thesis is furthermore heavily inclined towards the theoretical, despite some empirical illustration towards the end. This is but natural given the hitherto juvenile character of the markets-as-networks project, and particularly so as competition is concerned. The essence hereof is that this as an undertaking cannot ever be inductive but only deductive in character. That is, it must necessarily rely a lot upon existing theory, something which in its turn implies that the risk of circular reasoning is salient. This risk is minor however once an effort manages to find viable combinations of hitherto unseen theory that succeed in casting

[8]Somewhat reminiscent hereof is Stinchcombe (1998) that sets out to explain 'autocorrelations of profits, prestige, and power' by means of a combination of two mechanisms, 'monopoly power' and 'competitive environments'.

new light on the subject matter. Such a finding, then, represents a particular combination of theoretical contributions. In the present context, this 'particularity' is found in the definition of competition to be derived from a number of theory-generated dichotomies in the next chapter. This particular 'socio-Austrian' definition of customer-geared competition is fueled by findings and assumptions from within Austrian economics and (new) economic sociology (confer Boettke (1998), Boettke and Storr (2000) for similar cross-theorizing efforts).

The particular view of customer-geared competition as a social mechanism to come forward here will be explained by means of a model. Given the 'sometimes-true' character of a social mechanism, this model will furthermore display ideal-type properties in the original Weberian sense of the word. Such a model must necessarily also, apart from the assumptions to be furthered in the successive paragraph, encompass a) an explanandum ('what is to *be explained*', a particular type of competition), b) one or several explanans ('what is to *explain* the explanandum', some causal factors), and c) an agency that delineates the precise manner in which the explanandum is subject to the influence of the explanans. That is, the explanans constitute the core of the agency by means of which the explanandum can be understood. Can this agency then be grasped? Yes, but to do so it is for a moment necessary to imagine the most straightforward case of competition that there is, two suppliers opposing each other in the eyes of a common customer. Such a customer-based view of competition here furthered thus has it that somehow the customer is to impact the manner in which these suppliers relate to each other in terms of opposed objectives. Ceteris paribus. Herein the explanandum is the competitive tension between the suppliers and the explanans somehow reside in how the customer affects this tension. The agency sought for is then what actually links the explanans to the explanandum. A markets-as-networks perspective furthermore necessarily entails that what connects the one buyer with the two sellers are two exchange relationships that appear in parallel. Now, going back to the explanans it is viable to posit that it is what unfolds within the very *parallelism* of these two interconnected relationships that constitutes these explanans that reach out towards the tension understood as competition. That is, *the explanans themselves constitute the general character of the agency and the particular manner in which these explanans impact the explanandum* (id est,'does it increase or decrease?') *is the specific model agency*. These are, then, the nuts and bolts of the explanatory model to be erected subject to the assumptions provided below.

The purpose of this dissertation is the formulation of an explanatory model of a particular customer-geared competition in the guise of a social mechanism.

Unlike empirical research, where case stories are told or hypotheses are tested, this essay does not have such a direct access to scientific tools which can testify concerning its eventual plausibility. This is simply an irrevocable consequence of the epistemological path chosen which does not imply, however, that scientific analysis, in its conventional form, is completely superfluous. It only means that its appearance will differ from what is commonly seen, given the presence of the model thus erected. The model scrutiny will then emerge as a *pro* or *contra-* analysis of argument according to which the proofability of two issue-expressions that represent the specific derived model agency eventually will be established. Once this analysis is in place, the insights of the model, the plausibility of which now will be ascertained, are drawn upon in order to scrutinize some empirical data. A few aspects of Swedish antitrust legislation and its practical workings will then be examined, through a legal case regarding abuse of dominant position. That is, whereas the model itself is looked into in the first place, in the second place the lessons then learned will be related in order to penetrate a piece of empirical reality. The model starts out as the subject matter of analysis and then transforms into the analytical tool by means of which something else can be understood. In this vein antitrust law is drawn upon to illustrate what is learned through the formulation and subsequent analysis of the explanatory model.

iii. The thesis assumptions

Any research effort carries with it, explicit or not, a set of assumptions that constitutes the 'scientific ontology' of the work at hand. These pertain both to the theoretical domain(s) subscribed to, and the particular way in which a framework, for instance a model, is attached to in the individual case. That is, by adhering to a particular school of thought, some assumptions are inevitable whereas others are very much contingent on the methodology chosen there and then. Within the area of economic studies neoclassical works are well known for their assumptions which inform predictive models regarding for instance market equilibria and human decision making. This is less so for business studies which at the most seem to recognize some version of the bounded rationality dictum.

This dense present paragraph brings forward the assumptions that pillar this dissertation. They will subsequently work out in the model formulated. In this manner they also enable the fulfillment of the stated purpose. Although each of them can be easily justified with reference to the ideal-typical properties of the model thus to be erected, their meaning will gradually appear as the argument unfolds. The three model assumptions (1a, 1b, and 1c) will also be abandoned in Chapter IX in order to enable an appreciation of the model outside its originally intended realm. The thesis assumptions can be divided into four complementary categories and follow below.

Assumptions regarding the ideal-type model itself ('the model assumptions')

1a. The parallelism of two interconnected customer-supplier relationships can be framed as a triad momentarily detached from, but in essence embedded in, the surrounding network of exchange relationships.

1b. The customer-supplier triad is unbalanced in the sense that the suppliers are relatively more dependent on the customer than the other way around.[9]

1c. There can be no triad closure as 'horizontal' supplier social ties do not prevail.

Assumption regarding competition as a general phenomenon ('the competition assumption')

2. Competition is perceived freedom of entry into market relationships subject to the discretion of a third party.[10]

Assumptions regarding how man, markets and institutions are seen by two schools informing this work ('the market assumptions')[11]

3a. Market conduct is purposeful and socially oriented human action subject to social individualism and dynamic intersubjectivism.

3b. The market is an indeterminate process in the guise of an elastic web of embedded exchange relationships.

3c. Economic institutions are social constructions that reduce the eternal uncertainty of an imagined future.

Assumptions regarding delimitations following erection of the explanatory model ('the delimitations')[12]

4a. This dissertation does not set out to describe a factual situation.

4b. This dissertation does not purport to penetrate the outcome ('performance') of competition.

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[9]Following the social exchange theory of Emerson's (1962, pp 32-33, 1972, p 46) one can thus posit that the customer, for one reason or the other, has got a power advantage over each of the suppliers in that they are more dependent upon the buyer than the other way around. There are two possible non-mutually exclusive sources of this asymmetry. Either the exchange is relatively more valuable for the suppliers. Or they have got relatively fewer exchange (buyer) alternatives (than what the customer has got supply options). Although empirical realism per se is not really an issue for this model, there seems to be fair reason to believe that the more suppliers compete with each other, the more this asymmetrical dependence does in fact prevail. Confer the reasoning of Weber (1968 (1922), p 92). 'For purposes of economic theory, it is the marginal *consumer* who determines the direction of production. In actual fact, given the actual distribution of power, this is only true in a limited sense for the modern situation. To a large degree, even though the consumer has to be in a position to buy, his wants are "awakened" and "directed" by the entrepreneur.' That is, the supplier-entrepreneur furnishes a 'menu' that the customer-entrepreneur subsequently decides to act upon. The opposite asymmetry, with customers being more dependent on suppliers, is a characteristic feature of the nowadays mostly discontinued centrally planned 'non-market' economies.

[10]This assumption-definition results from an extended discussion of nine theoretical dichotomies to be found in Chapter IV.

[11]See chapters III and VIII.

[12]Both of these in fact inhere in the purpose and the other assumptions but are provided here as a clarifying service to the reader.

iv. The research goal

The homing-in on the dissertation itself in this chapter is so far preoccupied with three issues. First the research problem, competition in markets-as-networks sociology. Thereafter the purpose, the formulation of an explanatory model of competition. This is followed by the delineation of the assumptions inhering in this effort. As is stated at the outset of the chapter these issues are the very essence of the dissertation. There is also, however, as already commented upon, an overarching research goal which is less immediately distinguishable. This is the refinement of market sociology in general. That is, this thesis not only sets out to improve the understanding of the scrutinized phenomenon, competition, but also hopes to contribute to the furthering of one distinct aspect of social theory in general. What follows in this paragraph is a brief recapitulation of some findings within this market sociology.

A compelling argument for the general need for a market sociology is coined by 1987 Nobel laureate Robert Solow who endorses economics as a social, and not a natural, science. Solow (1990, pp 275) relates the following tale. Imagine a fully equipped scientist being put on a plane, blindfolded and then parachuted into a desert anywhere on earth. Hitting the ground as a natural scientist the environment can immediately be scrutinized, id est temperature measured et cetera, without so much further information. As a social scientist however, no analysis can be undertaken at all until at least some rudimentary data is gathered as to 'where am I?'. That is, the environment matters very much. Solow (1990, p 281) takes his discourse further into a market setting and goes on to exemplify this kind of situation given that market oligopoly (that is, a few powerful suppliers with decisive impact on competition) prevails. The most common way of analyzing this, says Solow, is by means of game theory where each actor carefully considers the likely conduct of the other actors before deciding what to do.

> *But the game has no sociological structure at all.*[13]

That is, the social scientist, be it in the desert or amidst an oligopoly setting, must relate the context as such before being able to proceed with an inquiry. There is both a 'here' and a 'now' that have to be encompassed. Any market analysis to be undertaken thus necessarily stretches out both in time and space. Typically, the atomistic and isolated / detached neoclassical market account can be challenged on grounds which relate the intertwined nature of a) the past, present and future and, b) the market actors themselves.[14]

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[13]Solow (1990, p 281)

[14]This is readily seen in the ideal typology brought forward by Baker (1981, pp 201-202) wherein markets can be discerned by means of a two-dimensional sphere relating space ('local' or 'non-local') and time ('discontinuous' and 'continuous'). In the reasoning pursued an art auction constitutes a local discontinuous market, securities a local continuous market, corporate stock offerings a non-local discontinuous market and, finally, consumer products a non-local continuous market arena.

On a most general level it is then clear how both a) *phenomena in general* and b) *human action in particular* can be discerned as economic and / or social. An explicit fundamental account of what unifies and distinguishes 'social' and 'economic' in these two respects is that of Max Weber (1949 (1904)). The very reason for the socioeconomic interlinkage can, according to Weber (1949 (1904), pp 63-66), be motivated since the existence of man (a social creature) is circumvented and thus constrained by the limits and inadequacy, that is scarcity, of the external means needed for human survival. That is, *man is by necessity a product of both 'struggle with nature and the association of human beings'.* This means that also the notion of 'aesthetic and religious feeling', an issue that at first sight seems purely non-economical, is in fact subject to economic realities as they prevail within the human space of 'scarce material means'. And, on the other hand '[t]he explanation of everything by economic causes *alone* is never exhaustive in any sense whatsoever in *any* sphere of cultural phenomena, not even in the "economic" sphere itself' (Weber (1949 (1904), p 71)). Given Weber's general inclination *this means that any phenomena or action is by necessity always both economic and social*, but of course to varying extents.

Within this overarching socioeconomic realm Weber further identifies three types of *phenomena in general* with respect to their degree of purely economic significance (given the fundamental social character of them all), as *perceived* by an onlooker. First there are *explicit economic ones* that 'were *deliberately* created or used for economic ends' such as the stock exchange. Then there are phenomena whose economic significance is not of prime interest but that, in particular cases, have consequences which matter from an economic perspective. This is the case with religion (as seen in Weber (1992 (1930 (1904-1905)))) and other *economically relevant phenomena*. Finally there is a residual category of socioeconomic events that neither gives rise to economic consequences, nor are economic as such, but they are sometimes under the influence hereof. These are *economically conditioned phenomena* (for instance artistic taste).

As for the other relevant aspect of the field of *Sozialökonomik* ('social economics'), *human action in particular*, there is a corollary claim. Weber (1968 (1922), pp 63-64) alleges that *economic action* is 'any peaceful exercise of an actor's control over resources which is in its main impulse oriented towards economic ends'. 'We shall speak of economic action only if the satisfaction of a need depends, in the actor's judgement, upon relatively *scarce* resources and a *limited* number of possible actions, and if this state of affairs evokes specific reactions. Decisive for such rational action is, of course, the fact that this scarcity is *subjectively* presumed and that action is oriented to it' (Weber (1968 (1922), p 339)). *Economically oriented action* deviates from this as either the means or ends thereof have got a non-economic character. On the one hand this sort of action might be primarily oriented to non-economic ends, but still take on an economic character as the 'consciously recognized necessity for economic prudence' prevails when means are applied. On the other this action might be directed towards economic ends, but use (non-economic) physical force in order to reach this goal. For *economic action* to be considered 'social', Weber (1968 (1922), p 22) asserts that someone else's conduct must be paid attention to, something which most often seems to be the case. 'Thus very generally it becomes social insofar as the actor assumes that others will respect his actual control over economic goods.' Weber then (according to Swedberg (1998, pp 23-25)) argues that the driving forces propelling, and the orientation of, *economic*, *social* and *economic social*, action differ. Whereas *economic action* (recapitulated right above) implies material interests which inform conduct aimed at own utility, *social action* is oriented not only to own goals but also to other actors thus 'taken into account' in a behavior inspired by both habits and emotions in addition to all sorts of interests. A logical consequence of the above argument as to the ubiquitous social *and* economic character of *all* phenomena is that (meaningful) action endemic to the thus resulting context must necessarily be *economic social.* This implies that human action is a) motivated by mostly material interests in parallel to emotions and habits and b) oriented jointly in the direction of own utility and others. The *Verstehen* of society in consequence requires the application of *Wirtschaftssoziologie*, economic sociology (confer Swedberg (1998, p 5)).

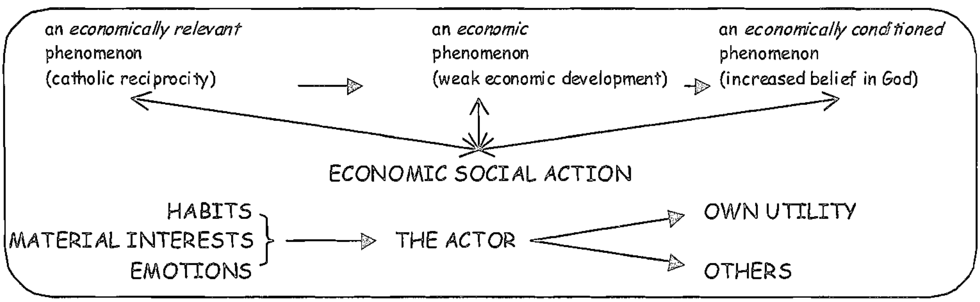

Figure IIa; Weber's idea of economically related phenomena and economic social action[15]

So how, taking *these* Weberian insights into account, could *markets* then be conceived of once a viable complement to neoclassical economics is to come forward? An array of alternatives is discerned by Swedberg (1994, p 267) who delineates seven different contemporary sociological market accounts, a) a social structural, b) a social constructionist, c) a historical-comparative, d) a social systems, e) a social rules, f) a game theoretical and, g) a conflict, approach. In practice these tend to be intertwined, something readily discerned in the brief account below of a few contributions.

One clear-cut non-neoclassical way of reasoning is that of Abolafia (1998) who presents an agenda of 'markets as cultures'. The case for a cultural market explanation according to

[15] Weber (1949 (1904), pp 63-66), Swedberg (1998, p 24)

Abolafia (1998, p 83) rests on three assumptions. A) A contextual analysis of decision-making has primacy over for-granted-taken rationality. B) The rules and roles of markets are culturally constructed and reflect power, history et cetera. C) The rules and roles of markets are dynamic and subjectively enacted by market participants. This implies a challenge to both neoclassical and new institutional economics in that market features do not, in a functionalist manner, reflect market efficiency as such. Instead it is social, cultural *and* economic forces, subject to 'meaning systems of norms, rules and cognitive scripts' that are manifest in the mutual understanding of actors which thus affects transactions. A related view is held by Zelizer (1996 (1988), p 312) who however alerts against the 'overly subjectivizing' cultural market perspective. 'The market is indeed a cultural construct, but it is not only that. Reducing the market to an abstract set of meanings excludes the material, institutional and social reality of economic life.' Instead she (Zelizer (1996 (1988), pp 302, 314-315)) endorses a 'multiple' position where the market is a set of *both* meanings *and* social relations. *As* critical against a pure cultural pattern market interpretation are Hamilton and Woolsey Biggart (1992 (1988), pp 181, 210). Their argument rests on a 'culture pervades everything and therefore explains nothing'-reasoning and instead revolves around an 'authority approach'. This emerges by taking both market transactions and culture into account and is subject to the history of 'authority relations prevailing among individuals and institutions'.

Closer to an explicit historical – institutional view is Gerlach (1992) who aims at coming to grips with the 'modern market institution'. The latter is (Gerlach (1992, p 15)) seen as the outcome of 'a continuing unfolding of overlapping economic, political and social forces'. All of these forces must then be part of any in-depth market analysis that in addition is enmeshed with self-reliant actors thus subject to an institutional, history-contingent, context. In the opinion of Gerlach (1992, pp 23, 41-49) the call is out for a perspective that is a mix of the bottom-up individualized, and the top-down institutional, approaches (confer Wrong (1961)). This structural perspective to the organization of markets, as a viable alternative to neoclassical economics, will then be different from either one of a purely comparative historical analysis or a 'new' institutional (transaction cost) approach. Whereas the former is very alert to differences between traditional and modern society the latter is very much preoccupied with the explanation of market efficiency per se and the institutions that have given rise to this. As to this last point Swedberg (1993a, p xix) claims that the foremost sociological argument against this 'new institutional economics'-view is that cost efficiency is simply not enough to explain the rise of social institutions. '[S]ociologists claim that this type of analysis falls into the old trap of functionalism; everything is said to exist because it fulfills some function that is constructed ex post'. Gerlach (1992, p 50) instead subscribes to a social embeddedness (Granovetter (1985)) perspective where selected aspects of both neoclassical and institutional analysis come together in a deliberate fashion. A similar 'social institutional', though less structural, argument is that of Fligstein (1990, pp 299-300) which centers around the interlinkage between market and social processes. The market is here an outcome of the social organization and not the other way around. In consequence, in Fligstein's view (1990, p 303), both undersocialized voluntarism (id est neoclassical economics), and oversocialized determinism (id est population ecology) go astray as they either over- or underemphasize the impact of actor autonomy and faceless market power respectively.

To summarize, all of the above reasonably well represent various facets of contemporary market sociology, the domain wherein this thesis hopes to refine theory. As seen they converge in condemning similar attempts within new institutional economics on the ground of the latter's alleged Panglossian character. As noted by Dobbin (1997 (1994), p 223), 'not *all* roads lead to Rome, but *many* do.' The challenge, says Swedberg (1990, p 332), is to identify a 'mediating position between the historians' nonanalytical type of analysis and the neoclassical thinkers' nonhistorical type of analysis'. This is necessary since 'the economic arena itself (as opposed to the institutional framework that supposedly surrounds it) is not something nonsocial, where everything is decided by demand and supply. Instead, the economic arena consists of a number of mechanisms that are truly social in nature, such as trust, cooperation and competition' (Swedberg (1993a, p xviii)).

As seen above, culture, history, social structure, and institutions are all part of a broad sociological account of the market. The main emphasis of this dissertation is close to Gerlach (1992) in drawing on the 'soft' socio-structural market perspective that is discerned in the Granovetter (1985) interpretation of embeddedness. Herein structures matter, but not to the extent that the role of the actor entirely fades. This is reminiscent of the Callon (1998) attempt of overcoming the seemingly futile agency vs structure chasm. The particular economic sociology to be relied upon in this thesis not only constitutes an alternative to neoclassical ideas of the market, but also differs from earlier sociological conceptions of markets as seen in substantive anthropology and functionalist sociology.[16] It will be elaborated upon in Chapter VIII and encompasses, in the spirit of Weber, action as economic-social and economic institutions (such as the market) as socially constructed. To conclude, the single most important characteristic of market sociology (that this thesis as its overarching research goal hopes to elaborate upon) is the notion of the market as a social arena of interaction, something readily conceived of 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.*

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[16] 'It is our opinion that neither Polanyi's nor Parsons-Smelser's alternative conceptualizations are particularly fruitful when it comes to analysing markets. One reason for this is that Polanyi is characteristically unclear in his theoretical statements, while Parsons-Smelser's application of the AGIL [Adaptation - Goal attainment - Integration - Latent pattern maintenance and tension management] -scheme is too abstract and artificial' (Swedberg (1987, p 106)).

v. To understand, on types of scientific inquiry

There is now only one brick remaining in this chapter's recapitulation of the particular focus of this dissertation. How knowledge is furthered via the line of scientific inquiry chosen (what in broad terms could be labeled 'applied epistemology') might seem as an area unnecessary to cover separately as this is not after all a thesis in scientific theory as such. However, the very way in which competition is understood in this thesis, as analytical competition to be *explained*, is one of the two main features (the other being competition seen as induced by customers) that renders this effort distinct. It is discussed below when explanation as a path of scientific inquiry is brought up.

The reasoning of the first chapter on instrumental and analytical concepts of competition is very much reminiscent of von Wright (1971, pp 1-2, 83) who ascertains that scientific inquiry can unfold in two main directions. Either it deals with mere description, implying discovery of facts (that eventually then could be drawn upon for normative, explanatory or predictive purposes), or it is preoccupied with the erection of theory itself as discerned in hypotheses construction and similar. Within this last category, a scientific purpose could be either prediction or explanation. While the former looks ahead and entails 'anticipation of new facts', the latter mostly looks back as it is concerned with the 'rendering intelligent' of facts already observed. A key feature of the major share of explanatory accounts is furthermore that they draw on the cause and its effect, as opposed to 'ground-for / consequence-of' types of studies which reside more within the area of 'pure' logic. Causal explanations entail 'an individual occurrence of some generic phenomenon ... [and we look for] a system within which this (generic) phenomenon, the *explanandum*, may become correlated with another [the explanans] through some conditionship relation' (von Wright (1971, pp 34, 55)). As argued by Elster (1983, p 23) the scientific explanation itself is normally found 'at a lower level than the explanandum'. There is, then, a 'search for micro-foundations' subject to which explanans combine to throw light on the explanandum. In a similar vein Kaplan (1964, pp 327, 329, 330) says that by trying to explain one already has evidence for an association that is believed to be true. Something previously known of, but 'through a glass darkly' is hence illuminated and made 'intelligent'. This reasoning is very much in line with, and in part identical to, that of von Wright above concerning observation of already known facts. One could thus argue that these facts become 'known' as events are depicted by way of some initial, and most superficial 'preliminary' description that in consequence must precede the explanation thus to unfold. But whereas description is 'what', explanation is the '*why and / or how* what?'.[17]

> *An explanation does not tell us something of a different kind than a description does, but it tells us something else than the mere description of what it is explaining, and especially something appropriate to*

[17]Yin (1994, pp 6, 138, 140) asserts that 'how and why questions are more explanatory ... such questions deal with operational links needing to be traced over time, rather than mere frequencies or incidence'. There is hence more of dynamics to them. They allegedly are also particularly apt for theory-building structures.

the context in which the explanation is to function. ... [A]*n explanation may be sound without being relevant; a good explanation is both.*[18]

That is, an explanation is more *contextual* in character than a description. It is further more of a *composite*. According to Kaplan (1964, p 329) an explanation is a 'concatenated description' where facts are put beside each other and 'shines, as it were, with light reflected from all the others; it is because they come to a common focus that together they throw light on what is being explained.' In the words of von Wright above they then render each other 'intelligent'. As a case in point Kaplan furthermore relates the event of someone who dies from taking poison. This death can be explained both in physiological ('poison') and psychological ('suicide') terms. Both of them are clearly viable, but only the context (a class of medical students or a police department?) of explanation could tell which is in any way 'best'. That is, there is a contingent character to explanation not really found in other paths of inquiry.[19] On more of an aggregated level Hayek, by drawing on Popper, reinforces this by observing that 'science does not explain the unknown by the known, ... but, on the contrary, the known [id est discovered facts] by the unknown [for instance a social mechanism]. That is, the eventual association between variables is used in order to understand these variables. What is already known is combined, but in new ways that in and by themselves generate theory. It is, then, the very mode of combination that epitomizes an explanation underway (Hayek (1955, pp 5, 6)). As posited by Føllesdal et al (1993 (1990), p 185) it is thus reasonable to assert that whereas prediction is more central to applied research, basic research (such as the refinement of emergent theory) is much more dependent on explanatory inquiry.

And the problem will not be whether the model as such is true but whether it is applicable to (or true of) the phenomena it is meant to explain. ... This procedure [of explanation] *differs from the supposedly normal procedure ... in that we do here not* ***invent*** *new hypotheses or constructs but merely* ***select*** *them from what we know already about some of the elements of the phenomena; in consequence we do not ask whether the hypotheses we used are true or whether the constructs are appropriate, but whether the factors we have singled out are in fact present in the particular phenomena we want to explain, and whether they are relevant and sufficient to explain what we observe.*[20]

The most well-known categorization of explanations is probably that of Hempel. He relies heavily on the assumption that it is the prevalence of general laws that in fact renders

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[18]Kaplan (1964, p 329)

[19]As a case in point Kaplan (1964, pp 351-355) delineates eight functions of explanation which hence embody the contingent character hereof. An explanation can be, a) partial, b) conditional, c) approximate, d) indeterminate (it may be generally true but not necessarily in every single case), e) inconclusive ('they do not show why what is being explained must be so, but why it was very likely that it would be so'), f) uncertain, g) intermediate (each explanation is in its own turn subject to yet further explanation), and, h) limited ('appropriate to particular contexts ... not to every possible circumstance of inquiry ... [t]hat an explanation is conditional means that it applies *to* certain situations and not to others; that it is limited means that it applies *in* certain situations and not in others.')

[20]Hayek (1955, pp 7, 11)

scientific explanation viable at all. This given, two kinds of explanation are identified, 'deductive-nomological' and 'probabilistic'. Whereas the former 'amounts to a deductive subsumption of the explanandum under principles which have the character of general laws' the latter, though still derived from general theoretical principles are 'assertions to the effect that if certain specified conditions are realized, then an occurrence of such and such a kind will come about with such and such a statistical probability' (Hempel (1962, pp 9-15)). This perspective is however refuted by Føllesdal et al (1993 (1990), p 188)[21] who instead further another way of discerning one explanation from the other.[22] There are then three major 'modes' of explanation, the causal, the functional and the intentional. Whereas functional explanations build upon a feedback-loop between explanandum and explanans (something allegedly rendering it most apt for biology but less so for the social sciences),[23] intentional dittos are more explicitly 'directed to the distant future' as discerned in rational (means-ends framework-based) individual conduct (Elster (1983, pp 16-20), Føllesdal et al (1993 (1990), pp 190-191, 197)). As for causal explanations, Elster (1983, pp 26-30) finally claims that they are subject to three 'logically independent' principles, determinism ('any event has a cause'), locality ('a cause always acts on what is contiguous to it, in space and time ... [so that there cannot be any] unbridgeable gaps'), and temporal asymmetry ('a cause must precede its effect; or at least not succeed it').

Given this basic identification of explanation it can now be tied to the disciplinary areas of inquiry touched upon in the first chapter. There it is said that instrumental (descriptive and prescriptive) accounts of competition are mostly found within business studies as competitive conduct which results in certain states of competitiveness. Analytical accounts on the other hand by and large are the subject matter of economics that tries to predict outcomes of competition given well-articulated models. So, what about explanation and the manner in which it is handled within business studies and economics respectively?

A distinct hierarchical perspective to explanation ('causal associations, the end result of which is a logical model'), claiming that it is closely linked to 'existing theory', is that of Arbnor and Bjerke (1977, pp 9, 60-61) who write from within an applied business perspective. In their view (drawing on Wärneryd) scientific ambitions range from description via explanation and prediction towards prescription. For instance, '[e]very prescription contains a description, assumed or empirically validated. One cannot choose what course of action to prescribe without knowing what events each course of action will lead to' (Easton and Håkansson

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[21]See also Elster (1983, p 26).

[22]The stance of Hempel is downplayed with reference to that it is not sufficient. This is so for two reasons. Firstly, there is a difference between correlation and explanation. Secondly, necessitation and explanation are not the same. That is, two entities can show law-like association but still appear subject to a third intervening, non-observable, variable.

[23]This however does not mean that functional explanation has not been relied upon in the social sciences, see for instance the systemic functionalism of Parsons.

(1996, p 409)). A similar view is that of Føllesdal et al (1993 (1990), p 187) who claim that explanation must always precede prediction as the latter cannot, in the long run, be feasibly carried out devoid of an underlying satisfactory explanatory theoretical account. Following this vein of reasoning it is hence possible to argue that in case a phenomenon (such as competition) is not properly explained (based on the descriptive recording of some particular events), it is questionable whether it can in fact be brought up within either predicting or prescribing inquiries. A similar discussion is that pursued in Brunsson (1982), the departure point of which is that business studies are generally prescriptive in formulating normative accounts for how companies should behave (id est compete) in order to attain certain outcomes. The argument of Valdelin (1982) here is that prescription in business studies by far outperform both description and explanation in terms of sheer prevalence and that this is not really desirable. A somewhat differing view, still though acknowledging the relative lack of explanatory accounts in business studies, is that of Easton and Håkansson (1996, p 409) who claim that 'industrial networks' studies to date have been mostly descriptive in character. From a scientific inquiry perspective business studies then seem to need more of explanation in order to be able to strengthen its normative aspirations. That is, *instrumental competition is likely to be enriched as more is learned about explanatory (analytical) accounts thereof.*

What about economics that occupies the most preeminent role in the understanding of competition since its analytical, mostly predictive, aspirations, also inform business studies? There is no doubt that some accounts in economics aspire to explain, and not only predict (or eventually prescribe on the macro level of an economy) competition. Hausman (1981, p 17) furthers the position that Debreu (in Theory of values) claims his work to be about the explanation (of prices though) whereas Hahn and Arrow are said to deny the position that general equilibrium theories can be explanatory at all. This is also the position of Hausman himself who denies the presence of explanatory (but also predictive) power in (equilibrium theory) microeconomics. His argument rests on the idea that void of 'lawlike reliable generalizations' microeconomics models cannot ever purport to be explanatory. That is, by formulating *so* stringent assumptions regarding for example information access in states of perfect competition, microeconomics necessarily denies the prevalence of lawlike constructs. The consequence is that generalization becomes most problematic. As seen this is very much in the spirit of Hempel (1962) recapitulated above. Scientific explanations, according to Hausman, do in general satisfy the demand for fundamental conditions or auxiliary hypotheses that are true or mostly / approximately true. What Hausman seems to be after, without really expressing it, is that explanation requires the recording of some preceding events, something obviously not in place since the assumptions of microeconomics explicitly estrange themselves from such 'truths'.[24] As a case in point consider general equilibrium theory wherein assumptions concerning humans 'knowing it all' prevail (Hausman (1981, pp

[24]In the language of von Wright above, what is 'true' is then the already observed, thus known, facts.

20-21, 24-25)).

> *Abstract general equilibrium models thus seem to have the form of explanatory arguments where the explanandum is the existence of an economic equilibrium.* [But, as no economy is never in equilibrium] [t]*here is no fact of equilibrium to be explained. ...* [The economist] *explanation of a possibility needs to be distinguished carefully both from explaining "How possibly?" ... and from any discussions of the feasibility of economic equilibria. ...* [E]*conomists are not trying to explain away the existence of some sort of competitive equilibrium, to show that its existence is consistent with prior beliefs ...* [nor] *with how or whether a competitive equilibrium is practically possible or feasible.*[25]

How does explanation then appear within sociology? A most general definition is that provided by Smelser (1968, p 55). He identifies sociological explanation as 'that enterprise of accounting for regularities, variations, and interdependencies among the phenomena identified within sociological frameworks'. More of a precise stance on the subject is that taken by Hedström and Swedberg (1998, pp 1, 8-9). They claim that sociology needs more of analysis in general and in particular as this is discerned via 'social mechanisms that generate and explain observed associations between events'. This view is very much in line with that of Elster (1983, p 24) who also furnishes the device then needed. 'To explain is to provide a mechanism, to open up the black box and show the nuts and bolts, the cogs and wheels of the internal machinery'. That is, for sociology to proceed it is necessary to focus on explanatory accounts, preferably by relying on mechanisms. Obviously this also holds very much for an emergent market sociology. In the view of Hedström and Swedberg it is, then, crucial not to succumb to the idea that explanatory accounts can be 'hidden' under the assumed prevalence of some general law-type of reasoning. That is, they turn against both Hempel (1962) and Hausman (1981) but side with Elster (1983). It is also indicated that a law-like argument could end up in a mechanism that in fact provides no more information than what the law provides itself. This holds particularly in the case where the law is a 'statistical association' since the corresponding mechanism then provides no additional information, only 'that there is an association, but not why[?]' (or how?). There will be a 'black-box explanation' devoid of any mechanism features wherein the 'why?' and / or 'how?' are really being opened up. What signify mechanisms, argue Hedström and Swedberg (1998, pp 13-15) is that they are 'unobserved analytical constructs'. In this context there will always be a model, an 'ideal-type' which reproduces the phenomenon to be scrutinized, and it is this reproduction-of-the-real-phenomenon that matters for theoretical analysis, not the real phenomenon itself.[26] 'It is through abstractions and analytical accentuation ... that general mechanisms are made visible. ... [And] these abstractions also distort by their very nature the descriptive account of what actually happened, by accentuating certain aspects of the situation and by ignoring others.'

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[25]Hausman (1981, pp 22, 28)

[26]'That predictive and explanatory power are good reasons for acceptance of propositions that cannot be directly verified is quite generally recognized' (Wallach and Wallach (1994, p 235)).

This means that any criticism of analytical models regarding their non-realism must necessarily be futile, a 'logical fallacy'. What matters is how well they serve their intended purpose.

To summarize, given the overall 'social' stance taken towards competition in this thesis it is but natural, following the Hedström and Swedberg (1998) claim of above, that an explanatory account is treated by way of social mechanisms. And particularly so as the mechanism can be discerned in a model. In this dissertation competition will, as seen in the stated purpose, come forward in this vein. That is, in contrast to similar accounts where the market is the mechanism and competition the agency, the view furthered in the model here to come forward is that competition is the mechanism and the model agency is what actually makes *competition* come about. Whereas this agency embodies the explanans, competition is the explanandum.[27]

vi. Plan of the argument

The argument to unfold in this essay is organized in four consecutive blocks as follows.

After the first block that by now is complete, the second one contains two chapters. Both of them deal with competition, but in different manners. Chapter III features a recapitulation of

[27] To fully appreciate this reasoning, more must be learned about social mechanisms. This will follow in Chapter V as social mechanisms are discussed in parallel to ideal-types and agency.

competition theory within classical sociology, contemporary markets-as-networks studies, classical / neoclassical economics and Austrian economics. Whereas the sociological approaches and Austrian economics will have a more decisive impact on the claim to be pursued, the neoclassical account appears mostly as a frame of distant reference given its undisputed role in competition theory. All of the schools will be commented upon in particular regarding how they relate to competition as a customer-driven phenomenon, the very subject matter of this text. In addition, each of them will be scrutinized also concerning how they view the market, a necessity whenever competition is dealt with. The chapter however does not appear merely as a recapitulation of what is hitherto brought forward in the area. Its most important role is instead as the main generator of ideas for Chapter IV. This chapter is what articulates the idea of customer-geared competition as a social mechanism. This idea appears under the label of Tertius Gaudens, 'the third who benefits from the discord of the two'. After the identification of nine theoretical dichotomies, derived from the preceding chapter, a distinct notion of competition is defined. This will subsequently serve as the model explanandum. The model is then elaborated via the definition of two explanans, the joint agency of which tentatively is what feeds into competition and thus explains it. These two explanans are derived from the combination of two guiding principles, each of which stems from one of the two main theoretical pillars of this work, Austrian economics and economic sociology.

The analysis to follow in Block 3 is divided in three parts. It opens up with Chapter V that provides an account of the methodology adhered to in this text. Among other things this chapter discusses the legitimacy of purely theoretical reasoning and describes how this could come about via a *pro aut contra* analysis of arguments. That is, the chapter provides a necessary background for the analysis to follow in Chapter VI. In this succeeding chapter the model thus erected is rendered complete by the articulation of its specific agency, the details of the causal association which tie the explanans to the explanandum. That is undertaken by the formulation of two issue-expressions that subsequently are looked into by means of an analysis of argument. This scrutiny is what tries the model out by thus eventually establishing its plausibility. The third and last part of Block 3 is Chapter VII. Herein an empirical illustration is provided concerning if and how the essence of the model thus generated, customer impact on competition, is present in parts of Swedish antitrust legislation tied to 'abuse of dominant position'.

This dissertation closes with Block 4 that features two chapters. The first of them, Chapter VIII, deals with the issue of theoretical coherence between Austrian economics and economic sociology. These are the two schools which inform this thesis via, among other things, each of the explanans found in the model. Apart from a presentation of the schools as such, their eventual partial reconciliation is judged in light of three key aspects of human market action.

Individualism, rationality, and subjectivism. The succeeding chapter entails the conclusion of this dissertation. That is, is anything new in fact learned about competition in accordance with the purpose stated by the explanatory model thus formulated? And is the problem area of this research effort a little bit less 'problematic' thanks to the appearance of this essay? A brief excursion will also be made into a territory where some of the assumptions underlying the model are relinquished. Does the model still make sense, or? It will then be discussed whether in fact the explanans provided could assist in explaining phenomena other than competition in a new economy. Lastly the eventual contributions of this text will be summarized and tied to ideas for further scrutiny. This is the manner in which this thesis comes to a definite and possibly long awaited end.

This chapter, and the Opening Block of the thesis, now comes to a conclusion. In light of <u>the identified research problem</u>, competition in markets-as-networks sociology a) <u>the purpose</u> is stated as the formulation of an explanatory model of a particular customer-geared competition in the guise of a social mechanism, b) <u>the adjacent thesis assumptions</u> pertaining to the model itself, the subject matter competition, the market, and the delimitations, are delineated, c) <u>the overarching research goal</u>, theoretical refinement of market sociology is illuminated by the provision of some earlier contributions therein, and, finally d) <u>the epistemological aspiration</u> (the path of scientific inquiry) adopted, explanation, is discussed with particular emphasis on its relation to the notion of social mechanisms. To summarize, <u>this dissertation is about the explanation of customer-geared competition according to the research skeleton provided above</u>. It continues in the succeeding chapter with an overview of theoretical contributions in the area of competition.

BLOCK 2, COMPETITION

III. SCHOOLS OF COMPETITION

IV. TERTIUS GAUDENS, COMPETITION AS A MECHANISM

III. SCHOOLS OF COMPETITION

This chapter provides a non-exhaustive recapitulation of theories of competition as they appear within sociology and economics. Apart from furnishing an essential background to the subject matter of this essay, it opens up the second block of the thesis, Competition. The pages to follow also constitute the basis upon which the remainder depends. That is, this chapter provides an input for the nine dichotomies of competition to be elaborated in the successive chapter as a particular customer-geared competition is identified. There are traces of customer impact found in each of the theoretical accounts provided below. Within neoclassical economics there is the case for countervailing power. Classical sociology stands out in addressing the customer through the bidimensional market account provided by Weber and Simmel's essential claim that what makes competition be competition and not conflict is its indirect character. There are also distinct signs of the like within contemporary sociology, most notably within some networks – inspired reasoning which claims that competition is 'mediated' by customer-supplier relationships. The foremost exponent of an explicit customer-based view within Austrian economics is Mises who ascertains the role of consumers as entrepreneurs in this regard, a reasoning in part deepened by Kirzner. The chapter also dwells on the manner in which the various theoretical schools view the market.

i. Classical sociology

Max Weber[1]

Weber furnishes a fundamental socioeconomic agenda which implies two related things. *First*, virtually all social phenomena are economically related in one way or the other (and vice versa as most economic phenomena per definition are also social dittos). *Then*, it follows that human action is mostly *economic social action*. It is oriented both towards own utility and others, and jointly propelled by (material) interests, habits and emotions. As for Weber's view on competition, conditioned by his perspective on relationships and markets, this socioeconomic maxim is obvious.

It is a truism that how to conceive of competition is tightly intertwined with the manner in which the arena, the market, wherein it unfolds is looked upon. Nowhere is the alleged close interlinkage between market and competition more explicit than in the words of Weber (1968 (1922), p 635).

> *A market may be said to exist wherever there is competition even if only unilateral, for opportunities of exchange among a plurality of potential parties.*

That is, competition as a prerequisite for markets based on potential exchange. This statement renders the role of exchange crucial and in further emphasizing this Weber (1968 (1922), pp 636-637) indicates that the market 'is' the relationship(s) which results from this exchange (confer Parsons (1964 (1947)), p 54). This market, says Weber (1927 (1923), pp 163, 213-

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[1]For a similar account of Weber's approach to markets and competition, see Swedberg (1994, pp 265-266, 271-273, 1998).

214), needs some kind of an organizing principle. He then somehow takes supply as given and focuses on the manner in which buyers can match what is offered by the 'entrepreneur' with their 'purchasing power'. It is in consequence necessary for demand to be of a certain size and regularity. The crucial organization of a market also requires money that represents purchasing power. As historical examples of organized markets, Weber mentions Hanses or so-called 'fixed markets' wherein buyers and sellers can meet following certain 'fixed times of trading'. *Markets hence come about via organized exchange.* On a generic level this exchange, which underlies the formation of relationships, is seen as a 'compromise of interests'. When exchange takes place for some kind of goods, there is an agreement at hand indicating the transfer of control of different objects from one actor to the other.[2] In this context, mutual expectations of conformance to the agreement are critical (Weber (1968 (1922), pp 72, 327-328, 637)). This is so since both parties to an act of exchange presumably are interested in repeating it. This claim however rests upon the central position occupied by the association between actual and potential exchange in Weber's analysis, something that tells about the heart of his perspective both on markets and competition.

> *By the 'market situation' (Marktlage) for any object of exchange is meant all the opportunities of exchanging it for money which are known to the participants in exchange relationships and aid their orientation in the competitive price struggle. ... 'Market freedom' is the degree of autonomy enjoyed by the parties to market relationships in the price struggle and in competition.*

That is, a market is constituted by the realized *potentials* of exchange in parallel with the role of these as an *orientation device* for competition. This is where Weber foreshadows the importance he assigns to openness and closure respectively in the attempt to grasp competition as discerned in his pinpointing of *opportunities* of exchange. He goes on to observe that once an (exchange) barter is underway between two parties it is no longer part of the market but only of interest to these actors themselves. That is, what is at first very 'open' then turns into something 'restricted' in the sense that only those directly involved are affected. What is more, once someone *intentionally* is to act against someone else's will in this context there is conflict which is the broad encompassing concept adhered to once objectives somehow are opposed (Weber (1968 (1922), p 38)). If this is explicitly tied to economic action which according to Weber takes place in the realm of scarce resources, competition will take place for these scarce resources. In the market this means relationships. Hence, recurrent acts of exchange give rise to 'a continued exchange relationship' which constitutes the objective of competition via a particular object.

Weber (1968 (1922), pp 26-28) then asserts that the (social) relationship epitomizes the very

[2]On an aggregate level Weber (1927 (1923), p 126) says that an economy based on exchange for its existence depends on a critical mass of consumers that has got enough 'purchasing power to absorb ... output'. That is, supply is taken as given and demand is seen as the discretionary factor.

idea of sociology, that of taking others into account by orienting towards them. A relationship in itself is embodied in the 'probability that there will be a [to the parties subjectively] meaningful course of social action' and is then future-oriented. This definition is very general and implies that the content of the relationship, given a threshold level of mutual orientation that does not have to be symmetric, could be virtually anything. This also means that competitors can be said to engage in relationships. The timely dimension of a relationship is obviously *not* paramount to this interpretation. There are further, says Weber (1968 (1922), pp 40-43), two distinctive types of relationships, communal and associative. The former stems entirely from the subjectivism expressed by the parties to a relationship (love, *l'esprit de corps*, et cetera) whereas the latter is subject to more of 'rational absolute values' as found in the marketplace.

The first part of Weber's view on *competition* is tied to the openness of markets where economic action deserves special attention given its revolving around scarcity. In this context Weber (1927 (1923), pp 136, 140, 195, 284-285) furthers a few examples where this openness is not present. Guilds, he says, only function via 'monopolization against outsiders' by the control of 'buying opportunities' and the role of guild membership as discerned in 'a tendency to hereditary appropriation'. Similar conditions may apply also to ethnic minorities as seen in India where 'trade is a monopoly in the hands of certain castes' and certain princes in the 16^{th} and 17^{th} centuries.

To be able to draw the argument to a close Weber is however forced to reenter the perpetual socioeconomic argument of his. This comes about as he realizes that since there are several parties interested in each act of exchange it means that they depend on each other. Any economic action must then, necessarily, be social (Weber (1968 (1922), pp 339, 636)). Given the definition of action oriented towards others provided earlier, actors are thus inclined to continue existing, and / or enter into new, relationships. This is so since it is within a relationship that exchange is to be found, the latter constituting the objective of competitive activity as it develops into the said relationship (Weber (1968 (1922), p 82)). But before exchange can be realized it must be imagined, something occurring in parallel with others looking after the same exchange. Weber (1968 (1922, pp 635-636) is thus keen to point out that *the more* potential 'real or imaginary competitors' are taken into account by the exchange parties-to-be, *the more* does the market epitomize social action. Put differently, whereas the market at the outset is a rather 'economic' feature (though still of course social), it gradually transforms into something 'social' (though still of course 'economically conditioned') as a de facto act of exchange is coming closer. The role of competition is here to render the market a truly social phenomenon. That is, *competition epitomizes economic social action where also others are taken into account.* Once others (apart from unique exchange parties-to-be) are subjectively taken into account prior to exchange, there is competition. Hence, the more *social* action is, the more *competition* by way of an actor's interpretation of her (market) environment. It follows that an *non-social* market approach can hardly conceive of competition at all in the world of Weber, the reason being that in that case no one else is taken into account prior to exchange. The market is then closed and can in consequence hardly be said to exist.

To Weber (1968 (1922), pp 26-28), the relationship itself, though loosely defined, is in many ways the epitome of sociology. And what is more, it is (as seen above) also the key to his understanding of competition. According to Freund (1968, pp 154-155), Weberian competition is what by itself tends to close a relationship to outsiders since the incumbents interpret their belonging to this relationship as a kind of property to be 'protected'. This is a process of monopolization (similar to that recognized by Park and Burgess (1924, pp 505, 552), as 'the destruction of competition by competition'). 'The relationship between monopoly and competition constitutes the whole dialectic of appropriation'.[3] The argument (Weber (1968 (1922), pp 43-46, 638)) follows Weber's notion of the fundamental role of a relationship for the market and seizes in on the degree of openness / closure respectively inhering in relationships. There is then a distinct difference made between those being parties to a relationship and those outside it. Once the *potential* entry of the latter is foreclosed by incumbent relationship parties, Weber refers to 'appropriation' as the monopolization of corresponding potential exchange opportunities. This is but logical given the central role of competition for the Weberian idea of markets. That is, an arena made up of only appropriated (and thus closed) relationships can hardly be thought of as a market since there will be little or no competition prevailing there. This also follows the fact that action in this context will not be oriented towards others. It is not social.

It is by now clear that Weberian competition unfolds for opportunities of exchange taking place in market relationships. But, how can competition as such be more precisely identified? Swedberg (1998, p 34) emphasizes the omnipresence of power and thus struggle in Weber's sociology and this is also the realm wherein more of a detailed account of competition can be found. The overarching concept of Weber's is that of conflict as a kind of social relationship prevailing between parties whose individual wills are carried out against those of others. Conflict can be discerned along a spectrum ranging from a peaceful non-violent case (=competition) to unregulated struggle through 'social or biological selection'. That is, there is a 'violence dimension' to conflict contingent on how regulation in terms of order comes about. 'The conceptual separation of peaceful [from violent] conflict is justified by the quality of the means normal to it and the peculiar sociological consequences of its occurrence' (Weber (1968 (1922), pp 38, 83)). And as for competition, the 'meaningful orientation towards others', it is 'peaceful and regulated' since 'its ends and means are oriented to an

[3]Parsons (1964 (1947), pp 37, 41)

order'. This is far from anarchy. Instead there is an adhered-to framework of rules prevailing which guides how the wills-at-odds are to unfold. *That is, it is the governance structure by way of the market institution at hand that distinguishes competition (for exchange opportunities) from other kinds of conflict.* And, as noted by Freund (1968, pp 163-164), one feature hereof implying 'struggle for trade', is each actor's rational profit calculation.

In sum, competition to Weber is a peaceful conflict subject to a market order inhering in actors orienting towards each other. The kernel of this market order is the exchange for which actors strive in remaining within, or in creating new, relationships, the closure and openness to outsiders of which implies the absence / presence of competition. The more others are taken into account, the more competition prevails. That is, *the more open, and the more social, the market* (exchange opportunities resulting in relationships), *the more competition there is*.

As for market dimensions, Swedberg (1994, pp 265, 271-272, 1998, pp 42-44), emphasizes the way in which Weber makes a timely distinction between competition and exchange in that the former is said to precede the latter. Thus 'competition between the many preceding exchange between the few'. This is a dynamic view of competition which pinpoints the fact that there are more parties to competition than to exchange (Weber (1968 (1922), p 72)).

> ***On the one hand, there is the conflict over the price to be agreed upon with the partner in exchange; the typical method is bargaining. On the other hand, there may also be competition with actual or potential rivals, either in the present or in the future, who are competitors in the same market. Here, the typical method is competitive bidding and offering.***

As seen, conflict is more 'vertical' in nature than competition which is 'horizontal'. Hence, the opposed interests of compromise are present both in the vertical market dimension (as 'bargaining' over a particular price with the exchange partner at hand) and the horizontal market dimension (as 'bidding and offering' among 'actual or potential competitors').

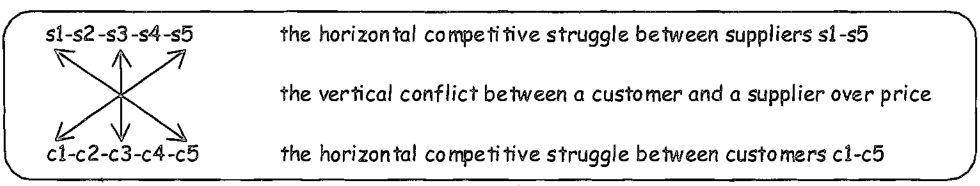

Figure IIIa; Weber's view of the market as social structures[4]

[4]Swedberg (1998, p 43)

Georg Simmel[5]

The most profound tendencies of modern life -the objective and the personal- find in competition one of their points of coincidence where they directly belong together in practice, thus showing their opposite characters to be mutually complementary elements of one unit in intellectual history.[6]

The manner in which Simmel approaches competition is on the one hand more subtle and on the other more general than the account of Weber's delineated above. It is more fine-tuned in the sense that his discourse dissects the human mind in a manner that Weber does not. But it is also more panoramic since he treats competition as something also pertaining very much to areas outside the market realm. The reason for this is that Simmel is much more inclined towards pure sociology thus downplaying the *economic* sociology content, the very same as much emphasized by Weber. In this respect Simmel is less of an *economic* sociologist than his fellow German. This is also discerned as he holds himself rather aloof as to the erection of an overriding socioeconomic agenda.[7] The 'social being' of man is so paramount that all analytical efforts must be subject to, or 'reduced to parts of[,] the science of social life' (Simmel (1950 (1908), p 12)). In consequence competition is brought up as a foremost social phenomenon that only occasionally takes as points of illustration 'the businessman'. Much more frequent is the detailing made up of various historical and religious phenomena such as the Ottoman empire and the Catholic church. The Weberian account, given its explicit preoccupation with economic sociology, is also more directly applicable to a market setting.[8] Two things follow from this. On the one hand, to spot Simmel's view, it is necessary to furnish more of a background to arrive at a frame where competition really fits in. And once there, it takes a little bit more imagination than what is the case with Weber to apply Simmel's argument in a market context.

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[5]Simmel is undoubtedly one of the founding fathers of economic sociology. In relation to Weber it is however important to note that he is far less explicit when it comes to discussing this area of inquiry per se. Instead it is endemic to his general thoughts about societal life. What is more, his influence on contemporary 'new' economic sociology has hitherto been far less salient than that of Weber's. This is readily discerned when looking into some works on economic sociology in retrospect. He is not even mentioned by Granovetter (1990a) or related to more than in passing by Swedberg (1991). It is also very telling that in the most up-to-date standard work in the area, Smelser and Swedberg (1994), Weber is allegedly referred to in 36 different passages, Marx and Durkheim in fourteen, and Simmel only in nine. See also Turner (1991, p 497) as to the relative invisibility of Simmel generally in some current-day sociology, '[A]lthough we cannot easily find Simmelian sociologists, as we can Marxians, Durkhemians, and Lévi-Straussian structuralists, Simmel's basic approach has had a fundamental, if only implicit, impact, on structural thinking in sociology.'

[6]Simmel (1955 (1908), p 85)

[7]One of the few places where Simmel is as distinct as Weber in defining *economic* action is where he (Simmel (1971 (1907), p 45) notes that economic action is not possible at all were it devoid of interaction as ('sacrificing') economic exchange. As noted by Levine (1971, p xlv), Weber is however inspired by Simel's treatment of social interaction. A case in point here is Simmel's (1955 (1908), p 116) brief remark that '[a]ll exchange of things is a compromise', something literally drawn upon by Weber (see above) without however paying due tribute to the Simmelian origin of this claim.

[8]This is of course not to say that Weber's theory is not general, but it *is* more focused that its Simmelian counterpart in this respect.

A core concern in Simmel's sociology is the relation between the individual herself and the encompassing social structures to which she is a party (confer Simmel (1950 (1908), pp 26 ff, 118 ff)). For instance, instead of explicitly drawing on the 'relationship' between two parties as an entity of its own, Simmel often allures to the 'dyad' in its role of tying each individual to the overriding structure in a bottom-up manner. That is, Simmel pursues a structural sociology in the sense that the structure, id est groups et cetera, matters, but only to the extent that this has got a function for the individual. This means Simmel does not face too much of a problem with 'agency-structure' but on the other hand one could question the extent to which his theorizing lends itself to empirical investigation. To be able to pursue any analytical work at all outside a purely abstract realm, Simmel is in need of some guidance. This is where the use of main social principles comes in. Levine (1971, pp xxxiii-xxxiv) identifies *reciprocity* as one of the four (the others are 'form', 'distance' and 'dualism') through which Simmel sets out to understand society. The idea inherent to reciprocity is allegedly that no being or object has a meaning on its own. This only comes forward in *interaction* with other entities, be they individuals or artifacts.[9] But interaction thus rendering reciprocity viable is in need of something more concrete serving as the device by which it is manifest. This device to Simmel is the notion of *exchange*, a subject that he dissects in an almost surgeon-like manner of particular interest for the economic sphere.

The key character of exchange (the generic meaning of which entails mutual value-adding for the parties involved) in this discourse is obvious when Simmel (1971 (1907), pp 43-44) singles it out as 'the purest and most concentrated form of all human interactions in which serious interests are at stake'. It is 'the objectification of human interaction' (Simmel (1950 (1908), p 388)). As argued by Dodd (1994, p 45, 54), '[Simmel's] exchange is the fundamental condition of social life. ... While Marx regards production and exchange as separate points within a series of historically specific economic circuits centered around modes of production, Simmel addresses every act of exchange as a manifestation of the forms of interaction he regards as fundamental to social life itself'. This renders exchange particularly apt concerning the understanding of economic phenomena. It should at once be emphasized that this interest of Simmel's is by no means unique within social thinking at the time of writing. Quite the contrary. Part of his argument on exchange is in fact reminiscent of the discourse surrounding the marginal revolution (as classical turns into neoclassical economics), something readily seen if his text is put beside that of Menger (1994 (1871), pp 175-190). Even though Simmelian exchange is a general enough concept to encompass also acts of love, economic exchange is singled out as carrying special weight, presumably (as noted by Levine 1971, pp xxxiii-xxxiv) as it embodies 'complete reciprocity'.[10] In addition to

[9]Simmel (1950 (1908), p 345) for instance identifies 'the secret ... [as] a sociological determination characteristic of the reciprocal relations between group elements.'

[10]As noted by Dodd (1994, pp 47-48), Simmel also asserts that the emergence of money in part curtails this full and direct reciprocity. Turner (1991, pp 300-301) in a similar manner observes how Simmel comments on the

this it is closely associated with the idea of opportunity cost (a notion not explicitly stated by Simmel himself) as it entails a kind of major sacrifice not distinguished in feelings of love (Simmel (1971 (1907), pp 44, 51)). This is of course very close to the (Austrian) notion of 'cost as foregone utility'. Akin to this 'psychological' (read: subjective) economic reasoning is also the way in which Simmel (1971 (1907), p 46) underlines that economic exchange does not necessarily have to a) be physical, b) come true between two separate parties. Also processes unfolding 'within the psyche of every economic actor' can be (intraindividual) economic exchange as long as the two bricks of (subjective) sacrifice in return for attainment are in place. In sum, full reciprocity, tangible sacrifice, and subjective character are all features endemic to Simmelian economic exchange.

In its purest form, by tying what is perceived as given up to what is perceived as being received in return, this argument echoes the classical-neoclassical debate on marginal utility as 'resolving' the classical paradox of diamonds. 'Thus if someone at the point of death from hunger gives away a jewel for a piece of bread, he does so because the latter is worth more to him under the circumstances than the former' (Simmel (1971 (1907), p 52)). This is the same as saying that the marginal loss and profit in terms of utility must be (at least) equal in order for exchange to come about. Simmel however takes some pains in furthering his claim by emphasizing that not only is it necessary to evaluate what is received in return on a par with what is given out but that *what is attained gets its own value from what is given away*. That is, unless the sacrifice is enacted and thus 'felt', what is received in return cannot be enjoyed. 'Positive' value in exchange cannot exist without 'negative' cost. For instance, the danger of climbing a mountain is the sine qua non necessary to invoke in order to be able to really take delight in reaching the peak. Or as regards antiques, 'they are worth as much as they cost ... [and they appear to] cost what they are worth' (Simmel (1971 (1907), pp 53, 54, 56)). There is hence an almost imputation-like mechanism around as how pain is tied to gain. And this connecting mechanism is exchange within the realm of which 'the subjective state of feeling [is transformed] into objective valuation'. This holds, as noted above, in particular concerning economic exchange that is defined hereby. That is (asserts Simmel), wild fruit picked from the ground without any effort cannot be an economic good. And if everything man needs would be supplied in this way, there would be no economic activity. In such a world there could, in consequence, be no (subjectively constructed) economic value as no sacrifice is necessary in order to receive what is desired.

> *The very transaction between two possessors of objects ... which brings them into the so-called economic relation, namely, reciprocal sacrifice, at the same time elevates each of these objects into the category of*

transformation of social relations as barter is replaced by money as an exchange device. Simmel himself (1950 (1908), p 388) asserts that as exchange moves from primitive forms into 'the fully developed economy', relationships between individuals are transformed 'into self-contained, movable things' so that 'personal interaction recedes altogether into the background, while goods gain a life on their own. ... The relation among men has become a relation among objects.'

value. ... Economic values thus emerge through the same reciprocity and relativity in which economic condition of values consist.[11]

As argued above, this claim of Simmel's seems close to that which epitomizes the advent of marginal economics revolving around the notions of marginal utility subject to the relative scarcity of goods. Simmel (1971 (1907), pp 62, 68-69) himself means however that his own argument is much more elaborated and integrated in that 'his' scarcity only matters to the extent that it can be 'modified' via exchange (the 'economic realization of the relativity of things'), the latter of which however is conditioned by this scarcity. This is of course another way of restating that pain and gain are closely intertwined once they could actually 'meet' in exchange. Or that value cannot ever exist only in terms of utility and scarcity, devoid of operational exchange. To understand value it is hence necessary to take into account both the actual enjoyment when something is consumed (the 'end') and the means by which this came about ('the magnitude of the sacrifice involved in exchange'). '[T]hings are not difficult to obtain because they are scarce, but they are scarce because they are difficult to obtain.'

To Simmel (1971 (1907), pp 43, added italics), this value-creating exchange is further endemic to the idea of a *relationship* even though he does not clearly state, as does Weber, that recurrent acts of exchange are what actually 'make up' a relationship. 'Most relationships among men *can be considered* under the category of exchange...'. The impact of such a relationship is also the basis for all 'sociation', something that stretches out deeper and further than the advents occurring as the relationship develops. This implies a certain amount of stability to the relationship embodied in 'the creative mood' wherein it comes about in the first place. Withstanding all sorts of disruptive forces the relationship hence, 'lives on in the sociological situation it has produced' (Simmel (1950 (1908), p 388)). Simmel ((1971 (1907), pp 44, 45)) also takes some pains in emphasizing that a relationship-as-acts-of-exchange cannot ever be separated from the parties hereto. That is, the relationship, just like the kiss, cannot exist without those entities ('the lips') that embody it via acts of exchange where something is sacrificed for something else attained in return. This Simmel's overt precaution concerning the risk of assigning the relationship a 'life on its own' is most likely the reason why he instead chooses to pay attention to the dyad. Herein the prevalence of the individual actor, in her relation to a particular aspect of her environment (the other actor in the dyad), is paramount. This lessens the risk for the dyad to be perceived as separate from its sub-parts. The uniqueness of the dyad (*die Zweierverbindung*) is found in that the relation to its constituent parties differs significantly from any other larger groups of people. The first and foremost reason is that the effect of a drop-out is relatively more devastating here than for any other group. Simmel (1950 (1908), pp 125 ff) further delineates the specific dyad properties as 'triviality' (a measure of frequency of anything occurring in the dyad, the value of which

[11] Simmel (1971 (1907), p 57)

stems from its relative scarcity) and 'intimacy' (the interdependence of the subjectively self-perceived personalities of the parties). As for the specific *business* dyad Simmel (1950 (1908), p 132) emphasizes the objective structure hereof despite its interpersonal character. That is, this kind of dyad has more of a 'life on its own', whereto each party has both rights and duties than for instance a marriage. But it still exists only via the individuals therein. With reference to 'the objective character of the economic system' (see further below), Simmel claims that business has got a non-personal character which means that the purpose of any interaction is found 'outside itself' as opposed to the alleged 'inside itself' character of marriage interaction. This is slightly problematic to envisage given the manner in which Simmel approaches exchange. But as seen below what Simmel is after is that the objective inheres mostly in the macro structure whereas micro structures, where actual exchange unfolds, are imbued with subjective consideration.

But is there any allusion to the market in Simmel's argument? Nowhere it might seem, yet this is not really the case. Swedberg (1994, p 265) notes that Simmel 'touches' upon the market in some of his writings without really penetrating it in its own right like Weber. The key to understanding the Simmelian treatment of the market is found in the recurrent social theory discourse on the micro foundations of macro phenomena. Simmel himself (1971 (1907), p 50) almost literally foreshadows this eternal issue in contemporary debates as he states that on a (macro) 'economic system' level it is possible to treat objects as imbued with objective values. This is not possible, however, if (micro) processes of exchange are to be understood. An object in consequence will always be subjectively valued when understood as an item of exchange. And, given his conviction that a) the idea of exchange is crucial for the understanding of social life, and b) this exchange is enmeshed with propelling subjective components enabling it to explain evaluation of attainment and sacrifice respectively, it is simply not possible to treat the market without some in-depth understanding of the components thereof. And once this is accomplished, what more is there to understand? That is, on an overriding level one could possibly talk about the market in a Simmelian manner. But this can only take place in an objective manner, as (subjective) exchange, which is what really matters, only can occur at the level of actors. Hypothetically, were it possible to conceive of macro entities via outright subjectivism, Simmel would be in the position to speak out more directly about the market in a fashion that would both make sense and be viable given the extraordinary weight that he places on exchange. Dodd (1994, pp 45, 53) comments on the invisibility of the market in the discourse by noting that Simmel, in a claim revolving around how value is subject to 'a network of transactions organized around a price mechanism' (that is, value is partially determined by factors external to individual conduct), 'refers to what appears to be, in all but name, a market'. Dodd also agrees with the argument put forward above that the heavy emphasis placed by Simmel on exchange as such might explain why more attention is not devoted to the 'structural framework' (that is, the market) where this actually takes place. Still this by no means renders his claim reductionist in character, argues Dodd, as 'Simmel's observations on the small scale make little sense without reference to what he calls the social totality.' And this micro-macro inference inheres, according to Dodd, in the overall Simmelian analysis encompassing both individual exchange relationships and the 'social totality'.

Even though Simmel chooses not to pinpoint the market per se he manages to bring forward one of the boldest and most elucidating analysis of one of its key components, *competition*. His analysis of competition, treated as a generic social phenomenon, has got few, if any, equals in social theory. The one prominent and foremost characteristic thereof, rendering it so unique and utterly appetizing, is its conception of competition as an indirect phenomenon. This means that competition cannot ever be grasped at the level of the dyad. More individuals are 'required'. But before taking this step it is necessary to briefly recount how Simmel comes to grips with conflict, which (as for Weber), is the overriding social feature subject to which competition can be distinguished.

As noted above, Levine (1971, pp xxxii, xxxv) claims that the principle of dualism is one of the fundamentals upon which all of Simmel's analyses rest. This idea renders the prevalence of contrasts and conflicts, 'the coexistence of a diametrically opposed element', endemic to the understanding of social life. Turner (1991, pp 189-195) also underlines the central position that conflict occupies in the Simmelian discourse. He further chooses to contrast Simmel's view with that of Marx' where the latter is decisively more inclined towards the disruptive and destructive forces hereof thus turning a system around in a radical manner. Simmel's conflict is mostly more moderate and naturally inheres in society thus bringing about 'solidarity, integration, and orderly change of the system' in a creative manner. Hence, the most general characterization of conflict in Simmel's discourse is that it prevails in order to attain unity in the realm of a particular tension, 'to resolve [,at any cost,] divergent dualisms' (Simmel (1955 (1908), pp 13-15, 18, 20, 25)). This means that conflict, as opposed to pure indifference, is constructive in nature despite the costs incurred by the parties to it. An example of this is the particular conflict labeled competition where the striving of conflicting actors ('something negative') still results in benefits ('something positive') although not necessarily to those who are parties to the competition.[12] For instance, competition is what 'determines ... the reciprocal positions of ... [group] participants', something that eventually keeps this particular social structure together. Hostile conflict is a societal necessity that will however always coexist with its antithesis harmonious cooperation, neither of which can really prevail in the isolated vacuum of its own. What is more, the emergence of social wholes as such depends from this interplay of associating and dissociating forces. Simmel (1950 (1908), pp 28, 30, 55) however recognizes that man, by birth, is endowed with a certain

[12]Confer the argument of Mandeville related in the opening chapter.

egotistic personality, a guarantee that not just sympathy will be found as between humans. This is discerned by the fact that man in general has a much greater tendency to attribute (hostile) distrust than (harmonious) trust to someone previously not known. A case in point referred is finally jealousy, epitomizing the role of conflict in that '[it] is perhaps that sociological phenomenon in which the building of antagonism upon unity attains its subjectively most radical form'. To come to grips with competition it is however necessary to start out in the dyad.

> *The sociological structure of the dyad is characterized by two phenomena that are absent from it. One is the intensification of relation by a third element, or by a social framework that transcends both members of the dyad. The other is any disturbance and distraction of pure and immediate reciprocity. ... The dyad represents both the first social synthesis and unification, and the first separation and antithesis.*[13]

As said, moving beyond conflict to competition necessarily entails an account of the corresponding underlying structure. It is then but natural for Simmel (1950 (1908), pp 128, 174) to analyze in some depth the consequences of introducing an additional actor to the dyad. This will prove decisive for the uniqueness of his argument later to unfold. Consider how the intimacy which characterizes the dyad is affected once a third element is added, such as when a couple's first baby is born. Simmel (1950 (1908), p 138)) thus emphasizes the uniqueness of taking this step from two to three in a structure. Why is that? The dyad and the triad (*die Verbindung zu dreien*) do share the property that 'the number determine[s] the inner life of the group' in comparison to all other sizes of groups, but this seems to be where their similarity ends.[14] Simmel (1950 (1908), pp 135, 136, 137, 141, 145) starts out by recognizing that the unique closeness of the two to the dyad is easily discerned once the uniting and / or separating function of a third party introduced is taken into account. That is, once three parties to a structure are considered, the relation between any two of them is necessarily subject to the presence of the third by the indirect connection that this actor provides between them. Their direct tie could in consequence be both strengthened and / or weakened. And it is not unusual, says Simmel, for triads to be made up of three 'parties of two' constantly turning against the residual third, by 'outvoting' that party.

When *die Verbindung zu dreien* itself is scrutinized, Simmel (1950 (1908), pp 145-154) observes that by introducing a third party to a dyad the absolute contrast that resides between two actors is subject to 'transition, conciliation and abandonment'. This means fundamental consequences for the way in which any two actors relate to each other. Simmel distinguishes three types of group formations residing in a triadic structure following the role of the third element.

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[13]Simmel (1950 (1908), pp 136, 145)

[14]That is, in groups made up of more than three the marginal impact of each party diminishes substantially.

1. The Invisible Third and The Non-Partisan / The Mediator
   In this constellation at one end there is considerable distance between the two and the third, and in consequence interactions can be interpreted in 'isolated dyads' within the triad. At the other end however, there are more compelling cases as that of a monogamous marriage welcoming a baby, the advent of which might increase the strength (of love or similar) directly or indirectly between the spouses. An even more explicit effect which pertains to the issue of conflict is that of a 'non-partisan / mediator' who balances the two other parties by making concord between them come forward. That is, she interferes and pushes the other two closer together merely by relating certain obvious facts that are made more objective than they seemed before. The Mediator does not interfere with the facts, but renders the arguments 'pure' by depriving them of hazardous affection. In this role she must of necessity either 'stand above' the combatants, or be as involved with both of the conflicting parties.

2. The Arbitrator
   The major difference between an arbitrator and a mediator is that the former actively shapes the outcome of the conflict whereas the latter only oversees the parties own conflict resolution. 'They [the parties] project ... their will to conciliation, and this will becomes personified in the arbitrator'. Here both parties must actively search for the help of The Arbitrator and agree thereupon (if on nothing else), thus perpetuating the group formed. Subsequently The Arbitrator actively interferes with the conflict and reframes the view held by the two parties so as to make more of a mutual perspective come forward.

3. Tertius Gaudens
   The Tertius Gaudens is the most distinctive of Simmel's third element roles and this is also where his argument on *competition as an indirect conflict* is advanced. So far, The Mediator or The Arbitrator draws on her impartiality in order to serve the group in making it live on by reducing the level of conflict to be found between the two other parties. In so acting, however, 'Tertius' serves her *own egotistic interests* in 'brokering' the conflict between the two. This produces some very unstable interaction that in the end threatens the very existence of the group. One example furthered (Simmel (1950 (1908), p 141)) pertains a lot to the labor market and the situation between a superordinate and his subordinates (as distinguished from when there is only one subordinate). 'He who has one child is his slave; he who has more is their master.'

There are furthermore three interrelated parts to Simmel's (1955 (1908), pp 57 ff) indirect notion of competition.

- Competition is manifest in that the subjective goal of the competitor is intertwined with the objective outcome for others of this kind of conflict at hand.
- The objective of competition is to gain the relative favor of a third party.
- 'The significance of the success is determined by its proportion to the success of the competitor.'

The first characteristic implies that the prize of competition outcome does not accrue to either of the competitors but to someone else. In consequence this cannot be the goal of their striving. That is, the outperforming of a competitor entails an outcome the value of which is found only outside the struggle as such. This, that the competitive victory of one of the actors over the other is not the 'prize of victory', clearly distinguishes competition from other kinds of rivalry. Winning over someone in competition is of course a prerequisite for other goals to be achieved (for instance future sales or reciprocated emotions of love) but means nothing in isolation. 'The businessman who succeeds in having his competitor suspected of unsoundness by the public gains nothing if the public's needs are suddenly deflected from his merchandise. ... The lover who eliminates or shames his rival is not a step ahead if the lady does not bestow her favors on him either' (Simmel (1955 (1908), p 58)). More of an extreme circumstance is when an actor aims at a goal without really taking adversaries into account despite their latent presence. A case in point is scientific research where competitors generally speaking do not explicitly challenge each other. Simmel also acknowledges the mutual striving of businessmen where

> *...the subjectivity of the final goal* [to make successful business by outperforming others] *and the objectivity of the final result* [consumers gain access to lower prices et cetera] *interweave in the most fascinating manner. ... The subjective, antagonistic mainspring thus leads to the realization of objective values, and victory in the fight is not really the success of the fight itself but, precisely, of the realization of values outside of it.*

subjective motives ⟶ objective social values ⟶ subjective satisfaction

Figure IIIb: The Simmelian transformation of motives into satisfaction[15]

This societal argument is reminiscent of that of Mandeville (recapitulated at the outset of the first chapter) and is the reason for which the 'social-utilitarian' gain which also harms some (losing) competitors are accepted by society at large (Simmel (1955 (1908), p 72, 79)). This also implies that 'competition rests on the principle of individualism'.

The second characteristic of competition, that its ultimate objective is to benefit a third party

[15] Simmel (1955 (1908), p 60))

by gaining that party's favor, is a facet of the last argument once society is interpreted as 'a collective' that endorses competition by legislation. Society thus, argues Simmel (1955 (1908), p 80), allows harm to competitors as long as the social whole is better off. To gain a third party favor has got a sense of flattering to it, as discerned in advertising which renders it close to a purely egotistic activity curtailing its claim as a form of competition (Simmel (1955 (1908), pp 63, 64, 82)). A key here is for a competitor to try to get as 'close as possible' to the third benefiting party and thereby outperform the rivals. This 'winning over' is further manifest in the creation of a relationship 'from the momentary relation established by a purchase in a store to marriage.'

> *Antagonistic tension with its competitor sharpens the businessman's sensitivity to the tendencies of the public, even to the point of clairvoyance, in respect to future changes in the public's tastes, fashions, interests... Modern competition is described as the fight **of** all **against** all, but at the same time it is the fight **of** all **for** all ...* [I]*t* [competition] *is a web of a thousand sociological threads by means of conscious concentration on the will and feeling and thinking of fellowmen, of the adaptation of the producers to the consumers...*[16]

The third and final competition characteristic identified by Simmel, that all competitive success is to be seen in relation to the failure of competitor(s), is not much elaborated upon. It has however got the air of a zero-sum game to it in that any gain, once obtained, comes at someone else's expense (Simmel (1950 (1908), pp 70-71)). There is thus a 'dependence of absolute on relative success' propelling competition. This entails that competition is mostly active in nature, as opposed to gambling which is passive in the sense that any individual energy devoted does not really matter to the outcome. Instead there is here a sort of decisive earlier accomplishment (id est buying a lottery ticket) which does not really distinguish one 'gambler' from the other. This is however not to say that there is no luck *at all* involved in competition (Simmel (1955 (1908), p 75)).

In sum, Simmel's argument on competition is tightly interwoven with his overall view of social life and in consequence takes major inspiration therefrom. One thing which stands out in particular is the crucial role of the social structure in terms of numbers of individuals involved. Another is the interplay between the 'micro-level subjective' and the 'macro-level objective'. The one unique feature is however his idea that competition is indirect, something paving the way for the entire argument on Tertius Gaudens.

There are clear signs of customer-induced competition in both of the above accounts from within classical sociology. Whereas Weber is more directly inclined towards the understanding of markets, Simmel is less so and focuses social issues in general. This renders Weber's market analysis explicitly bidimensional since there are on the one hand horizontal

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[16] Simmel (1955 (1908), p 63, added boldface)

competition and on the other vertical negotiation. As is seen, Weber says that competition *precedes* vertical interaction. This renders him not fully compatible with Simmel who argues the other way around. First vertical interaction. And only then horizontal competition. The interrelatedness of horizontal and vertical market features nevertheless demonstrates that Weber recognizes competition as a bidimensional market phenomenon. This is nowhere overtly seen in Simmel's reasoning that hardly relates the market context at all. He nevertheless furnishes more of a direct impetus to a customer-framed perspective on competition. The claim inheres in his notion of competition as an indirect social phenomenon. This is illustrated by means of the triad where the subjective and objective are in tight interplay.

ii. The formal-analytical network approach

More of a contemporary sociological slant discussing economic phenomena is that found within the so-called formal-analytical network approach. According to this view, as commented upon in Chapter II, the market is conceived of by means of its social structure as a network of interconnected ties. *This* view of markets as networks, as opposed to the informal-governance network approach to be treated below, is relatively abstract and analytical in nature.[17] It is here commented upon in terms of exchange, interaction structures, networks, and competition.

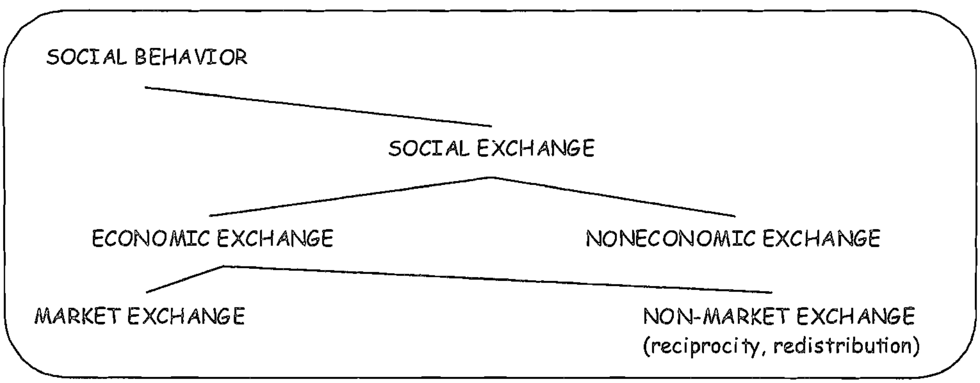

Figure IIIc: A sociological typology of exchange[18]

As noted by Baker (1981, pp 4-6) sociologists converge on two major assumptions concerning the market. *Firstly* 'market exchange, as all forms of economic exchange, is embedded and enmeshed in other noneconomic institutions'. *Secondly*, any market exchange is here 'a special case, a specific form, of social exchange'. This means that what is 'economic' is necessarily subordinate to what is 'social'. The one thus has primacy over the

[17]This is further commented upon in Appendix B.
[18]Baker (1981, p 11)

other. Baker further argues that Polanyi's original framing of an economy as an 'instituted process', wherein the social principles of reciprocity and redistribution can be thought of as complementary to that of market exchange (Polanyi (1944, pp 49-50, 1992 (1957))), is the reasonable point of departure for a 'sociological typology of exchange' (see Figure IIIc).

In this view the notion of social exchange, 'the movement of something of social value between two or more actors', occupies a distinct position as it 'implies the existence of a *social relationship* between two or more actors – persons, groups or organizations.' Acts of exchange are the particles of the cement that subsequently will keep the whole (for instance a market) together. As for economic exchange it is social but must, in addition, entail '*primarily* the movement of goods, services, or money (or their equivalents)'. Market exchange, finally, allegedly involves the notion that the price mechanism is subject to the 'movement of economic materials' (Baker (1981, pp 10-12)). No market can be conceived of as a network unless these fundamental insights are made entirely clear.[19]

Social exchange

The most distinct sociological discourse in the area is found within *social exchange theory* that 'analyzes how the structure of rewards and costs in relationships affects patterns of interaction' (Molm (1991, p 475)). This means that the relationship structure by itself is the key prerequisite for analysis but also that what goes on inside relationships matters in order to capture the social aspect of market activity. 'Economic metaphors and analogies [are drawn upon] for theorizing about noneconomic behavior' (Baker (1981, p 12)).[20] As related above, to Weber the idea of exchange itself is basically the same, in that repeated acts thereof give rise to continued exchange relationships making actors mutually dependent (Weber (1968 (1922), pp 636-637)). But, as pointed out by Turner (1988, pp 4-7), 'the social action' of Weber more or less directly gives rise to relationships once it is oriented to others. This is a little bit different from the 'mutual dependence'-inclined ideas brought forward by Simmel where 'action becomes *inter*action through the exchange of resources' (Turner (1988, pp 28-30)). In consequence Turner (1988, pp 128-129) argues that it is the ideas of Simmel (embracing also the notion of the value and desirability of resources) that make up the fundamentals of social exchange theory as discerned in the typology above. At the heart of

[19]This is however unfortunately not the case in most popular use of the concept 'network'.

[20]It is here assumed that social exchange theory matters as the micro-foundation of sociological analysis of markets as networks. There are however also problems endemic to the taking of this stance. Baker (1981, p 53) traces two major risks inhering in social exchange theory, 'psychological reductionism' (that the market process in its entirety is explained by psychological factors) and 'fallacy of composition' (that what holds for individuals and relationships does not necessarily apply to the market as a whole). Together these shortcomings 'ignore the reality of the market as a social institution'. Hence the call for a network sort of analysis. That is, there is in Baker's view a need to move beyond individual relationships since the analysis of isolated structural cliques can never make sense once an aggregate, such as a market, is to be understood. Be that as it may, social exchange theory seems to furnish some fundamental insights that, when interpreted with caution, can inspire also market network analysis.

the analysis is thus social *inter*action. This is 'a situation where the behaviors of one actor are consciously reorganized by, and influence the behaviors of, another actor, and vice versa' (Turner (1988, pp 13-14)). Building upon the original works of Homans (confer Homans (1958)), this thread of thought focuses how seemingly rational and mutually dependent actors relate to each other in webs of microsociological structures made up of relationships that result from recurrent acts of exchange between them. That is, even though there is an overarching social structure, this is typically not the main concern. It is the pillars thereof, not the ensuing framework, that is scrutinized. One conception of competition in this realm is that of Blau (1986 (1964), pp 190-191) who echoes Weber in highlighting openness and closure. That is, an actor's commitment to a prevailing relationship constitutes a sort of bilateral monopoly.

> *Such restriction of competition is inevitable in social exchange, an inherent character of which is that transactions involving specific services are not completely insulated from other aspects of and other benefits derived from the exchange relations.*

It is however in the formalized but yet workable social exchange argument of Emerson and his followers that some *real* insight regarding competition in social exchange can be gained, at the very heart of which is the notion of power-dependence in exchange relations. In connecting the effort of his to those earlier within the same area of interest Emerson (1962, p 32) starts out by positioning power as a property of the relation and not of the actor. This is so since mutual dependence (the ability to influence and control the exchange party's conduct) is the twin concept of power in this regard. '[P]ower resides implicitly in the other's dependence'. In formalizing the claim (Emerson (1962, p 33)) and taking social reciprocity into account, the power-dependence (P-D) characteristics of the relation AB can thus be framed as $P_{AB}=D_{BA}$ and $P_{BA}=D_{AB}$. That is, the power of B over A is inversely related to the dependence of A on B and vice versa. An unequal quota of power-dependence between A and B further entails an unbalanced relation AB which is unstable due to the way in which it provokes the use of power (Emerson (1962, p 34)). This is where competition tacitly enters the argument. The reasoning goes as follows (Emerson (1962, pp 35-37)). Due to the unbalanced character of the relation, various balancing processes (aiming at somehow restoring balance) will be underway. One opportunity here is for a relatively disadvantaged A to bring in C (another actor), as an alternative to B. Provided a relation then emerges it is clear that the relations AB and AC will exist in parallel. This means that they will be mutually dependent to a certain extent. And how could the way in which B and C relate to each other then be described? Extending the discussion to include also the ensuing triadic structure B-A-C, Emerson implicitly introduces the thoughts related to above by Simmel. Here A emerges as a 'third party' that can mediate the way in which B and C relate to each other in terms of competition for exchange with A. That is, by bringing in C, actor A alters the original power-dependence inequality in AB. What is more, he (Emerson (1962, p 40)) claims that the framework outlined is applicable to an array of social events ranging from 'parental codes to society-wide movements'. In elaborating the fundamental arguments, Emerson (1972, p 46) positions his own way of drawing on exchange relations relative to the neoclassical school of economics. Whereas the latter focuses transaction markets with interchangeable actors, the social exchange context is instead made up of 'durable social relations' with both a history and a future. This is particularly salient as competition is rendered more explicit when the issue of *alternatives* enters the discourse (Emerson (1972, p 62)).

> *The dependence of A upon B in the Ax;By relation is (a) a direct function of the* ***value*** *of y for A, and (b) an inverse function of the number of* ***alternative*** *relations , Ax;Cy, Ax;Dy, etc. Balance in the relation is therefore a function of four variables;* ***value*** *and* ***alternatives*** *for A and B. If A and B value y and x to the same degree, then balance can be determined readily by examining the opportunity structure across their respective alternatives.*

The *value* of exchange ('x' and 'y') now can be looked upon as the value of resources that are accessed through exchange. Of equal importance is how interrelational dependence briefly touched upon above is clarified and extended via exchange relation connectedness (Emerson (1972, p 70)).[21]

> *Two exchange relations, A;B and A;C are* ***connected*** *at A if the frequency or magnitude of transactions in one relation is a function of transactions in the other relation. ... As a result A;B and A;C are alternative relations for A, and alternative relations are* ***connected****. ... The dating network mentioned above is* ***bilateral negatively*** *connected.*

This implies that the way in which two competitors (B and C in the quote above) relate to each other can be expressed as the interconnectedness of the relations to which they both are parties together with A. By referring to Emerson, Cook (1977, p 69) brings up the case of two bilateral negatively connected relations between one buyer and two suppliers respectively. She overtly labels the suppliers 'competitors' and the setting at hand 'commensalistic competition'. Emerson himself (1972, p 76) also brings the subject up explicitly. He draws on A's set-up of alternative relations (an array of B_i) in getting access to resource yk and each Bi's only alternative A in getting access to resource xi.

> *Since each B is a source of yk for A they are alternative relations negatively connected at A, and B's are in effect competing with one another for access to xi from A.*

These are the fundamental social exchange theory arguments discussing competition. Cook (1977, pp 73, 77) elaborates hereupon by telling about how exchange relation imbalance results in a search process for new alternatives by the inferior party to the relation. Also,

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[21] The original notations are slightly changed to fit the context.

drawing on Mueller (1970), she comments on how reciprocity in buyer-seller relations harms competition among suppliers. This is so following commitment between parties ensuing in long-term relations where entry barriers are erected by incumbents relative to potential market newcomers. Similar explicit social exchange theory references to competition for scarce resources among suppliers in the realm of bilateral negatively connected relations are Cook et al (1983, p 278) and Yamagishi et al (1988, p 835).[22] Negative interconnectedness is further subject to experimental testing in Cook and Emerson (1978, pp 725, 728) where commitment is brought up in parallel to that of market structures. The ensuing discourse, '[by the] reinforcement [of] psychology and much of sociology and social anthropology' challenges the neoclassical market perspective with reference to its explicit lack of committed actors.

> *An actor is said to be committed to another actor in the network to the extent that choice of current exchange partner, from among alternative partners, can be predicted from previous partnerships. To the extent that commitments form, the exploration of alternatives is curtailed.*

Commitment in an existing relation hence counts for some of the competition-hampering reciprocity in long-term exchange relations between suppliers and buyers in the marketplace. The outcome of the experiment related (Cook and Emerson (1978, p 734)) concludes that commitment in fact *is* a kind of attachment causing repeated acts of exchange between the same parties, thus making initial relations last. The notion of structural network positions as 'opportunities to exchange of valued resources' is brought up by Cook and Emerson (1984, p 4) and implicitly integrates potential exchange alternatives into existing exchange relations. This is relevant also for those exchange relationships that already prevail. An opportunity relates the present to the future and no matter how tied actors are to each other no acts of future exchange are certain. The actual relationship serves as a factor very much favoring continued exchange, but there is no guarantee. This work (Cook and Emerson (1984, pp 10, 13)) explicitly brings the subject up in discussing 'formation of commitment' and 'emergence of bonds of obligation' as 'cement' to the network structure. Psychologically, commitment is identified as 'interpersonal attitudes of trust and obligations towards specific others as future exchange partners'. Behaviorally it is interpreted 'as a tendency for one actor to continue to engage in exchange with another actor even though the network opportunity structures provides the focal actor access to alternative exchange relations'. Formation of commitment has the consequence that mutual dependence increases whereas maintenance of access to alternative exchange sources has the opposite effect. The availability of alternatives further stems from the corresponding search undertaken. And this in its turn affects the 'alternative uncertainty' which, if high, increases the tendency for commitment formation efforts.

[22]Markovsky et al (1993) however notes that the way in which negative interconnectedness is treated by Cook et al (1983) differs from Emerson's (1972) original coining of the subject. The point is that in the original version, this negative dependence between a focal actor's interconnected relations is an exchange process *outcome* whereas subsequent interpretations allegedly have it that negative interconnectedness is present already as *a fundamental condition* at the very outset of an analysis.

Interaction structures

Whereas social exchange theory revolves around interaction and the consequences thereof for individual actors, the subject matter of structural analysis is the patterns of social relationships that both condition and result from this exchange. A structural position is then more important than individual attributes when conduct is to be understood, at times as self-reproducing contextual agency. Structures hence prevail (they may of course also falter) as they embody self-reinforcing mechanisms that mirror complexes of interrelated actor agency. When a market is conceived of in this manner it explicitly opposes efficiency-laden approaches that entail optimizing individuals, such as those appearing within new institutional economics (confer Williamson (1975)). Such a perspective assumes access to information that simply is not available according to a social structural view. According to this perspective 'the only tangible guidance available to the actor is that which can be inferred from the patterns and outcomes which emerge from relations among actors'. That is, '*reproducibility*, rather than efficiency, *is the main issue*' since the only information at hand is that already residing in prevailing social experience (Leifer and White (1987, pp 85-86, 105)). This is the fundamental idea underlying the works of Harrison White on how production markets come about. His argument stems from the conviction that there is no such thing as a real market theory wherein also production is an issue. What there is, is a 'pure theory of exchange' devoid of any manufacturing activity (White (1990, p 83)). Allegedly this is the case for most neoclassical theory, but as seen above Weber's account is also vulnerable to the same argument since supply is assumed as a given.

White assumes that markets in general are 'social formations' wherein customers and suppliers are distinguished as they occupy different roles in the eyes of others and themselves. That is, aggregate supply and demand relate to each other by way of 'transposable role structures'. A producers' market is hence a set-up of parallel manufacturing roles, each of which is defined as producers mirror each other and distinguish along which dimension they converge and where they differ. The monitoring is horizontal and only unilateral among suppliers. This social construction of a market reality is thus what produces and reproduces 'its own assumptions in the very course of acting in terms of it'.[23] This means that history always matters and that '[p]roducers necessarily need to differ in profits in order to reproduce the dispersion which sustains the market' (White and Eccles (1987, pp 984-986)). Mere producer conduct is here seen as inspired by a mix of behavioral handrails such as 'imperfect information', 'rational expectations' and 'signaling theory' (White (1981, p 518)). This behavior is manifest in each producer's beliefs. It is however necessary to emphasize that even though these beliefs are self-fulfilling, they are neither random nor automatic, but the

[23]The reasoning is a sociological reinterpretation of the claim made by Spender (1989) concerning the prevalence of 'shared meaning structures – industry recipes'. It is also reminiscent of that of Weick (1979) on enactment.

best deliberate guidance available. Learning from the past as the most reliable source of information is crucial. Eventually this means *that the entire structure is stable but not static.* What is discerned as a rather calm situation on a superficial level does not conceal that this in fact might disclose 'intense social pressures to compete for and to sustain a distinct position' (White (1993, p 225)) As noted by Swedberg (1987, p 110), '[b]usinessmen act as *if* the market had a stable structure and consequently it gets one'. There is hence no reason whatsoever for an individual producer to abandon this ex post strategy for an ex ante ditto. That is why a market structure mirrors its own dependencies in retrospect as they are socially constructed by the producers therein (Leifer and White (1987, pp 89-90, 95-96, 103-104)).

Although White sets out to distinguish himself from most others by focusing on suppliers and not customers, the latter category is by no means absent from the discourse. This is clearly a feature rendering White's approach bidimensional. The fundamental point in this respect is that producers however do not act *directly* following buyers but only *indirectly* via their interpretation of competitors that in and by themselves reflect patterns of customer conduct. That is, '[p]ressure from the buyer side creates a mirror in which producers see themselves, not consumers' (White (1981, pp 543-544)). Customers enter the discourse via the refusal or acceptance of what White and Eccles (1987, pp 984-986) label terms-of-trade. These are tangible supplier revenues discerned as prices and intangible customer perceptions of quality. The terms-of-trade function as a differentiating mechanism that distinguishes one producer from the other. The only observables are 'volumes and payments' and these observations are 'reproduced' via supplier conduct whereas qualities only exist as enacted in buyer behavior (White (1981, pp 520-521)). This bestows upon customers an ambiguous role in that their *direct* impact is close to nil whereas that indirect approaches infinity. This is better understood when a timely dimension is added. What then happens, says White, is that at T_0 producers choose unilaterally what to bring to the market without consulting the demand side. At this moment in time customers are passive. Once this is completed, at T_1, things however change as customers then are assigned a decisive role.

> *The terms of trade must be accepted by the purchaser side, which is the arbiter of the competition, the judge of relative performance. ... A production market must induce distinctive flows, at the same time as it renders them comparable, from a to-be-determined set of producers and into the hands of an array of buyers becoming accustomed and committed to that market. ... "Quality" captures the connotations of the invidious transitive order induced to form this mechanism of commitment.*[24]

What about competition, is that as indirect as customer conduct (confer Simmel (1955 (1908))? In fact it is not, and this is where White's claim is hard to follow. On the one hand he argues that (indirect) customer conduct has got a decisive role as an 'arbiter of

[24] White (1993, pp 230, 234, 235)

competition'. On the other 'what a firm does in a market is to watch the competition in terms of observables.' That is, competition is something very tangible and direct as seen in the breaking of world records in sports and similar. Could it be that the occupation of roles per se does not epitomize competition but only constitutes a preparatory stage that later comes true as buyers act (confer White (1981, pp 518, 520))? No real answer is given. Competition is instead characterized as being about doing things slightly different in the realm of like others (White (1993, p 236)). That is, those who compete are necessarily similar as they occupy roles that are akin to one another. If they did not they would not be competitors. They are further likely to adhere to certain implicitly agreed upon competitive rules and their identity is mostly well known in the market. Since producer market members are generally easily identified in this manner they have a common interest of keeping those (potential new entrants) out that 'do not belong' there. That is, competition among incumbents, yes, but only to the extent that this does not enlarge the supply market (White and Eccles (1987, pp 984-986)).

Networks as a tool of analysis

Even though White's argument above on the self-reproducing character of markets is clearly structural in character, it does not necessarily imply that a market has got a particular *kind* of pattern to it. That is, there is no inherent logic to the structure qua structure. If anything, White's reasoning is rather traditional in the sense that it revolves around two separate 'sides' of the market. This is attributable to the fact that he seeks to take issue with the conventional discourse wherein this dualism is a given by challenging other, to him more crucial, givens. The most pervading sociological frame in this regard is that conceiving of social structures as network wholes of interconnected relationships. As noted by Baker (1981, p 13) the organizing logic of networks is particularly apt for the analysis of aggregated economic (market) exchange since there is here a particular need for cogency. Baker however also emphasizes that a purely structural mode of analysis will not be able to grasp other *as* important features of economic institutions such as trust et cetera prevailing within relationships. This loss of substance at the micro exchange level is the price necessarily paid for the sophistication thus arrived at in the macro aggregate. The inverse argument holds for the other branch of networks studies commented on below. Within this, the 'informal-governance network approach', more attention is paid to what actually goes on within market relationships. This occurs at the expense of a rather impoverished macro account.

Within network studies it is, according to Baker (1981, pp 56-57, echoing Burt), furthermore possible to distinguish two major streams of thought. One of them, the 'relational', is more concrete in nature and thus on the verge of what later will be elaborated upon as the 'informal-governance network approach'. The other one, the 'positional', is more abstract and hence epitomizes the contributions brought forward within the 'formal-analytical network approach' covered in this section of the essay.

The former category draws on prevailing 'interconnectivity patterns' by means of which both macro and micro aspects of networks are looked into. That is, concrete ties between actors are scrutinized in an analytically rather 'primitive' manner. Such a *relational* reasoning is that of Powell (1990) who aligns networks as a market governance structure different from on the one hand the neoclassical pure market account and on the other the intraorganizational hierarchical ditto emerging within new institutional economics. Networks made up of concrete ties between actors are, in the words of Powell (1990, p 303), 'lighter on their feet' than hierarchies. But they are also more 'organized' than pure (neoclassical) markets. Economic interaction here unfolds midway between mutually independent acts of market exchange and administered intraorganizational edict. It is governed by reciprocity within personal relationships that is subject to resource interdependence that thus tie actors together. '[T]he parties to a network agree to forego the right to pursue their own interests at the expense of others'. These structures also entail conflict and are both enabling and constraining in character.

The focus of the positional stream of thought differs. It instead chooses to 'operate at a higher level of abstraction' by efforts anchored in the structures formed by actors' entire relational spheres. Two individuals occupy similar networks positions to the extent that their respective patterns of ties to others coincide. In the case where two actors have direct ties to the same people they are considered more 'structurally equivalent' than two other actors whose patterns of primary contacts do not coincide to that extent.[25] A *positional* argument is pursued in the works of Ronald Burt which emphasize 'struggles for control and autonomy' (White (1993, p 231)). The point of departure is the notion of (relative) structural equivalence (Lorrain and White (1971, p 63)).'[Object] a is structurally equivalent to [object] b if a relates to every object x of [category] C [whereto both a and b belong] in exactly the same way as b does. From the point of view of the logic of the structure, then, a and b are absolutely equivalent, they are substitutable.' Elaborating hereupon, and thus recognizing both the opening and closing character of networks, Burt (1982, pp 265-273) subsequently arrives at the notion 'structural autonomy'. This is an actor's 'ability to pursue and realize interests without constraint from other actors in the system'. To be autonomous implies being in relative control of events. *Now consider competition.* When it works out in a market the joint impact of supply and demand restricts individual action. This is seen in the parametric character of price subject to which thus constrained actors are mere price-takers. By way of division of labor (and provided 'free competition') some actors will compete with each other since they occupy similar structural positions in the market. They buy from and sell to the same suppliers / customers. If these actors now start to collude with one another, they can

[25] Structural equivalence is hence a relative term that does not necessarily imply 'perfect equivalence'.

instead form an oligopolistic market structure. That is, the market made up of several aggregated cliques instead of atomistic individuals. 'They accordingly escape the constraints of supply and demand' as they have become more autonomous. Their relative control of events is then discerned in their ability to raise price above the level (= marginal cost) which rules under the earlier 'price-taking' regime that characterizes a (perfectly) competitive market.[26]

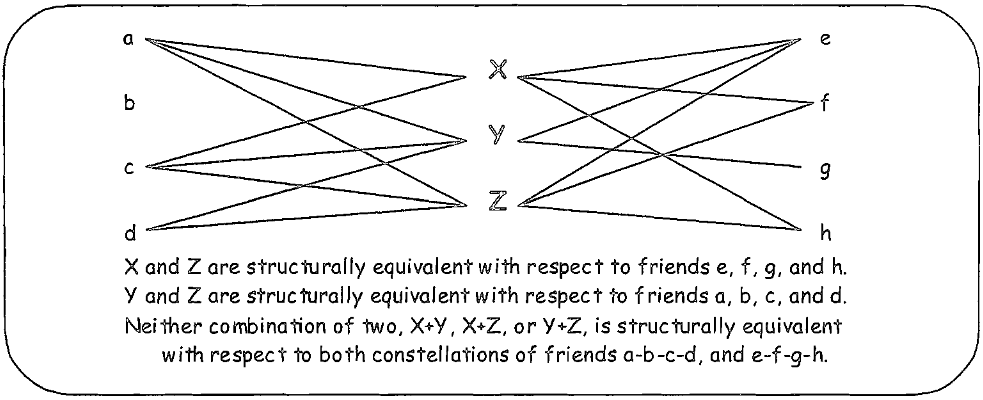

Figure IIId; Structural equivalence

Competition

So far competition appears here and there in the section underway. As negative interconnectedness (in social exchange theory), as the mirroring of others (in White's argument on interaction structures) and now lastly, as relative structural equivalence in the reasoning of Burt's. Podolny (1991, pp 3, 11 ff) claims that there are two main perspectives at hand within sociological studies on competition. *One* explicitly focuses the links prevailing between market actors and relates, for instance, social capital (confer Coleman (1990)). It is furthermore inspired by findings within social exchange and resource dependence theories. Since it draws on concrete connections it is here labeled the *absolute* view. Relationships here constitute resources to the actor by means of which other resources entailing control and insight can be accessed. *The one crucial implication for competition is that there is no free access into these relationships.* Relationships thus foreclose market entry in much the same vein as suggested by Weber. 'The major contribution of this perspective is its explicit attention to the links between actors, to relations which cannot be categorized as simple market exchanges but also do not constitute hierarchically organized contracts' (Podolny

[26]The most eloquent elaboration of these insights is found in Burt (1992) as the idea of 'structural holes' is tied to competition. This is penetrated at some depth in the succeeding chapter when social capital is brought up. Equivalence-related concepts are of course not the sole manner in which to structurally conceive of competition. Relating the works of Marsden and an empirical study undertaken on the semiconductor industry, Kogut et al (1993, p 75) draws on the measure of centrality as being paramount. The reasoning here goes that the more centralized a net, the more collective action, and thus less competition, will be around therein.

(1991, p 12)). It is thus akin to the relational view within the formal-analytical network approach recapitulated above. *The other perspective* taken on by sociological studies allegedly has it that since markets are imbued with uncertainty the social structure can be relied upon as a reference. In consequence it can be labeled the *relative* view. Accordingly a social structure guides the actor in an uncertain context by way of group references thus embodying a kind of isomorphism. The unpredictability of economic action here induces an individual to do what others do ('no one ever got fired for buying an IBM') and this reference mentality then constitutes a form of social order. In this perspective the issue is not so much the access to resources by way of others as the conduct of these others by itself constitutes a form of contingency. This relative approach to competition is allegedly endorsed by the contributions of White (1981) and Burt (1982) recapitulated above, as well as by Podolny himself.

In explicitly drawing on White's argument, Joel Podolny (1991, 1993) approaches competition as an order of market status. That is, markets are seen as socially constructed structures of supplier status in the eyes of the customer. But whereas White focuses 'horizontal mirroring' between suppliers (resulting however in part from customer perception), Podolny highlights 'vertical mirroring' that is non-mutual and asymmetric. Customers interpret the status of suppliers. And this customers' conception of suppliers by way of status is what ultimately is decisive for competition between the suppliers. To Podolny (1993, p 868) , bringing in status as a tool in understanding competition is a step furthering earlier sociological efforts in this vein. Whereas these allegedly recognize that markets are 'socially constructed' and interconnected, Podolny argues that his own approach is more workable, as discerned in the empirical proof provided. The key concept of status is defined as 'the perceived quality of that [particular] producer's products in relation to the perceived quality of that producer's competitors' products'. This status constitutes a value in its own right but also 'signals' the actual quality of the manufactured products (Podolny (1993, pp 829-834)). Hence, customer perception frames the way in which two producers relate to each other. This is however not an immediate process since there is what Podolny (1991, p 29) labels a 'loose linkage' between changes in de facto quality and the perception hereof by customers. And this is why the presence of social network ties as such are central to the argument since they are critical in forming *quality perception*. The network thus embodies a kind of mediating effect. Podolny (1991, p 110) here claims that not only pure relationships, but also the aggregate pattern thereof, matters, 'As important as the exchanges which are pursued are the exchanges which are abdicated since it is only through both that the structure of the market is enacted.' Here it suffices to mention the way in which ties to prominent (reference) customers serve as influential status symbols, signals, in networks where potential customers are to consider initiating exchange with a new, to them, source of supply. For how can quality ever be estimated prior to any exchange having taken place? Since this is true also once there is some relevant experience (good quality in the last shipment is no 100% guarantee that the next one will also be perfect), perception of (future) quality relies on status as a heuristic for any customer to distinguish the differences between two suppliers. In consequence it is market demand that eventually not only conditions, but also 'creates' competitive tension between suppliers. In this sense Podolny echoes Simmel. That is, status-as-quality perceived by customers embodies competition between alternative suppliers.[27]

Another sociological slant on competition in market networks is that of Wayne Baker (1981, 1984, 1990) who, like Podolny, looks into financial markets.[28] To Baker interorganizational ties, be they tight exclusive long-term bonds or mere momentary contacts following transactions, constitute organizational capital (Baker (1990, p 589-591)). His overall argument has it that relations thus making up markets are socially structured. That is, those who are parties to relationships sustain these links in the pursuit of dependence reduction and power advantage exploitation. The constraining character of exclusive long-term ties is explicitly recognized since these allegedly invoke lack of both price competition and information flow in the network that they create. The voice of Weber lurks in the background. Hence, one relationship of this type precludes establishing another in parallel due in part to the fact that sellers are afraid of 'educating the competition' through the customer. On the other hand, relying on several 'transaction-based' sources in parallel makes the transfer of confidential information between customer and supplier uncertain. Instead, 'a hybrid interface secures the benefits of a relationship strategy and a transactional strategy [thus giving rise to both reduction of dependence and exploitation of power advantages] while limiting exposure to their disadvantages'. In the light thereof it is striking how customers, much in the spirit of Simmel, here seem to occupy a role for how competition unfolds. As one of the interviewees (a customer for the financial services of banks) phrases it. 'I've always believed that competition breeds better solutions. [Our second bank] is there to keep the primary banker honest' (Baker (1990, pp 597, 615)). Customers (Baker (1990, pp 592, 614)) further emphasize that choosing to increase the number of suppliers (banks) both reduces dependence on any individual banks and the level of costs thanks to the inherent 'creation of competition'. Banks are hence forced *by the customer* to behave competitively. But, *only* adhering to transaction relations is interpreted by customers as creating 'too much competition' (Baker (1990, p 607)). The more powerful the customer in relation to the bank, the more power advantages could be exploited through the sound creation of competitive alternatives (Baker (1990, pp 615-616, 619-620)).

[27]A classical sociological parallel to that of Podolny is Park and Burgess (1924, p 512) who notice that competition broadly can be conceived of as 'struggle for a livelihood and for status'.

[28]This choice of empirical arena is interesting since it is often referred to in defense of the neoclassical idea of perfect competition. That is, goods is standardized, there are lots of actors that freely could move in and out of the market and there is allegedly close to perfect information available. By choosing this very context, Baker (and also Podolny) hence sets out to kill the wolf in its own den. Baker (1990, p 590) himself chooses to draw on this fact by humbly noticing that the low 'asset-specificity' of money makes it a 'universal good'.

> [Customers] ... *manage their ties to counterbalance bank power and create competition among banks. Competition does not arise spontaneously in imperfectly competitive markets - it can only be induced by the purposive use of power. The efficiency benefits of competition are obtained because power and efficiency motives are compatible...*

A similar, though more overtly analytical, contribution that penetrates consequences for competition of the social structuring of markets by actor conduct is Baker's (1984) study of 'the floor of a securities exchange'. This work stands out as it comes to the opposite conclusion than that of neoclassical economics regarding the role played by actor numbers for competition. Here (Baker (1984, pp 775, 777, 780)), micro-networks activity is linked to that of macro structures and subsequently to outcomes in terms of price volatility. The way prices move then corresponds to uncertainty that implies opportunities of market gain. The core argument goes against the standard neoclassical notion of a) a positive relation between the number of actors and the level of competition, b) a negative relation between actor number and market differentiation. Instead Baker (1984, p 785) claims that the more actors, the less competition and the 'worse' market performance in terms of higher price volatility. Lower price volatility (implying better market performance) and less differentiation is instead discerned in a setting of fewer actors, the number of which is stable. This is explained by the fact that markets are socially structured in sub-entities, 'network cliques', following the way in which actors behave, boundedly rational and opportunistically (Baker (1984, p 804)).

> *The findings may be summarized as 'the paradox of large numbers'. While under ideal-typical conditions large numbers and growth create a competitive and minimally differentiated market, the opposite occurs in actual market situations.*

That is, (Baker (1981, pp 150, 180)), competition is a function of the number of participants and price continuity is a function of competition which is very much in line with the neoclassical argument. But here the conclusion drawn is opposite from that neoclassical, the reason being that no market is an 'undifferentiated institution'. Instead it is made up of interacting humans. Or, as noted by Granovetter (1990a, p 100) ,'as group size increased, the number of personal trading relations that the average trader could sustain did not'. 'In short, all markets may be understood as structures of interactive economic relationships' (Baker (1981, pp 197-198)).

This paragraph on the formal-analytical network approach is now coming to an end. It starts out by delineating market exchange as a sub-discipline of economic ditto that by itself is subordinate to social exchange. That is, to understand the structures emerging from market exchange it is necessary to grasp the social, overriding, aspect hereof as discerned in social exchange theory wherein the object of exchange necessarily carries some 'social value'. The most viable conception of *social exchange* emerges from within works on power and dependence, two concepts that originate in relationship reciprocity. There are two major aspects to this argument. *Firstly*, dependence is seen as a function of value of, and alternatives to, a prevailing relationship. That is, the more someone appreciates a relationship, and the fewer alternatives there are thereto, the more dependent that someone is on her exchange party. And the less likely she is to step out of that relationship. *Secondly*, two parallel relationships can be interdependent via negative interconnectedness. This means that they are negatively linked to each other via their common actor in an almost zero-sum game character. That is, increased exchange in one relationship comes about at the expense of decreased exchange in the other. These two aspects of social exchange reasoning propel two assertions as to competition.

- Dependence entails a Weberian lock-in effect whereby the exchange partner of a relatively dependent actor is not very much subject to competition from others. This follows from this last actor's appreciation of the relationship and the lack of alternatives thereto. The understanding hereof is elaborated upon as commitment and obligations are added as further lock-in devices.

- Two relationships are in a state of competition when exchange in one affects exchange in the other via negative interconnectedness. This is a straightforward structural assertion as it entails competition between various positions within an overall aggregate.

A market conceived of as a network consists of economic ties between a defined set of actors and these ties jointly embody the price mechanism subject to which both customer and supplier action emerge. Such a market is *stable but not static* as it takes on a self-reproducing character following ex post, rather than ex ante, agency. That is, actor behavior is more influenced by prevailing experience than by wild guesses into the future, something rendering interpretations of this 'history' self-fulfilling. This means that markets are socially constructed phenomena subject to structures of interaction that are manifest in relationship patterns. It is further possible to distinguish two main types of studies within the formal-analytical network approach. One is 'relational' in emphasizing the concrete relationships of actors whereas the other is more 'positional' in focusing the abstract patterns of relationships. There is a corresponding dichotomy as to how network efforts come to grips with competition wherein the first, 'absolute', view revolves around the actual bonds between actors and the second, 'relative' perspective, is mostly preoccupied with how the social structure can guide actor conduct as an uncertainty-reducing device.

	TYPE OF COMPETITION APPROACH	
TYPE OF NETWORK APPROACH	ABSOLUTE	RELATIVE
RELATIONAL	Baker (1990)	Podolny (1991)
POSITIONAL	?	White (1981)[29]

Table IIIa: Formal-analytical network approaches and conceptions of competition

As seen the formal-analytical networks approach seems to miss out on contributions that are on the one hand 'positional' in abstractly reproducing certain aspects of a network sphere and on the other 'absolute' when it comes to grasping competition via concrete ties as seen in the idea of social capital. Such a fictitious program would tentatively entail works that draw on tangible accounts of competition anchored in the presence of social ties within a market network setting that extend beyond such immediate connections. That is, a concrete idea of competition that unfolds within more of an abstract frame. The already prevailing contributions that find themselves in each of the other three quadrants can be summarized as follows (in an internally not necessarily coherent manner).

- Competition is socially constructed as suppliers monitor each other and eventually also frame norms of competition which are endemic to the ruling social market order.
- Within social market structures the neoclassical dictum of a positive association between the number of actors and the level of competition is highly questionable.
- Competition can be expressed as relative structural equivalence. And competitiveness can be framed as structural autonomy. This means that there is a negative association between the level of competition in a particular market and the aggregated actor autonomy as being autonomous implies not being structurally equivalent.

Customer impact on competition can be discerned in a variety of guises. The negative interconnectedness reasoning provided by social exchange theory is fundamental and has it that it is the absence of balance in parallel relationships that provides a discretionary role for an actor-customer who 'connects' the two relationships. A similar though slightly more ambiguous argument in this sense is that of White on interaction structures. Therein competition is 'produced' by manufacturers mutually observing each other, something which however also is indirectly subject to customer appearance. More of a direct and clear-cut customer impact is found in the works of Baker and Podolny. Both of them explicitly, by relating empirical findings, recognize the crucial role occupied by customers in the de facto *creation* of competition between suppliers. This is an insight very much in the spirit of Simmel.

[29] Baker (1984) and Burt (1982) also fit in here.

iii. The informal-governance network approach

In addition to the above 'formal-analytical network approach' there is a similar tradition here labeled the 'informal-governance network approach'. As accounted for in Appendix B these two approaches converge in conceiving of markets as networks but differ as to their origins and analytical emphasis. The latter of these, characterized by a mostly metaphorical usage of the term network, addressing market governance, and an overtly empirical concern, is the subject matter of this paragraph. It features contributions from a few distinct schools but the concern here will be devoted to the mostly Scandinavian 'industrial networks' tradition. The foremost reason for concentrating here, and not also discussing other contributions in the area (confer Gerlach (1992)), is that this very perspective makes up a rich and relatively coherent group of works that by and large encompasses findings coming forward also outside its own immediate area of interest. As a case in point, what is drawn upon in the reasoning of Piore and Sabel (1984)[30] is hardly entirely new in the light of the *already* by then prevailing industrial networks tradition (confer Hägg and Johanson (1982), Håkansson et al (1982), Hammarkvist et al (1982) and several of the early contributions presented in Ford (1990)). In addition this industrial networks tradition is also relatively more inclined towards the study of *inter*-organizational *market* phenomena whereas several others are *as* preoccupied with what goes on *inside* organizations.[31]

Exchange and interaction

Johanson and Mattsson (1994, pp 322-326) trace the origins of their own marketing-based view which endorses relationship networks to the generic idea of exchange (confer Alderson (1957)). Via the notions of interaction (both customer and supplier are active) and exchange relationships (repeated transactions) this exchange transforms into a market aggregate. The function of exchange is here to serve as the dynamic mechanism that coordinates ('governs') 'industrial' activities and resources thus controlled by connected actors in the market system. This is of course very different from the neoclassical role of exchange as a 'market clearing device' (Mattsson (1997a, p 528)). Given the empirical closeness of this approach, acts of exchange is always what epitomize the network under consideration. Interaction takes on the guise as a somewhat overarching concept in relation to exchange and is the pure agency which underlies the formation of relationships. Exchange (of resources) can further be understood as parallel to formation of bonds and mutual adaptation within the realm of interaction, the latter being 'both objective and subjective' and inducing 'both stability and change' (Håkansson and Johanson (1990 (1988), pp 461-463)). That is, there is also a certain interpretative character to exchange that both can cement 'what is', and develop 'what will be'. As noted by Easton (1992, pp 8-9) whereas exchange interaction is 'specific and here and

[30]Powell and Smith-Doerr (1994, pp 369-370) labels the contribution of Piore and Sabel 'the impetus for this line of [informal-governance network approach]'.

[31]The industrial networks sphere of research also constitutes the author's academic abode.

now', resulting relationships are 'general and long-term'. Ford et al (1990 (1986), pp 385-389) discuss four aspects of interaction as capability ('what can parties do for each other?'), mutuality ('the mirror of trust'), particularity ('how special are the parties to each other?'), and inconsistency ('how consistent do the parties perceive each other to be?'). Social exchange theory is furthermore a most influential source of inspiration. See for instance Easton's (1992, p 11) comment that '[t]he economic rationale for strong bonding is clearly dependent upon the satisfaction with the terms of the current exchange and the presence of alternatives' (confer Emerson (1972, p 62)). All exchange is here 'economic'. That is, alternatives to the market principle, such as redistribution and reciprocity, are not an issue.

Relationships

As noted by Ford (1997, p xiv), relationships are the sine qua non of a network perspective to business markets. '[They] are not just important: a company's relationships with others effectively *define* its existence and without them it has no meaning'. That is, actors (void of which markets are hardly understood whatever perspective is taken) do not prevail at all in case they are not understood as loci of relationships. How can such a relationship then be identified?

> *A relationship can be said to exist when two actors are aware of each other and perceive each other as counterparts or partners in an exchange process.*[32]

> *The exchange relationship is a mutual orientation of two actors towards each other. They are prepared to interact with each other in order to coordinate and develop interdependent resources that each actor controls.*[33]

> [A] *relationship is mutually oriented interaction between two reciprocally committed parties.*[34]

These definitions are similar as they highlight mutuality, but they emphasize various aspects of a relationship. Whereas the first one is more interpretative in character and focuses actual ongoing exchange, the other two are more distant from this hands-on aspect and instead rely upon the notion of orientation which seems more to characterize a certain proneness. Still they touch the concrete by relating the actual cement that keeps a relationship together over time. That is the interdependence of resources as manifest in reciprocal commitments. More of an 'atomistic' view of a relationship, as first and foremost the product of individual actors, is that of Campbell (1990 (1985), pp 266-267) who echoes the 'early interaction approach'. Herein the relationship is an outcome, the interface of, marketing and purchasing strategies that 'meet' along a competitive-cooperative-command continuum.[35] A similar, though slightly

[32]Laage-Hellman (1989, p 67)
[33]Johanson and Mattsson (1992, p 208)
[34]Håkansson and Snehota (1995, p 25)
[35]Two 'competitive strategies' for instance mean a relationship as a 'perfect market' whereas two 'command

more distinguished, view is that of Laage-Hellman (1989, p 89). According to him a relationship can be characterized by the commonness of interests of the parties to it. The dual interplay of both conflicting and common interests in parallel seems to be the most typical case for business.

	COMMON INTERESTS	
CONFLICTING INTERESTS	WEAK	STRONG
WEAK	'independence'	'cooperation'
STRONG	'fighting rivalry'	'dual interplay'

Table IIIb; Characterization of relationships via commonness of interests[36]

The timely dimension of a market relationship is distinguished via a life-cycle metaphor adopted by Ford (1990 (1980), p 45) and Wilkinson and Young (1997 (1994)). Typically there is a pre-stage phase followed by development, maturity and decline. And each of these varies in terms of a number of characteristics such as uncertainty, adaptation, cooperation and conflict.[37] These kinds of relationship traits conveniently alluded to are conceived of by Håkansson and Snehota (1995, pp 7-10) as either structural or processual in character. Most often, business relationships can hence be characterized as a) complex (as discerned in pattern of contacts and scope), b) continuous ('long-term' but not only stable), c) (relatively) symmetrical ('balanced'), and d) informal ('informal bonding'). More dynamic properties are allegedly that they feature a) routines ('institutionalization'), b) adaptations (constituting a coordination prerequisite), c) cooperation and conflict ('coopetition' wherein the presence of basic cooperation is a rudimentary necessity), and d) subjective *social* exchange ('[m]achine-like relationships do not exist' following interpersonal ties resulting in trust et cetera). This given it goes without saying that relationships cannot be had with everyone. The reliance upon just a few customer and supplier relationships in a market then 'seems to be a way to cope with the complexities and ambiguities which any company is facing in a market'. That is, the presence of a few relationships constitutes a means of coming to grips with an inherently multi-faceted and uncertain context.[38] However, they are a way of handling inevitable interdependence that they also create by their own sheer existence. '[R]elationships are mutually demanding besides being mutually rewarding' (Håkansson and Snehota (1995, pp 11, 25)).

strategies' imply 'mismatch'.

[36]Laage-Hellman (1989, p 89)

[37]Confer Liljegren (1988) for a longitudinal empirical study in this vein.

[38]This an argument is reminiscent of that found within Austrian economics which claims that relationships are uncertainty-reducing institutions.

Networks as a viable metaphor

There are three major features to draw upon when a step is to be taken from the dyadic relationship to the network level of analysis. First there is the idea of *an indirect relationship*, the presence of which 'provide[s] a very direct link between dyadic relationships and networks' (Easton (1992, p 15)). This is a relationship wherein the contact between two actors is 'mediated' by a third ditto that itself has got direct relationships with both of the first actors. Then there is the notion of *relationship interconnectedness* meaning that what happens in one relationship will affect what occurs in others (confer Blankenburg (1992), Smith and Laage-Hellman (1992, pp 43-51)). Håkansson and Snehota (1995, pp 13-18) relate this to the 'texture of interdependencies' endemic to networks. That is, in the same manner as parties to dyads are connected via various (social, technical, et cetera) ties (confer Hammarkvist et al (1982, pp 23-24)), relationships are linked together in a corresponding manner. For instance, a prevailing technological modus operandi diffuses as does knowledge via pooling of tacit know-how and social norms through the taking on of roles corresponding to certain network positions over time. The intertwined nature of relationships (and not only of actors) is further what gives rise to so-called domino effects in networks (confer Hertz (1993)). By putting the ideas of *indirect relationships* and *relationship interconnectedness* together there is, finally, the concept of *indirect connectedness*. This epitomizes a network devoid of both center and boundaries (Håkansson and Snehota (1995, p 19)). The joint meaning of these three features is that every single relationship, apart from displaying several 'own' characteristics as discerned above, is contingent on, and by itself conditions, other relationships.

Mattsson (1997a, p 529), alluding to Alderson, identifies markets as 'systems of exchange relationships' wherein there will always be both substitutes and complementarities. That is, there is a certain mutual reinforcement between relationships and markets as the one cannot really be grasped if the other is not (confer Ford (1997, p xv)). This can be only thanks to the three network features of above. Such systems are understood by means of four fundamental market propositions (Mattsson (1995a, p 204)).

- Supply and demand are heterogeneous following primarily adaptations between exchange parties (confer Hägg and Johanson (1992)).
- The efficient handling of flows calls for specific coordination mechanisms as seen in mutual development of routines to handle individual transactions
- Innovation requires input from supplier and customers.
- The need for uncertainty reduction demands formation of trust and commitment within the realm of social interaction.

Even more general network characteristics are discerned by Grabher (1993, pp 8-12) as reciprocity, interdependence, power, and 'loose coupling'. The last of these entails [as opposed to hierarchical vertical integration] 'a weaker form of rigidity.' Propositions like these render this (open) systemic market account easily distinguishable from neoclassical thinking. All of them are furthermore pillared by the above key assumption of indirect relationship connectedness. What is more, sub-entities of networks, nets, are anchored within and between different network structures that by themselves are overlapped (Mattsson (1995a, pp 206, 207)). As relationships display both structure and process characteristics, and since they feature loose coupling, it follows that the same holds for markets conceived of via such relationships.

> *Networks are both stable and changing. They are stable in the sense that most transactions in a period take place within relationships existing in the previous period and changing since there are always some new relationships established and some existing ones changed or disrupted. The network structure both enables and constrains industrial and institutional change. History matters. ... Change is dependent on stability. ... The viability of the network institution as such is not dependent on the viability of a specific individual relationship. On the contrary, the network view of markets requires that individual relationships change over time.*[39]

Thorelli (1990 (1986), pp 448-449) delineates these kinds of network dynamics as 'entry', 'positioning', 'repositioning' and 'exit' and argues that they resemble features within the traditional (industrial organization) barriers of entry discourse. In the network case, entry and exit dynamics however always unfold into and out of relationships, au lieu of a faceless 'industry'. This becomes a very empty concept in an industrial networks discourse (confer Hägg and Johanson (1982, pp 46-47)). To come to grips with network dynamics is however most challenging. The consequence hereof is that several accounts of network change (despite the hands-on metaphor-like point of departure) tend to be unnecessarily abstract in that they elaborate on concepts that presumably will never lend themselves to empirical illustration.[40] This, of course, needs not to be a problem as such were it not for the fact that it stands out in a mystical light as other facets of industrial networks studies are continuously subject to wide-reaching empirical scrutiny.[41]

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[39]Mattsson (1995b, pp 761, 762)

[40]Confer Easton and Lundgren (1992) according to whom electrical metaphors, as 'reflection', 'absorption', 'amplitude modification', 'dissemination' et cetera represent 'change as flow through nodes'. See also Smith and Laage-Hellman (1992, pp 51-59) on transformation patterns discerned as 'avoidance', 'flanking', 'blocking' et cetera, and Håkansson and Snehota (1995, pp 275-284) on 'vectors of change'. Hertz (1993) and Andersson (1996) however constitute exceptions in this regard as they manage to handle change without recurring to the emptiness of the aforementioned concepts.

[41]An additional tension is whether a(n) (industrial) network should be seen merely like a sort of compromise between a 'market' and a 'hierarchy' or as standing on its own feet. This first, networks-as-a-kind-of-compromise perspective emerges from within new institutional economics but is also embraced by others (confer Powell (1990)). Axelsson (1995, p 123) highlights these two alternatives and says that in the first 'compromise' case traditional measures of efficiency will do a good deal of the job whereas there will be much more of a need for elaboration of entirely new concepts when a network perspective is seen as a 'separate' concept. Mattsson (1997b, p 3) strongly opposes this former kind of 'cocktail approach' and asserts that an elaborated markets-as-networks perspective is not merely an 'intermediate form for [market] governance' since it entails much more than just mirroring neoclassical and new institutional economics.

Competition

Competition is not a core issue for the industrial networks tradition. *As* true, however, is that it is by no means entirely absent. Devoid of competition this mode of coming to grips with markets would be entirely futile. A recurrent argument thus oftentimes opening the discourse of 'industrial networks competition' is the primacy of heterogeneity over homogeneity. This reasoning is particularly salient as neoclassical theory is considered. Measures such as cross price elasticity of demand are used therein to frame competition based in the idea of homogeneity pertaining to products and other resources. This is not the case in the industrial networks approach where, '[a]s there is heterogeneity, horizontal competition in its traditional meaning does not really matter' (Hägg and Johanson (1982, p 49, author's translation). Instead complementarity which stems from market heterogeneity is paramount. Competition hence prevails, but not for transactions of homogeneous products but for *control of heterogeneous resources as seen in relationships*. And since these resources emerge when actors meet, individual organizations do not really compete with each other in the traditional sense. In consequence 'actors [to compete] often form coalitions in order to gain resources'. Competition hence occurs on more of an aggregated organizational, than on a straightforward product, level. As furthermore observed by Campbell and Wilson (1996, p 139) the object of competition here becomes 'share[s] of the value-creation ability residing in the network'. That is, individual transactions (in a homogeneous world) do not really matter and actor strength is synonymous with ability of value-adding to the network. Hägg and Johanson (1982, pp 69, 73) finally notice that this general stance on competition is reminiscent of the ideas underlying 'monopolistic competition'. In this view an industrial network can be analyzed as 'systems of [interconnected] bilateral monopolies' (confer Chamberlin 1969 (1933), p 69). That is, the heterogeneous conception of competition as occurring between set-ups of organizations for relationships (found in industrial networks) is in fact akin to what Chamberlin says. This given, 'industrial networks competition' can be distinguished along four lines of inquiry. They frame the account below and appear in the guise of a) competition as competitiveness, b) competition and cooperation, c) competition understood via indirect relationships, and d) competition within and between nets.

Competition as competitiveness

The lion's share of texts on competition within the industrial networks tradition is biased towards the instrumental according to the taxonomy provided in Chapter I. Most interest is then paid to how actors actually do, and how they should, compete at the expense of analytical understanding. Appendix A features an array of such implications. It is thus learned that competitive conduct is embodied in the formation, elaboration and termination of exchange relationships and not individual transactions. This in its turn means that competitiveness is more discrete than continuous in character as it stems from relationships' coming into being. This however does not entail that competitiveness is static as networks are constantly transformed. Johanson and Mattsson (1992, p 331) point out that even though long-term business relationships embody competitiveness, this competitive ability might also be hurt by relationship ties as flexibility might become reduced. What is more, as interaction is always unique this type of competitiveness can hardly be imitated, even though some tangible features of a particular relationship are known. An individual actor's competitiveness can then only be understood from the relationships whereto one is a party. It follows that there will be a dialectical relation between competitive conduct / competitiveness and cooperation. The latter gives rise to the former two as the prevalence of a relationship requires cooperation.

One of the most elaborated accounts of competition found within the industrial networks tradition is without doubt that of Snehota (1990). His basic argument is that competition from others is *on the one hand* 'confronted' as an actor displays its 'distinctive competence' via the effective handling of costs. *On the other hand*, an actor's 'market differential', as seen in the effectiveness of exchange, 'avoids' competition from others by way of a unique relationship performance (for instance new product development) that no one else can be close to in the eyes of the other exchange party. This exchange differential prevails as a consequence of entrepreneurial behavior. It 'isolates' from the impact of others' competitive conduct. Strategic concerns for competitiveness are only second to those for the creation of market differential as exchange value the customer' eyes. This market differential, by means of which competition then is 'evaded', is 'binary' as it, within a given relationship, either prevails or not (Snehota (1990, pp 169-170, 179)). This gives competition an air of indirectness.

> [C]*ompetitiveness is the outcome of the exchange performance in a market and not determinant of market performance. The reason for this is that competition is always 'indirect', meaning that it is mediated through the impact on the actual exchange activity of customers. ... Competition is exercised only when development of an exchange relationship affects some other exchange relationship maintained by the customer.*[42]

As seen, being different from others embodies 'network competitiveness', but there is also less of a conventional interpretation thereof that revolves around the structural notion of network position. To compete thus means to position oneself rather than fighting selected parts of the environment (Jarillo (1988, p 32)). That is, even though network structuring and / or restructuring mostly result(s) from cooperative efforts, also competitive striving has got an immense role to play. Network structuring activities then come true as an aggregate of individual actors' 'position-changing strategies', be they cooperative and / or competitive in character. These strategies are further either 'isolated' and embrace only two parties to a distinct relationship. Or they are 'interlinked' by involving several actors. Strategy

[42]Snehota (1990, p 177)

implementation is then subject to how structured the network at hand is at the outset. If it is very tight (if actors are closely intertwined with one another), a lot of cooperation will be needed and a good deal of competitive response can be expected since the strategy adopted necessarily will be interlinked with others. The opposite, an isolated strategy, prevails in case of a loosely structured network where hence less cooperation is needed and less competitive responses will be elicited (Mattsson (1985, pp 273, 280-281)).[43]

	TYPE OF STRATEGY		
TYPE OF POSITION CHANGE	COOPERATIVE	COMPETITIVE	COOPETITIVE[44]
ISOLATED	mutual problem solving	positional vertical conflict	assortment discussion
INTERLINKED	project group effort	positional horizontal conflict	competing project groups

Table IIIc; Position-changing ideal-type strategies in networks[45]

Competition and cooperation

As foreshadowed above the industrial networks tradition entails a close connection between cooperation and competition. One cooperates within the realm of relationships in order to compete.

> *Two dialectical processes in* [industrial] *networks are competition and cooperation. The picture of relationships provided by the* [industrial] *network approach emphasizes cooperation, complementarity and coordination. ... Even those firms judged as market competitors by traditional standards, being indirectly linked through customers, may find themselves cooperating in order, for example, to develop new products as a benefit for the network as a whole.*[46]

Despite these alleged dialectics there is no doubt that competition, in the better part of these writings, appears very much in the shadow of cooperation.[47] The latter is a necessary though not sufficient precondition for the former whereas the reverse does not hold. That is, cooperation is perfectly viable without competition whereas competition cannot be properly conceived of in case there is no cooperation. This stance is very much reminiscent of the Austrian economist Mises (1963 (1949), p 273) who comments on 'social competition' which allegedly unfolds 'in the system of social cooperation'. That is, competition prevails, but only subject to the overarching presence of cooperation. In this vein Snehota (1990, p 132) alleges that '[the] competition effect within the network requires some cooperation first'. This claim is further developed as it is argued that competition cannot be present within the realm of an

[43]Jarillo (1988, p 21) notes that the ground for why strategy scholars seldom resort to network reasoning is 'that the construct of networks is difficult to fit within the basic paradigm of competitive strategy'.

[44]This is not Mattsson's term (confer Bengtsson and Koch (1997)), the meaning is a combination of a cooperative and competitive strategy.

[45]Mattsson (1985, p 280)

[46]Easton (1992, p 23)

[47]Confer Brunsson and Hägg (1992, pp 85 ff), Anderson (1994, pp 201-202), Mattsson (1995a, pp 206-207), Håkansson and Snehota (1995, p 9)

existing structure, it only unfolds as new relationships are established, thus both shaping and being itself shaped by the structure. Cooperation then is 'what is', a natural point of departure, whereas competition represents 'what will be', a tool for change. 'What makes the market process, the process of networking, inherently competitive is that the exchange relationships maintained by a single actor are interchangeable with respect to goals pursued and problems faced by the actor.' That is, competition is here seen as closely connected to market change through continuously unfolding relationships. Hence, a perspective close to Austrian economics where competition and entrepreneurship go close together. Still, says Snehota, 'the effectiveness of cooperative strategy for the individual market actors is superior to that of conflict strategy'.

It then seems viable to assume that there is a temporary relation between cooperation and competition where the former always precedes the latter. That this does not necessarily have to be the case, however, stands out clear as Laage-Hellman (1989, p 32, added italics) scrutinizes relationship interconnectedness. His conclusion is that two relationships (nota bene, not the actors, but their interaction as manifest over time) may be 'both competing and complementary *at the same time*'. This, the very intertwined nature of cooperation and competition, is nicely illustrated by Kogut et al (1993, pp 71-72). They assert that patterns of cooperation and competition both preserve and expand a prevailing network structure. In this context competition is crucial as it tends to reach out not only *within* but also *between* networks. The presence of proprietary industry standards in the semiconductor market here illustrates what is labeled a 'competitive dilemma'. What might happen is that when customers demand compatible products in a market devoid of standards, suppliers will necessarily compete in order to establish their specific version. But this they cannot do on their own so they invite organizations previously outside the market to join them in pushing for their own systemic solutions. That is, '[c]ontrary to traditional economic wisdom, rivalry among incumbents leads to entry'.

Competition understood via indirect relationships

The most elaborated account of *analytical* competition within the industrial networks discourse is that coming forward as competition is brought up in light of indirect relationships. That is, competitors are 'tied' to each other by way of a third party, typically a common customer. '[In a network perspective,] [t]he relationship with the competitors is not treated explicitly, but it is presumed to be mirrored in the relationships the firm has with other actors – not least in the relationships with the firm's customers' (Axelsson (1995, p 121)). This way of reasoning is reminiscent of how social exchange theory treats competition as the manner in which actors and relationships are connected to each other. 'Competitors also strive to develop their nets. … [And they] may have customers, distributors, or suppliers in common and are negatively connected to each other via those firms' (Mattsson (1995a, p 206)).

TYPE OF EXCHANGE	DIRECT	INDIRECT
INCLUSIVE OF ECONOMIC EXCHANGE	suppliers⇔customers competitors in cooperation	competitors in competition
EXCLUSIVE OF ECONOMIC EXCHANGE	competitors in conflict, coexistence, cooperation, collusion	'everybody + nobody'

Table IIId: Types of network relationships[48]

This 'indirectness' implies that interdependent resources are jointly drawn upon by actors that do not have mutual direct exchange relationships. Competitors are the epitome of such actors (Johanson and Mattsson (1992, p 208)). Originating in the sociology of Stern (1971) competition may then be brought up as an aspect of the so-called 'co-dimension' (confer Easton and Araujo (1986), Easton (1988, 1992), Easton and Araujo (1992), Araujo and Mouzas (1997)).[49] The main idea here is to relate competition by means of relationships that are both non-economic and indirect (confer Figure IIId). This is however a rather ambiguous project as '[p]otential intercompetitor relationships are … difficult to characterize since in the limit all suppliers in a network are competitors. … [something rendering] [c]loseness of competition … more likely to be a perceptual than an economic variable' (Easton and Araujo (1992, pp 68, 70)). As seen in the table competitors could thus either be said to have a direct kind of relationship not involving economic exchange, or to be indirectly related by economic means.

This way of understanding competition is founded in the idea of horizontal crosslinking, implying connectedness of relationships (Easton (1988, pp 57, 59), Easton and Araujo (1992, p 73)). The co-dimension has furthermore got *five facets* along a continuum which relates the way in which two (competing) actors' objectives oppose one another. As said, either they are seen as indirectly connected via economic exchange or they are directly conceived of via non-economic ditto. *Competitors in competition* is described in terms of opposed objectives controlled by a third party in a process of parallel striving whereas *competitors in conflict* is a more overt and direct kind of relation where mutual destruction is aimed at. 'Competition occurs when the two actors have objectives which are in conflict but the locus of their objective is under the control of a third party' (Easton and Araujo (1992, p 72)). This means that competition has got a very indirect character although 'involving' economic exchange, a reasoning very close to that in social exchange theory. 'Structurally, a more "competitive" network is likely to be one where there is a high degree of crosslinking, a high level of horizontal connectedness' (Easton and Araujo (1992, p 73)). In concrete terms this means the prevalence of dual sourcing in the sense that there is a second supplier present. If this is not the case competition becomes even more indirect, rendering it hardly conceivable.

[48]Easton and Araujo (1992, p 71). The matrix contents are not identical with the original.

[49]See Stern (1996) for a more contemporary contribution in the same vein relating 'the three c's of sociology', cooperation, competition and conflict.

Competitors in coexistence is further a situation of independent objectives or conduct where actors do not even need to be aware of each other as opposed to either formal or informal *competitors in cooperation* where mutual 'conscious' dependence is claimed to be at hand. Finally, *competitors in collusion* is described as cooperation between 'the two to hit the third' (Easton and Araujo (1986, pp 18-21), Easton (1988), Easton and Araujo (1992, pp 71-81)). One problem with this reasoning, as recognized by the authors, is that competition is 'the only indirect relationship' and thus, in part, not entirely comparable to the others.

More of a focused and market-wise bidimensional argument on competition is that of Araujo and Mouzas (1996, 1997).[50] They start out in the above observation that indirectness, endemic to competition, means that there is a third party with a particular influence on how a state of competition is to unfold.

> [H]*orizontal, competitive relationships are mediated by vertical, buyer-supplier relationships.* [Competition can be seen as] *a process exercised not through rival moves and countermoves in an acquiescent and faceless environment, but pursued through exchange episodes when one party attempts to elicit cooperation from others in an attempt to shape the network structure in which it is embedded to its own advantage.*[51]

This view is justified by allusion to the core industrial network assumption of heterogeneity (confer Hägg and Johanson (1982)). That is, *truly assuming market heterogeneity necessarily entails conceiving of competition in an indirect manner* (Araujo and Mouzas (1997, p 147)).

> [T]*he network approach emphasis on heterogeneity implies that traditional, horizontal competition amongst suppliers is not regarded as central. ... In the network approach, competition is lessened by complementarities between sellers and cooperation between buyers and sellers.*

The consequence hereof reaches out far (Araujo and Mouzas (1997, pp 148, 161, 163)).

> [W]*e view competition as an indirect process, exercised not through rival moves and countermoves in an acquiescent and faceless environment, but pursued through exchange episodes when one party attempts to elicit cooperation from others in an attempt to shape the network according to own preferences. With few exceptions ... this perspective has largely been neglected in the study of competitive interaction. ...* [Competition] *is* [here] *not regarded as a structural property of a particular system (ie the industry) but a series of one-to-one relationships between firms. The recognition of the interdependence between*

[50]A similar thread of reasoning is that of Jüttner and Schlange (1996, p 48) who assert that '[c]ompetition as a network phenomenon means that relationships between competitors are often mediated through customers as well as other resource supplying actors.' See also the 'bidimensional' claim of Easton and Håkansson (1996, p 408), who say that competitors in networks might always emerge once a third actor, implying also indirect relatedness, is added to any dyad under scrutiny.

[51]Araujo and Mouzas (1996, p 1). The influence could however also go the other way around so that whatever emerges between competitors affects the relationships that each have with the customer(s).'[One can thus envisage] competitive relationships as influenced by *and influencing* vertical, buyer-supplier relationships within vertical marketing systems' (Araujo and Mouzas (1996, p 2, added italics)).

> *horizontal, competitive relationships and vertical, buyer-supplier relationships is a powerful reason for studying competitive relationships as the outcome of interaction moves and reinforces the argument for moving beyond a dyadic to a network level of analysis. ...* [C]*ompetition is an indirect form of relationships, the outcome of the cooperative and conflictive practices of direct, economic exchange relationships. ...* [W]*e regard competition as an effect – sometimes intended, sometimes unintended – of moves designed to elicit cooperation from trading partners in an effort to restructure the network of relationships in which a firm is embedded.*[52]

Can competitors then really have a relationship? It obviously works out with a general enough definition of a relationship as 'the relative position of two entities on some underlying dimension' (Easton and Araujo (1992, p 67)) But what if a relationship is defined in a different manner? Within the industrial networks approach the definitions provided above (Laage-Hellman (1989, p 67), Johanson and Mattsson (1992, p 208), Håkansson and Snehota (1995, p 25)) mostly revolve around some 'mutual orientation' eventually resulting in some reciprocity-laden interaction. Since competitors somehow oppose each other they can in consequence hardly be parties to a common relationship.[53] The 'formal-analytical network approach' recapitulated above however seems to endorse a different stance. According to Baker (1981, p 10) for a (social) relationship to prevail it suffices with 'the movement of something of social value' between two. This is obviously viable also in the case of two competitors facing each other. This position is implicitly endorsed also by Granovetter (1973, p 1363) who argues in terms of the 'forbidden triad'. That is, if A (here a 'customer') entertains relationships with both B and C (here 'suppliers'), it is most likely that B and C also have a relationship. So, once exchange relationships are in place between a customer and two competing suppliers respectively it is viable also to assume some sort of a relationship between these suppliers themselves. A different position, making untenable intercompetitor relationships, is that of Cook (1977, p 64) who from a social exchange theory viewpoint states that '[a]n exchange relation ... consists of voluntary transactions involving the transfer of resources ... between two or more actors ... for mutual benefit'. The contributions of Weber and Simmel furthermore differ in this regard as the former adheres to a much looser relationship definition wherein 'orientation to others' seems to be enough while the latter seemingly demands more of resource exchange (confer Turner (1988, pp 4-7, 14, 28-30, 128-129)). To judge whether 'network competitors' in fact can have a relationship or not is thus dubious.[54]

[52]A related claim is that of Snehota (1990, p 177) who also traces the indirect nature of competition by way of customer activity.

[53]For diverging views, confer Liljegren (1988, pp 402-403) and Anderson (1994, pp 201-202).

[54]Yet an elaborated account on this issue that also discusses the alleged parallel prevalence of competition and cooperation in relationships is found within the works of Bengtsson (1994) and Bengtsson and Koch (1995, 1996, 1997). Bengtsson (1994, p 25, author's translation) provides the impetus for this discourse by claiming that 'it is [however] plausible to assume the prevalence of direct relationships between competitors as they actively pursue action directed at each other. Even though there is no direct exchange between competitors, more subtle social and psychological aspects are found in competitor relations'. The clue to this claim is that competitors find themselves involved in relationships despite the fact that they actually set out to avoid this type

Competition within and between nets

When more of a macro perspective is taken within studies of industrial networks it is naturally inspired by the systemic approach to distribution theory envisaged by Mattsson (1971, p 42). Therein, competition in distribution channels allegedly takes place *between* different distribution systems ('competition between blocks') instead of between separate system units. The success of a block then depends on how efficient the system is internally, backwards (towards suppliers) and forwards (towards customers). These blocks are the conceptual precursors of nets, sub-units within an elaborated network perspective. As noted by Johanson and Mattsson (1994, p 326), 'cooperation within and competition between such blocks may serve to increase [system] effectiveness but ... in the long run, dynamic competition might be restrained because of the strong power of such blocks and the oligopolistic interdependencies between them'. That is, cooperation within blocks might evolve at the expense of competition in the system as a whole. A network way of reasoning here renders feasible the taking into account of both actual and potential channel rivalry. That is, both cooperation and competition is conceivable both within and between networks. This thread of reasoning is commented upon by Cunningham and Culligan (1990 (1988), pp 509-510, 515-518, 523). They discern the following fundamental network taxonomy concerning competition.

1) intra-net competition
2) extra-net competition
    a)competition between focal nets in the same product market
    b)competition for network partners
    c)competitors are either potential entrants or suppliers of substitute products

Once competition between net aggregates is recognized in the above manner it becomes feasible also to draw on networks in order to understand competition at the overarching level of an economy. This is by no means a core concern for the industrial networks tradition but it nevertheless deserves some attention in its own right. A distinct source of inspiration is the work of Dahmén (1988). He says that what an economy as a whole needs is both competitiveness (cost advantages) and innovation (transformation / change ability) in order to

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of contact. This is however not an outcome of their own deliberate interest or choice. They are 'forced' into this interaction via their relative network positions (Bengtsson (1994, pp 24-26, 221-222), Bengtsson and Koch (1995, p 4)). This claim is somewhat moderated as it is further (Bengtsson and Koch (1995, pp 1-2)) said that [h]orizontal relations are more informal and invisible than vertical relationships as economic exchange seldom takes place.' Relationships between competitors can furthermore be classified in a way complementary to that of Easton and Araujo's co-relation of above (Bengtsson and Koch (1995, p 5, 1996, p 22)). Depending on the presence of cooperation and competition in the relationship, four states are defined as 'cooperation', 'coexistence', 'competition', and 'coopetition'. Even though the implication of each should be obvious following the two underlying dimensions, the last one, meaning the explicit prevalence in parallel of both high cooperation and high competition, stands out as it entails both 'force' and 'help'. This allegedly differs from similar accounts that mostly view this kind of relationships as of an 'either / or' character (Bengtsson and Koch (1997, p 4)). As for the balance between these elements Bengtsson and Koch (1997, p 6) further claim that the closer an activity is to the customer, the more likely it is to be competitive in character.

develop and prosper. This is the point of departure for Lundgren and Mattsson (1993, pp 8-9) who argue in favor of *both* cooperation *and* competition. A key insight is hence that these two are complementary in character as the antithesis of competition is not cooperation but non-competition. They further argue that even though the need for cooperation (inducing overall market effectiveness) seems obvious so is the call for competition. This is so not only for reasons of cost efficiency within organizations but also since competition 'stimulates variation' in general. In a market(-as-network) economy '[c]ompetition between actors pursuing mutually exclusive objectives in terms of exchange relationships with other actors (suppliers or customers) is an important driving force spurring entrepreneurial activities' (Lundgren and Mattsson (1993, p 8)).[55] Mattsson (1995b, pp 762-763) finally launches the concept of 'megaorganizations' as a means to grasp a market economy. This is a set-up of three or more (most often) positively interconnected network actors. A somewhat similar approach is that of Lazerson (1993, pp 213-214). He relates the unique institutional framework within the Modena network of artisans and claims that thanks to cooperation between actors (firms, authority bodies etc) 'destructive forms of capitalist competition' (as seen in southern Italy) are ruled out.

This section now ending covers the way in which competition has been brought up within the 'informal-governance networks approach' as seen in studies of industrial networks. Its main impetus is the governance function exercised by the network-like character of markets. This frames competition in three different ways. *First* competition appears as a dialectical concomitant of cooperation, *then* it is articulated by the prevalence of indirect relationships, and *finally* there is competition as emerging within and between nets, sub-entities of networks. As seen there are furthermore a number of instances that nourish the idea of competition as an outcome of customer impact. Most straightforward in this sense are the contributions of Snehota (1990), Easton and Araujo (1992), and Araujo and Mouzas (1996, 1997). It is relationship connectedness that enables the attribution of a 'competition role' to the consumer. It shall however be noted that a) the emphasis is not really on 'customer power' but on the influence that vertical relationships per se (involving customers and suppliers) have on horizontal dittos, and b) this bidimensional impact can also go in the other (horizontal => vertical) direction.

A most representative passage suitably bringing this paragraph to an end is that of Snehota (1990, p 132).

> *The market process is competitive but it is also cooperative ...* [W]*hat makes the market process, the process of networking inherently competitive is that the exchange relationships maintained by a single actor are interchangeable with respect to the goals pursued and problems faced by the actor. While*

[55]See Mattsson (1992, pp 181, 191-192) and Lundgren and Mattsson (1992, pp 6-10) for an application of this reasoning to the transformation of formerly centrally planned economies.

competition means conflict with others, who aim to access the same resource elements[,] *it takes the form of cooperation in exchange relationships being established. Competition is brought up by establishing working exchange relationships, interlocking the actors. Therefore,* [the] *competition effect within the network requires some cooperation first. Competition entails both cooperation and conflict. It is interesting perhaps to observe that from the network perspective competition does not take place within an existing structure. Competition is exercised only when new cooperative relationships are established which leads to a renewal of the existing organization of the market. Competition is therefore structure reforming; or rather, it is the structure reforming that has the effect we call competition. Competition is a structural change; no competition is imaginable within a stable market structure. Every successful competitive act implies establishing a new exchange relationship, which is an alternation in market structure. Establishing exchange relationships requires cooperation in exchange and entails possible conflict over the distribution of gains from exchange.*

iv. Competition in neoclassical economics as 'perfect'

The opening chapter of this dissertation establishing the following. 1. Neoclassical economics occupies a uniquely central position in the general understanding of competition. 2. Neoclassical accounts, although inspiring applied business studies, are mostly found within the analytical realm, most notably as providers of predictive models and / or as interpreters of such models. 3. The subject matter of most neoclassical studies in the area is not competition as such but instead other features such as prices that are predicted by relying on various assumptions which encompass structures that mirror competition. Some of these contributions are more inclined towards the perfect competition paradigm per se whereas others, such as industrial organization theory, are more concerned with imperfect derivatives thereof.

The idea of the present paragraph is to provide *a fundamental and non-exhaustive* sketch of competition in economics. Neither more nor less. It has got a tangible bias towards the somewhat distant past as such findings by and large encompass the *kernel* also of contemporary neoclassical theory in the area. That is, the key ingredients of the perfect competition paradigm as seen today are discerned already some three quarters of a century ago and basically ever since they undergo a successive and highly sophisticated fine-tuning process.[56] This strategy of exposition also follows from the very scattered manner in which competition, *as a market phenomenon in its own right*, is brought up in economics. That is, to be able to furnish an account with any pretension to validity, it is but necessary to reach out for the smallest common denominator. And regarding competition, as opposed to equilibrium and rational action (the two workable core concepts of the neoclassical reasoning) this must necessarily be looked out for at a rudimentary level given the immense spread of applied

[56]This is hardly a very controversial position since it is endorsed by representatives from within various angles of economics (confer Stigler (1987), Kirzner (1998b)). Dennis (1977, p viii) in a similar vein argues that for a study of the doctrinal development of competition it s sufficient to pause after having treated contributions up until the 1890s (Cournot, Walras, Jevons, Edgeworth and Marshall) since what later is to develop are merely alternations thereof.

contemporary accounts.[57] The overview thus provided is partitioned in two. The initial part is somewhat adjacent to Stigler (1957, 1987). It starts out with classical economics, and then looks into the coming into being of the paradigm of perfect competition. The second part instead revolves around ideas of imperfect competition. It commences with the Chamberlin's ideas concerning monopolistic competition and then goes on to discuss various facets of oligopoly thought as discerned in industrial organization theory.

Virtually all neoclassical contributions in the area of competition derive, in one way or the other, from the advent of Cournot's *Recherhes sur les Principes Mathématiques de la Théorie des Richesses*, appearing in 1838 (Blaug (1997, pp 42-43)). This work is the first explicit alternative to the by then dominant non-analytical view of competition within political economy. The insight thus conveyed by Cournot is the tying of competition to an aggregated market demand curve and the calculus drawn upon to reach the conclusions to follow. With a mass of sellers none of them can on her own influence the prevailing market price of a good at stake. This implies the presence of a *horizontal* demand curve, that is *perfect* competition following the thus parametric character of price. Individual actors are here deprived of the opportunity of 'setting' a price, they just have to accept whatever is around, and in consequence the impact of competition will stem from the slope of the market's average revenue curve according to which no supra-normal profits can be made. Sellers are takers, and not makers, of price. As noted by Stigler (1987, p 533), Cournot's argument inquires into the effect on market prices of assumed profit-maximizing behavior. That is, how can profits (= revenues less costs) be maximized subject to different market conditions? The clue to the reasoning is to formulate this expression by way of differential calculus, hence to articulate the profits derivative, subject to output, as zero (dp/dq=0). That is, to find out the way in which revenues ('pq') change with different output ('q') Cournot chooses to frame (perfect) competition as the situation wherein price ('p') is not affected by output as the demand curve is horizontal.

> *The effects of competition have reached their limit, when each of the partial productions Dk* [the output of producer k] *is inappreciable, not only with reference to the total production D=F(p), but also with reference to the derivative F'(p), so that the partial production Dk could be subtracted from D without any appreciable variation resulting in the price of the commodity.*[58]

This competition reasoning of Cournot's is based on the formula which pertains to a setting wherein the extent to which price supersedes marginal cost closes in on zero when the number

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[57]As a case in point, confer Telser (1988). This work, labeled Theories of Competition (a 'generic' title) does not feature any account whatsoever of a reasoning that pertains to competition *in general*. Instead Telser brings forward his own particular view of the subject matter. Therein ideas of non-cooperative equilibrium are put next to what is called 'the theory of the core'. This latter allegedly implies a unique 'theory of market exchange' that focus 'all possible competitive equilibria' within an analytical realm wherein there might be only a few traders.
[58]Cournot cited by Stigler (1987, p 533)

of suppliers increases. In consequence, the fewer suppliers, the more price will supersede marginal cost, and the further away the context is from (perfect) competition. *His formulation of this axiom is still the sine qua non of neoclassical competition theory wherein a certain market condition, disguised as competition, entails certain price consequences.* In addition to the above he then assumes that 'n' *identical* suppliers face *equivalent* marginal costs, 'mc'. Each individual supplier will then maximize profits by letting

- p + qi(dp/dq)=mc,

  the 'market aggregate' of which for nqi=q becomes
- np+q(dp/dq)=nmc,

  an expression that can be rewritten, inclusive also of e – the market demand elasticity, as
- p=mc-(p/ne).

Classical thought

Adam Smith's, reasoning, appearing some 60 years earlier, is very different, both as regards the view of the essence of competition and the explicit lack of mathematical formulation. It merely notices in passing that the state of affairs of competition (later accounted for by Cournot) is but one feature of a system of 'natural liberty' which implies entry freedom where the mere number of market actors really does not matter. In the same vein monopoly implies any restrictions thereto as lack of free mobility of production factors which is seen in inelastic supply. The kernel of Smith's reasoning is by contrast devoted to competition as kind of a regulatory mechanism that forces market prices and hence profits down by way of the law of supply and demand. Competition is then a free race the constituent part of which is the behavior of market participants who by all means further their own interests, by trying 'to invade profitable industries, to expand one's share of the market by price cutting, in short, to jockey for advantages by any and all possible means' (Blaug (1997, pp 42-43)). Following this conduct, the market forces of supply and demand tend to result in Smith's 'natural price', a 'centre of gravitation'. That is, the role of observable behavior for competition is only indirect, something which renders its explicit impact on competition somewhat unobtrusive (Backhouse (1990, pp 62-63), Addleson (1994, p 99)). In essence, the law of supply and demand is the propellant that pushes all market prices towards their natural values, the kernel meaning of which is that economic activity can go on as it embodies 'rates of wages, rents and profits' that are sustainable in the long run (D'Agata (1998, pp 174-176)). Of course, as noted by Eatwell (1982, p 207), this price-determining 'law' is most general and non-precise, far from the eloquent formulation later to be brought forward by Cournot.

Machovec (1995, pp 1-2, 10, 16, 20, 96, 97, 98) claims that this Smithian view very much represents the classical one in general. The only alleged exception is Ricardo, thus said to be 'uncharacteristic' by way of a narrow and static view on markets.[59] Smith's competition is

[59]A similar position is that of Dennis (1977, pp 118-119) whereas D'Agata (1998, pp 176-177) says that both

then the action / reaction behavioral means adhered to in the process of rivalry where prices are formed, and not the very consummation of this procedure coming to an end. This interpretation of 'classical competition' is obviously related to concrete behavior. Via competition, actors learn of appropriate profitable conduct in the market where new opportunities keep coming up. In consequence the market system constantly approaches, *but does not reach* equilibrium implying equal returns on capital. Competition is equilibrating but not equilibrium (confer Dennis (1977, pp 101-102), Backhouse (1990, p 63)). The competitive process is then made up of iterative adjustments following two kinds of action, the forecast of supply and the launching of new manufacturing methods and products. The main failure of the classics, Machovec further argues, is that they fall short of recognizing the different kinds of profits which arises in the market place, that is rent, interest and pure entrepreneurial profit. And in consequence their treatment of competition is not complete. What is more, this process of competition which brings about cost-covering prices following the underlying natural price, is by no means only Smith's product. It is instead, at the time of Smith's writing, the going idea and becomes even more so as time goes by (McNulty (1967, pp 395-396), Backhouse (1990, pp 60-61)). Still, as noted by McNulty (1967, p 396) and Dennis (1977, p 98) the significance of Smith's contribution is huge given that it serves as a liaison by way of a) systematically summarizing and integrating the by then prevailing mode of thoughts and, b) pointing ahead in constituting a natural point of reference for contributions in the area to come whatever their focus.

Even though competition *is* inherent to the classics' reasoning it still does not really seem to be appreciated, or even explicitly stated, very much in its own right. 'The quintessence of classicism, then, is this search for the cause of value, and in this search competition served as a convenient analytical principle. It was not a focus for debate, nor even a contentious issue' (Dennis (1977, p 106)). This is also the way in which Schumpeter (1997 (1954), pp 545-546) has it in arguing that to the classics competition was just 'given', and this to the extent that it was not really defined.[60]

Neoclassical thought

The years around 1870 see the independent though parallel coming of three works that eventually are to inspire the neoclassical stream of thought. Thus emerging are Jevons' *Theory of Political Economy* and Menger's *Grundsätze der Volkwirtschaftslehre* and, a few years later, the *Eléments d'Economie Politique Pure* by Walras. Ultimately these are to constitute a direction of thought away from the classics' way of thinking. One could always argue over whether these three as such make up the 'marginal revolution' (confer Blaug

Ricardo, Marx and other classicists mostly follow the Smithian conception of competition.

[60]Confer Demsetz (1982, p 4). 'They [the classics] took competition for granted, assuming it to be a pervasive restraint on the pursuit of self-interest. They relied on it to move resources out of tasks yielding lower rates of return and into tasks yielding higher returns. But they showed no deep interest in analyzing competition itself.'

(1972, 1997, pp 277-292)) but no one can take issue with the fact that they decisively inspire neoclassical economics' view of competition thus to unfold. What does differentiate the by then emerging neoclassical, from classical, economics? There is an array of arguments but the listing in Table IIIe promises to exhaust most of the significant and important dividers prevailing.

A major conceptual divider between the neoclassical notion of competition and that of its classical ancestry is the move away from 'free' to, mostly, 'perfect' competition. The latter concept implies, among other things, the applicability of differential calculus which is to constitute the very fundamentals of the mathematical logic endemic to any subsequent neoclassical analysis which relates equilibrium. 'Theory stood in need of proof, a logical or deductive demonstration of its inherent validity ... [stemming from the neoclassics'] attempt to imagine the unimaginable' (Dennis (1977, pp 174, 175, 177)). Following a further transition away from macro to micro analysis this in itself renders competition all the more important. It becomes simply crucial once firms' pricing behavior is to be understood and in this vein it simply has to be made analyzable.

CLASSICAL ECONOMICS FOCUS	versus	NEOCLASSICAL ECONOMICS FOCUS
aggregated 'total' wealth	-"-	aggregated individual welfare
equilibrium of the 'entire system'	-"-	equilibrium of the market
value as objective cost	-"-	value as subjective utility
supply	-"-	supply *and* demand
macro dynamics	-"-	micro statics
long term	-"-	short term
the physical, pragmatical and 'hands on'	-"-	the abstract
cost as real cost	-"-	(opportunity) cost as foregone utility
distribution	-"-	production, consumption *and* distribution
resources are subject to change	-"-	resources are assumed fixed
price as a pure measurement device	-"-	price as a core theory phenomenon

Table IIIe: Major differences between classical and neoclassical economics[61]

Part of the ambiguity which inheres in the contributions of Jevons and Walras is handled by the calculus of Edgeworth (confer Stigler (1957, 1987)). This holds in particular for his elaboration of Jevons' exchange equations, an endeavor that results in the notion of indifference curves that ever since occupies a central position in the neoclassical discourse. He also clarifies the seemingly strange isolated character of Jevons' trading bodies by ascertaining that these are part of a context where also competitors take on a central position (Dennis (1977, pp 222-223)). In consequence, as noted by Stigler (1987, p 533), 'Edgeworth ... [is] the first economist to attempt a systematic and rigorous definition of perfect competition.' The clue to Edgeworth's argument is that the axiom of perfect competition is necessary for the formulation of 'infinite elasticity', a demand constraint, that by itself is necessary once (calculus-wise) determinate solutions are reached out for (Dennis (1977, p

[61]Blaug (1997, pp 277-292), Kirzner (1998b)

223)). To be analytically workable perfect competition is however in need of some underlying assumptions as to a few key market characteristics. Edgeworth hence explicitly formulates three prerequisites for perfect competition to prevail. These are a) 'the Cournot condition', implying the prevalence of 'an indefinitely large number of independent traders on each side of a market', b) 'the Jevons condition', entailing 'perfect knowledge' in the sense that '[e]ach trader ... costlessly [can] make tentative contracts with everyone (hence the divisibility of commodities) and alter these contracts (recontract) so long as a more favorable contract can be made', and c) the Smith condition, meaning the 'complete absence of limitations upon individual self-seeking behavior' (Stigler (1957, p 7, 1987, p 534)).[62] Stigler (1957, p 10) further notes that only another two prerequisites are necessary to add for the complete formulation of the modern idea of perfect competition, mobility of resources and the modeling of a stationary equilibrium economy, both subsequently furthered by Clark. In sum, once the three conditions postulated by Edgeworth are in place, determinateness prevails as equilibrium equations can be solved. This entails the finding of a unique contract curve position of equilibrium. In consequence it is only under the regime of perfect competition that exchange can be fully determinate. It is entirely indeterminate in the case of 'isolated exchange' (meaning bilateral monopolies resulting in multiple equilibria) and is found somewhere in-between once competition is imperfect without the prevalence of bilateral monopolies (Dennis (1977, pp 223, 225), Backhouse (1990, p 77)). With the advent of Knight's discourse on uncertainty, appearing in 1921, the neoclassical notion of perfect competition reaches its peak refinement, and as such becomes both a workable analytical tool and an explicit target of challenge (Stigler (1957, pp 11-14, 1987, p 534)).[63]

As observed by Swedberg (1994, p 259), the transformation from classical to neoclassical economics also entails that the notion of the market is changed. From having been 'something concrete but of limited analytical interest' it turns into 'an abstract [hypothetical] concept [which attracts] tremendous analytical interest as a price-making and resource-allocating mechanism'. This is, far from surprisingly, reminiscent of how the idea of competition changes at the same time. This market mechanism is however hardly even mentioned in its

[62]The term 'the Smith condition' is not Stigler's but that of the author.

[63]Knight (1921, pp 76-80) in fact lists eleven conditions of an 'imaginary society' wherein complete freedom of exchange embodies the idea of perfect competition. 1) Humans are 'normal' as if randomly chosen from 'a modern Western nation'. 2) These humans are rational in the sense that they 'know what they want' and they 'seek it intelligently'. 3) Humans are free and in sole control of their 'own welfare and interests' as discerned in the 'production, exchange, and consumption of goods'. 4) There is 'perfect mobility' in all respects, also executive ones, of economic plans. 'The exchange of commodities must be virtually instantaneous and costless'. 5) As there is 'perfect, continuous, costless intercommunication between all members of society', everyone has access to full market knowledge all the time. 6) All humans are fully independent from one another and 'act as individual[s] only'. There can be no collusion and '[e]xchange of finished goods is the only form of relation between individuals...'. 7) Goods can only be acquired via 'free exchange in the open market' as 'fraud or deceit and theft' cannot prevail. 8) Division of labor applies fully so that only 'one single commodity' can be produced by each individual 'at any given time'. 9) Everything of analytical importance is static. 'All given factors and conditions are ... to remain absolutely unchanged.' 10) All production capacity is directly tied to separate individuals. 11) All goods exchanged are finished products.

own right but mostly assumed as the foil against which all other phenomena, embodied in the interplay of supply and demand, are illuminated. Very much an epitome hereof (commented upon by Dennis (1977, pp 187, 192)) is the approach of Jevons wherein the concepts of competition and market are intertwined to the extent that the latter is only related by means of the former. The market becomes a 'community of knowledge binding the separate traders of a single commodity together'. It seems that that '[o]f the major economists from this period Marshall was the only one who paid [explicit] attention to the market' (Swedberg (1994, p 259)). Marshall (1997 (1920), p 139) starts out by alluding to the market as a context wherein the joint (scissors-like) forces of supply and demand oppose and affect each other in a manner similar to that seen as a couple of marbles are put down together in an bowl. He furthermore (Marshall 1997 (1920), pp 140-141), chooses to cite first Cournot and then Jevons.

> *Economists understand by the term Market, not any particular market place in which things are bought and sold, but the whole of any region in which buyers and sellers are in such free intercourse with one another that the prices of the same goods tend to equality easily and quickly.*

> [T]*he word* [market] *has been generalized* [from classicists implying a geographical place] *so as to mean any body of persons who are in intimate business relations and carry on extensive transactions in any commodity. ... The central point of a market is the public exchange, mart or auction rooms, where the traders agree to meet and transact business. ... But the distinction of locality is not necessary.*

As seen, there is a distinct flavor of substitutability in the words of Cournot whereas transactions as spatially non-defined exchange is at the core of Jevons' reasoning. These two passages are to inspire Marshall's formulation. He notes that price uniformity signifies the extent to which a market is 'perfect' but also that the boundaries of such a market are inherently vague as the (supply and demand) forces in one necessarily influence those at hand in another. And the 'size' of the market in terms of its narrow- and wideness is in fact what Marshall (1997 (1920), pp 141, 142-143, 146) is mostly preoccupied with, once the uniformity of prices, alluding to substitutability, is recognized. He thus distinguishes three elements that render the market for a particular good more or less wide as a) the generality of demand, b) the 'cognizability', and c) the portability pertaining to that commodity. In addition to these three he also adds the amount of time which is necessary for 'the forces of demand and supply to bring themselves into equilibrium with one another'.

> *Stock exchanges then are the pattern on which markets have been, and are being formed for dealing in many kinds of produce which can be easily and exactly described, are portable and in general demand. ... At the opposite extremity to international stock exchange securities and the more valuable metals are, firstly, things which must be made to order to suit particular individuals, such as well-fitting clothes; and, secondly, perishable and bulky goods, such as fresh vegetables, which can seldom be profitably carried long distances.* [M]*arkets* [also] *vary with regard to ... time ... as well as with regard to the area over which they extend. And this element of Time requires more careful attention ... than does that of*

Space.[64]

It is obvious from the above that the emergent neoclassical theory of competition is in essence a theory of price in equilibrium. That is, subject to an assumed state of (either) perfect competition (or monopoly), the main factor scrutinized (= predicted) is price following the interplay of aggregated supply and demand schedules. A main characteristic of ideal-type perfect competition is further that each individual actor is merely a price-taker following the horizontal demand curve. In consequence price is parametric in character as the establishment thereof is out of reach for each of the separate actors who jointly react to the forces thus establishing equilibrium. Such an analysis could then be either partial or general, the former of which is predominant in microeconomics, the latter of which, connecting several supply and demand contexts to each other, is typically Walrasian. As noted by Hildenbrand (1983) it is not really until the work of Arrow and Debreu in the 1950s that the general equilibrium analysis of Walras (earlier however mathematically elaborated by Wald) is worked out in full. Their contribution builds upon findings within game theory. Apart from the analytical level of aggregate (micro- or macro-inclined), what particularly distinguishes partial from general equilibrium analysis is the emphasis of how prices actually come into being. In the general, Walrasian case, prices are established by means of an anonymous market force, the 'auctioneer', which means that the schedule of conduct of individual actors does not really matter. The process of *tatônnement* rules via incremental adaptations of supply and demand. In partial equilibrium analysis, thus scrutinizing one market at a time, more of a propellant role is assigned to the actors' underlying actual 'maximizing' behavior patterns in terms of cost and utility functions. In this context the scrutiny of actor rationality is paramount. Harper (1996, pp 8-10) observes that the price-taking assumed in general equilibrium analysis (subject to the presence of the 'auctioneer) is in general 'not linked to the maximizing actions of economic agents [found in partial analysis], actions which are supposed to constitute the basis of neoclassical theory. The price adjustment mechanism thus violated the requirements of methodological individualism.' One implication thereof is that the issue of knowledge becomes very blurred.

To summarize, neoclassical price theory typically starts out with a number of assumptions that in and by themselves specify the nature of competition. And only thereafter are price predictions coming forward, often as one of these assumptions are made the core concern of analysis and the others are held constant. '[In analyzing an idealized economy (or market)] it is supposed, in the main, that there is perfect competition and that the choices of economic agents can be deduced from certain axioms of rationality' (Arrow and Hahn (1971, p v)). To repeat, the main perfect competition assumptions underlying (equilibrium) price analysis still

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[64]Marshall (1997 (1920), pp 144, 146). Although slightly downplaying the spatial importance for the understanding of markets Marshall (1997 (1920), p 145) somewhat resorts thereto as he furthers the idea that whereas 'world markets' entails lots of competition, the opposite holds for what is labeled 'secluded markets'.

revolve around the four issues of below (confer Burke et al (1991, p 50)). On a somewhat higher level of abstraction, such assumptions also include, for instance, the absence of production / consumption externalities, and the private (as opposed to public) nature of goods (Tirole (1995 (1988), p 7)).

- The number of mutually independent market actors is sufficiently large so that no one is in the position to influence price at own will ('price-taking' devoid of collusion).
- Actors possess perfect knowledge regarding the unfolding of market events and act accordingly in a rational selfish non-cooperative manner thus maximizing their own profits (concerning production) and utility (as regards consumption) respectively.
- Since products are homogeneous, they are perceived in the eyes of the customer as identical, except for any deviation in price from the established equilibrium level.
- There are no mobility barriers impeding entry into or exit from a market as all resources and every product are perfectly mobile.

Given these fundamental prerequisites, the long-run state of equilibrium is the final outcome of an adaptation process that results in a position for the individual firm wherein price, marginal cost, and average total cost are equal following individual profit maximization. If price was higher, even more suppliers would be attracted to the actual market, and if it was lower, firms would produce at a loss. The welfare implication hereof is that suppliers' resources accordingly are deployed efficiently as no single actor can earn supra-normal profits.

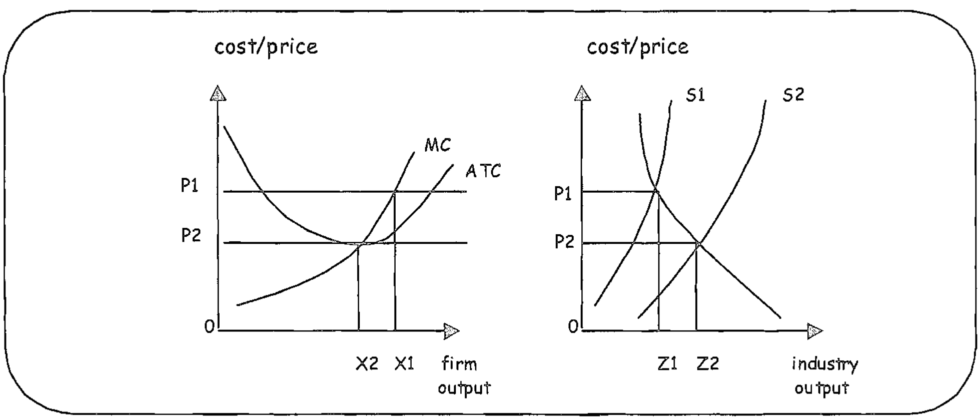

Figure IIIe; Firm and industry equilibrium under pure competition[65]

[65]Scherer and Ross (1990, p 20). S_1, the short run *industry* supply curve, is the horizontal summation of the industry's all marginal cost curves. OP_1 is the corresponding equilibrium price, thus enacted by the individual firm as a given and perceived as the level of the horizontal demand curve. The profit-maximizing output of the firm is OX_1 as OP_1 then coincides with the marginal cost curve, MC. The profit earned is then the volume produced times the difference between MC and the average total cost curve (OX_1(MC-ATC)). Obviously this profit attracts newcomers whose marginal cost curves will impact the industry supply curve S_1 that hence shifts

Ever since the establishment of these pillars during the forming phase of neoclassical economics, its particular discourse on competition undergoes a mass of elaborative work. Any reiteration hereof is way beyond the scope of this thesis, but one case in point might still illuminate the character of this discourse.

Vickers (1995) looks at how efficiency incentives that reside with managers within and between organizations might be improved by 'competition-by-comparison'. He finds that the structure of performance information (that is the character and degree of 'perfect knowledge') and the contracting options matter very much. This is seen through a) 'the insurance effect' (incentives are improved if managers can easily 'see' each other as the risk taken is perceived to be reduced), b) 'the reputation effect' (when managers are in similar environments facing similar type of uncertainties, incentives are improved as reputation matters for future career prospects), and c) 'the ratchet effect' (incentives might be improved by competition despite the risk of ever more challenging manager targets being set for T_1 following good performance at T_0). This contribution is typical for an array of contemporary works in several ways. It focuses the welfare outcome of competition (in this case organizational efficiency), it shows how competition can be applied to a context which is rather unorthodox with respect to earlier thought (a particular type of labor market competition) and it epitomizes one of the early neoclassical assumptions of perfect competition (in this case the fine-tuning of Jevons' insight as to the crucial role played by knowledge). It thus displays most clearly how the core insights gained early on in neoclassical thought still are valid as far as a rudimentary understanding of competition is concerned. As seen Vickers is however much less explicitly concerned with the issue of price even though this still lurks in the background. However, he also briefly touches upon the issue of dynamics, something not very much elaborated on earlier, and still, despite the advent of various models of intertemporal equilibria and game theory, a heel of Achilles in the neoclassical treatment of competition (confer Stigler (1987, p 535)). The contribution of Vickers' in fact also epitomizes what Burke et al (1991, pp 69-70) describe as progressive neoclassical development in the area of competition, that focusing uncertainty and asymmetric information found in principal-agent models. That is, following Dennis (1977), Demsetz (1982), Stigler (1987), and Backhouse (1990, pp 78-81) it is viable to argue that the basic findings, thus sketched above, still lie at the heart of the neoclassical treatment of competition, be it in a much more advanced guise than before. This is without doubt (as touched upon by Vickers (1995, p 1) and Blaug (1997, p 594)) in part attributable to the way in which contemporary welfare economics still relate a lot to the idea of pareto

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to the right and becomes S_2 following also the expansion of incumbents' production volume. What happens is that industry output increases, and price lowers until the point where it coincides with ATC, average total cost. To produce at a price below this level is obviously meaningless for the individual firm and the new market price, OP_2, is in consequence equal to MC, a level where unit costs are just covered. The minimum point of ATC thus intersects with MC. Firms that do not succeed in producing at this level of cost are driven out of the industry. As seen the supranormal profits accruing to the individual firm in the short run (the difference between MC and ATC times the quantity) are competed away over time as incumbents face competition from new entrants.

optimality (resulting from perfect competition), an equilibrium state of affairs wherein the prevailing allocation of resources is the best conceivable in the sense that no one can be better off without this occurring at someone else's expense.

v. Competition in neoclassical economics as 'imperfect'

As already noted in the first chapter, the coming into being of works on competition which stress other than ideal-type 'perfect' versions thereof underlies much of contemporary instrumental reasoning as found within marketing and strategy studies. That is, void of 'imperfections' there is no way that these contributions can work out as they elaborate entirely upon market frictions that 'disturb' the perfect competition paradigm. But accounts of imperfect competition also constitute the sine qua non of industrial organization theory. These works are no doubt part of the overall neoclassical paradigm, but they choose to approach competition from a reverse angle.

The introductory pages of this essay also further the idea that the advent of a work by Sraffa in the mid-1920s constitutes a repositioning as to the focus of the state of equilibrium. This steady-state is then allegedly not competitive, but monopolistic, in character. This view mirrors the actual course of events in several industries of the time dominated by large and fast-growing corporations, the formulation of strong trademarks, patents et cetera. As observed by Galbraith (1969), the issue of non-decreasing costs facing a small industry newcomer in part epitomizes these tendencies. '[I]ncreasing returns to scale were [simply] incompatible with competition [theory]' (Backhouse (1990, pp 73-74)). The ensuing work of Joan Robinson on Economics of Imperfect Competition is similar but not identical to that of Edward Chamberlin on The Theory of Monopolistic Competition. Both are in the spirit of Sraffa and draw on partial equilibrium analysis as pursued by Marshall. But that is probably where consensus ends. Blaug (1997, p 376) asserts that Robinson 'merely refined Marshall's theory of monopoly without claiming that a new instrument of analysis was required to deal with market structures characterized by product differentiation and advertising expenditures. ... Chamberlin was the true revolutionary.'[66] Chamberlin himself has it that there is a distinct difference between the two positions since Robinson's argument allegedly does not really recognize the *joint* impact of both competitive and monopolistic forces. Instead her view is more of a dichotomy stance not entailing the 'changing [of] one's economic *Weltanschauung*', supposedly embodied in the monopolistic competition argument. 'Mrs Robinson's analysis, in spite of a limited technical similarity with that of monopolistic competition, misleads in precisely the same way as does the theory of perfect competition –

[66]It must however be made clear that despite the seemingly pioneering character of the work, Chamberlin is not in any way 'inventing' monopolistic competition and its underlying idea. For instance, within Marshall's theory of value there are distinct hints at product differentiation, something later to prove crucial for Chamberlin. Also Edgeworth, Wicksell, and Pigou all at times relate competition as imperfect (Schumpeter (1997 (1954), pp 1151-1152), Backhouse (1990, pp 69-71), 78, Blaug (1997, p 375)).

by describing a hybrid situation in terms which omit completely the monopoly side of the picture, together with all its manifold implications' (Chamberlin 1969 (1933), pp 204-218, 209). There is hence no doubt that it is neither the works of Sraffa, nor that of Robinson, but those of Chamberlin, that deserve attention when the fundamentals of imperfect competition are to be understood.

Chamberlin (1969 (1933), pp 3-4, 5, 57, 63) starts out by acknowledging that thitherto price theories (which is what the neoclassical scrutiny of competition really is all about) revolve around the two 'extreme[s]' of either monopoly or perfect competition.[67] Such lack of a feasible 'middle course' results in non-acceptable theoretical consequences. This is seen when Cournot and Edgeworth (adhering to the very same overall perspective), who inquire into the case of duopoly, come to wholly different conclusions regarding whether price in equilibrium is in fact determinate somewhere between the price levels of monopoly and perfect competition (the position of Cournot), or indeterminate thus pending between the two (Edgeworth). Chamberlin (1969 (1933), pp 6-7, 8) then observes that a prevalent market monopoly (implying someone's sole control over a product's supply and hence its price) can be abolished in either of two major ways. On the one hand there can be a large number of suppliers and on the other the product itself can be identical to other products. By focusing the number of actors, a mid-range theoretical position gives rise to theories of duopoly and oligopoly, and by concentrating on the level of similarity between products, monopolistic competition is to come forward. That is, these are the two main theoretical implications of Chamberlin's ideas, the two potential paths of progress by means of which the thus imperfect nature of competition can be grasped. As touched upon by Backhouse (1990, p 72) and Blaug (1997, pp 378-379), the strength of Chamberlin's argument is found in the area of product differentiation commented upon immediately below. A slant on oligopoly theory follows suit.

Product differentiation

The major shortcoming of monopoly theory that monopolistic competition sets out to come to grips with is that every product will always face some others that are similar and thus partial substitutes, says Chamberlin (1969 (1933), pp 68-69). These are produced by sellers that can be said to belong to the same 'group'. Their very presence renders the notion of an isolated monopolist who faces a 'given' demand curve (thus mirroring the entire market demand) superfluous. As a result, under the regime of monopolistic competition, the issue is about *group*, and not *individual* (monopoly theory) equilibrium. This reasoning stands in sharp contrast to the ambiguous manner in which neoclassical orthodoxy, according to Chamberlin,

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[67]He (Chamberlin (1969 (1933), p 11)) however takes some pains in distinguishing between states of competition and the price system by, interestingly enough, relating the notion of the market. He argues that whereas 'pure competition' describes a particular *market*, the price system consists of *several markets*, some of which are dominated by monopolistic, and other by purely competitive, elements. In consequence, competition as a market characterization device.

comes to grips with the issue. A hands-on case in point illustrating this kind of opaqueness is that patents allegedly are understood as monopolies whereas trade-marks, despite having similar price consequences in restraining supply, are looked into via (perfect) competition. Patents are drawn on by Chamberlin in order to illustrate the monopolistic and competitive aspects respectively endemic to the 'circumstances [of] sale' 'surrounding' any product.[68]

> *By this dispensation, the value of patented goods is explained in terms of the monopolist's maximizing his total profit within the market which he controls, whereas that of trade-marked goods is described in terms of an equilibrium between demand and supply over a much wider field. All value problems are relegated to one category or the other according to their predominant element; the partial check exerted by the other is ignored. ...* [What should be recognized is that] [n]*either force* [monopoly and competition] *excludes the other, and more often than not both are requisite to an intelligible account of prices.*[69]

The group equilibrium of Chamberlin's is hence understood by means of product differentiation. This implies that two similar products, in the light of one another, are neither fully dependent as substitutes, nor completely independent as unrelated. There is hence a certain mutual contingency at hand where there is some, but not full, impact of one on the other. What makes the argument compelling is furthermore the manner in which Chamberlin chooses to emphasize what the going argument of the time does not address, parameters of sales other than price. And this he still accomplishes within the realm of neoclassical price theory.

> *Differentiation may be based upon certain characteristics of the product itself, such as exclusive patented features; trade-marks; trade names; peculiarities of the package or container, if any; or singularity in quality, design, color, of style. It may also exist with respect to the conditions surrounding its sale. In retail trade, to take only one instance, these conditions include such factors as the convenience of the seller's location, the general tone or character of his establishment, his way of doing business, his reputation for fair dealing, courtesy, efficiency, and all the personal links which attach his customers either to himself or to those employed by him. In so far as these and other intangible factors vary from seller to seller, the 'product' in each case is different, for buyers take them into account, more or less, and may be regarded as purchasing them along with the commodity itself. When these two aspects of differentiation are held in mind, it is evident that virtually all products are differentiated, at least slightly, and that over a wide range of economic activity differentiation is of considerable importance.*[70]

It is hence obvious that product differentiation, disguised in this way, also involves an array

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[68]Confer Chamberlin (1969 (1933), p 63). '[I]f we regard monopoly as the antithesis of competition, its extreme limit is reached only in the case of control of the supply of all economic goods, which might be called a case of pure monopoly in the sense that all competition of substitutes is excluded by definition. At the other extreme is pure competition, where, large classes of goods being perfectly standardized, every seller faces a competition of substitutes for his own product which is perfect. Between the two extremes there are all gradations, but both elements are always present, and must always be recognized.'

[69]Chamberlin (1969 (1933), p 57)

[70]Chamberlin (1969 (1933), pp 56-57)

of social factors embodied in the very association between actors meeting in a market (confer Swedberg (1994, p 261)). In consequence, virtually any connection between a seller and a buyer is unique in a manner on the verge of a bilateral monopoly. At first sight this foreshadows a market made up of isolated exchange dyads, something of an antithesis to the case under pure competition where interdependence is total. Chamberlin (1969 (1933), p 69) is however keen to emphasize that despite the heavy impact of product differentiation, sellers are only 'in some measure [and not fully] isolated'. That is, in cases of monopolistic competition the entire (price) system is 'a network of related [partially independent] markets'.

Formally envisaging the argument of Chamberlin's, a market characterized by monopolistic competition features suppliers facing 'determinate demand schedules' that are downward sloping and hence not perfectly elastic. Still, each of these demand schedules depends on the prices charged for similar products by other sellers within the same market 'group'. That is, it corresponds to the market demand curve (as for the monopolist) but is all the same subject to product interdependence. There are three major reasons for these demand characteristics. 1) The rather large number of suppliers entails the ability of each to act in a relatively independent manner without taking explicit notice of others' exact behavior, something which clearly distinguishes monopolistic competition from oligopoly. 2) As products are differentiated in one way or another there will always prevail preferences among buyers for particular thus 'branded' products. 3) There is free entry into groups consisting of firms who supply similar, partially substitutable, products.

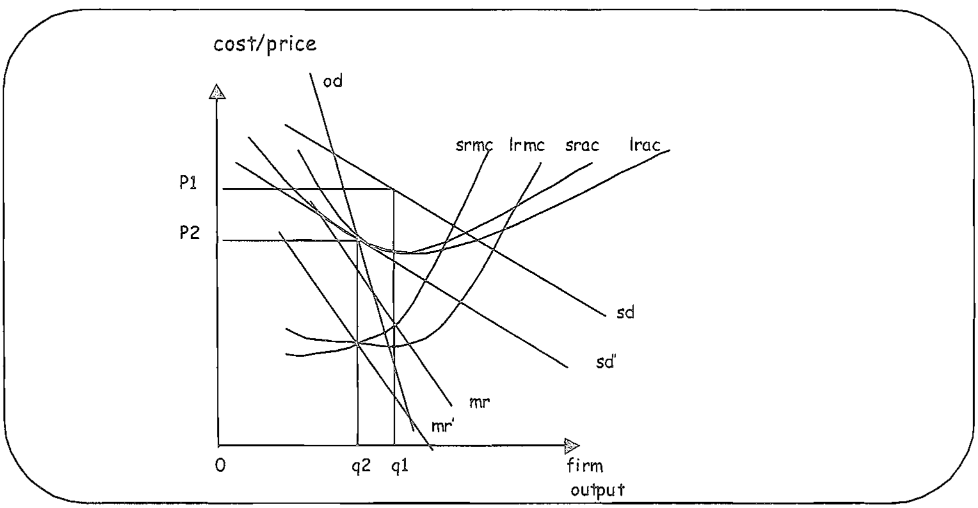

Figure IIIf; Monopolistic competition in the guise of Chamberlin[71]

To come to grips with the reasoning it is necessary to posit that the demand schedule for each

[71]Blaug (1997, pp 375-379)

'monopolistically competitive' (thus branded) product consists of *two kinds of demand curves, one reflecting the expectations of each firm, and the other mirroring more of an 'objective reality' as the conduct of all firms in the market group is considered. On the one hand* there is the 'subjective curve' ('sd') featuring a situation in which demand results from the firm in question changing its price in the case when prices of competing products are not (perceived to be) changed. That is, the curve is somewhat elastic as any change of price will directly affect demand for the product at hand as other suppliers are assumed to remain passive. Its elasticity will in consequence vary 'inversely with the [perceived] strength of brand preferences'. *On the other hand* there is the 'objective curve' ('od') that represents the 'group reality' in the case when every firm acts as if sd would in fact apply. That is, od is an 'aggregate' of sd curves subject to the 'false' perception of each firm in separate that it can act relatively independently. Od thus implies that all firms act in a similar manner and it will in consequence be less elastic than sd as price cuts undertaken by any firm will be immediately followed by other group members. The reason for od is thus that 'each firm keeps on lowering its price in the expectation that its demand curve is like' sd. As each firm subsequently realizes that its own price cuts are copied by its competitors, sd will shift downwards. In practice this means lowering the price of the existing brand or instead launching a new, similar one. This kind of downward shift of the sd, and subsequently sd' curve(s) will continue until it finds itself in a tangential association with the average cost curves representing both the short and the long run, 'srac' and 'lrac'. In this tangential position the firm will be a ('monopolistic') profit maximizer as marginal revenue, 'mr' will equate marginal cost as coming forward both in the short and in the long run, 'srmc' and 'lrmc'. Following the blending of competitive and monopolistic elements of this price theory only 'normal' profits will however be earned (Blaug (1997, pp 376-377)).

> *This long-run tangency solution is the major empirical implication of monopolistic competition: ...* [there is] *short-run excess capacity, defined as the difference between equilibrium average cost and minimum average cost, and unexploited economies of scale in the long run; there are too many firms in the industry* [attracted by the short run promises] *compared with the situation under perfect competition, and each charges a higher price because it is too small for maximum efficiency* [this thus being the societal 'price' paid for adhering to consumers' brand preferences].[72]

A firm can then be seen as a 'monopolistic competitor' that by way of partial substitutability of its products only can exert control to a less than full extent. One supplier can be distinguished from the other via both price formation (perception of sd), product characteristics (degree of particularity in the eyes of the consumer) and sales costs (typically advertising spending) (Chamberlin 1969 (1933), p 71). Underlying the entire argument are a further three axioms, as observed by Blaug (1997, pp 377-378),.

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[72]Blaug (1997, p 377)

- The group assumption, market groups matter despite relative product heterogeneity as there are 'gaps in the chain of substitutes'.
- The uniformity assumption, demand and cost curves for products within the same market group are uniform
- The symmetry assumption, the impact on each individual firm is negligible as one of them alters either price or product, since the consequences thereof are spread out over so many competitors

Oligopoly theory

As seen above the recognition of product differentiation implies the relinquishing of one core prerequisite for *perfect* competition within neoclassical economics. Another one, the 'indefinite number of sellers' is at stake when oligopoly, competition among the few, is dealt with as an additional facet of *imperfect* competition. Oligopolistic competition theory is a means of trying to frame market interdependence which stems from the presence of entry barriers. In consequence there will only be a limited number of sellers present in the industry, also in the long run. If the thus crucial interdependence is scrutinized in the light of the clear-cut cases of monopoly and perfect competition, it is obvious that under the former regime dependence is nil, under the latter infinite (rendering price a mere parameter) and under the case of oligopoly market interdependence is partial, or 'imperfect'. The very articulation of this interdependence is most ambiguous following the fact that the 'few' thus somehow related sellers are associated in an array of ways. 'What x does depends from the action pattern of y that is conditioned by z which in its turn influences x' et cetera. As noted by Friedman (1983, pp 8-9), whether a particular situation displays oligopolistic features or not, is very much an empirical issue subject to thus estimated 'strategic interdependence'. A viable first assumption in an oligopolistic structure is nevertheless that actors are at least somewhat independent. In practice this entails concatenated moves and countermoves which deprive oligopoly from any determinateness. To know about cost and demand schedules is hence not sufficient for the ability of price and output prediction. This is why an array of non-conventional assumptions, pertaining to a multitude of models, are endemic to oligopoly theory (Burke et al (1991, pp 53-54)).[73] This opaqueness is succinctly formulated by Chamberlin (1969 (1933), pp 30-31).

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[73]Friedman (1983, pp xiii, 13) observes that the elaboration of original oligopoly theory follows two broad paths of successive fine-tuning endeavor. The first is non-cooperative game theory and the other is the introduction of dynamics entailing several time periods. These latter work out by way of so-called reaction functions wherein firms aim at 'maximization of discounted profits over an infinite time horizon'. As a case in point of reaction functions there are models of price leadership wherein a leader first sets a price to maximize its own profit and subject to this others follow acting as price-takers (Burke et al (1991, p 56)). Pricing within oligopoly can also be treated from the perspective of cooperation between competing firms then facilitated via collusive-like agreements. This type of coordination is however inextricably challenging as required patterns of conduct constantly are subject to the risk of cheating. This becomes paramount when there are many firms offering heterogeneous products (Scherer and Ross (1990, pp 235, 277)).

> *The solutions which have been offered to the* [oligopoly] *problem are widely divergent, in contrast with the fairly general agreement to be found as to the results of "perfect" competition and of monopoly. It has been held that competition between two sellers will result in a monopoly price, a competitive price, a determinate price intermediate between them, an indeterminate price intermediate between them, a perpetually oscillating price, and no price at all because the problem is impossible. ...*[Such a variety in answers is mostly due to] *the actual complexity of an apparently simple hypothesis. ... This* [necessarily assumed] *independence must, however, be interpreted with care, for, in the nature of the case, when there are only two or a few sellers, their fortunes are not independent. ...* [To an individual actor] [i]*t is simply to consider the indirect consequences of his own acts – the effect on himself of his own policy, mediated by that of his competitor.*

The distinct impact of an oligopolistic structure, wherein a few sellers face a multitude of buyers, is that whereas market conditions are taken as given on the demand side, quite the opposite will characterize market supply, entailing the jockeying for best short- and long-term strategy by the inquiry into the conduct of others. To understand oligopoly is then to understand the nature of '[these] *strategic interactions* and in seeing the character of equilibrium choices for firms that face them'. This 'strategic interdependence' is thus what most succinctly sets oligopoly aside from either competition or monopoly (Friedman (1983, pp 1-2, 8)). In the light hereof Chamberlin (1969 (1933), pp 32-53) clarifies the two dimensions according to which oligopoly theory is considered. First there is the issue whether the mutual dependence that somehow prevails is taken into account or simply ignored. Then it must be established as to which parameters (basically price and output) this eventual ignorance pertains. As in the case with monopolistic competition, what counts is not de facto, but *perceived*, interdependence then acted upon.

The original framing by Cournot relates the case wherein mutual dependence is ignored in the single-period case. This is so in the sense that supply of other oligopolists, in the eyes of one actor, is assumed to be constant. Price will here be closer to marginal cost (but firms still possess some monopoly power) than what is at hand if the multiple-period alternative is considered wherein there is more space for deliberate selfishness. The basic assumptions in the former case also encompass a fixed number of firms (entry is thus restricted) that face identical marginal costs and that produce a homogeneous good. These firms can then only vary their output. This is the idealized model adhered to by most attempts dealing with non-cooperative equilibria wherein an actor can choose strategies that, once in equilibrium, jointly embody maximization of profit or utility as the strategies of others are held constant. 'Thus, Cournot stays as close as he can to the spirit of competitive economics while still taking account of the strategic linkages between firms – the fact that the choice of any one firm has discernible effects on the profits of the other firms' (Friedman (1983, pp 3-5, 10)). Formally, in the case of n firms subject to the above assumptions, their profit margin will be determined as '(p-mc)/p = 1 / ne'. Hence, as the number of firms, n, remains fixed, the profit margin falls as demand becomes more elastic (e increases). In the original model dQ/dqi = dqi/dqi = 1.

That is, as firm i changes its output, dqi, industry output changes identically.

By assuming that output of other firms is *not* fixed, conjectural variations are included into the Cournot analysis. In this case firm i realizes that its oligopolistic colleague, firm j will somehow respond, something implying that dqi/dqj ≠ 0. If then Qi = Q – qi, as industry output is defined as that excluding firm i's, this actor's estimation of the aggregate response of all its rivals to its own output change, is firm i's conjectural variation, dQi/dqi. When firm i changes output, the direct effect is 1 plus the conjectural variation which is the estimated total rival reaction that is recognized accordingly. In the case of n firms with a homogeneous product and identical marginal costs and conjectural variations, equilibrium will be established as ((p-mci)/p) = (si/e)(1+(dQi/dqi)).[74] In the case when the conjectural variation is negative, changes in i's output will be partially offset by the rivals. If it is –1 there is complete offsetting and price in equilibrium will in fact equal marginal cost. If conjectural variation is positive, firm i expects others basically to match its own output adjustments. If this is 'total' it would mean collusion approaching monopoly wherein price is far above marginal cost. In sum, under basic Cournot conditions price will fall and approach marginal cost as the number of actors rises. Once conjectural variation is included, the price in oligopoly will be found somewhere between the pure competition and the monopoly level, subject to the nature of this added feature (Scherer and Ross (1990, pp 200-201, 206, 208)).[75]

The lion's share of applied oligopoly theory is, finally, discerned within the realm of industrial organization. Tirole (1995 (1988), pp 1-3) notes that there are two major versions hereof, the founding one of Harvard that inspires many empirical studies and its more truly theoretical counterpart mostly discerned within non-cooperative game theory. The former of these is firmly based within the conceptual trichotomy of structure-conduct-performance applicable at the level of a supply-side defined industry (Scherer and Ross (1990, pp 4-7)). In the fundamental model thus applied certain *basic supply and demand conditions* (for instance technology and cross elasticity) are conducive to a particular *market structure* (such as the

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[74]The profit to be maximized by firm i is equal to its market share divided by the elasticity of demand times 1+ the conjectural variation of firm i.

[75]The assumptions made by Cournot can of course be questioned in an array of ways. Most fundamental is probably the issue whether output really is the key decision variable, and not price. And this is particularly intriguing as, once accounts of some monopoly power are considered, this is done in terms of price that hence somehow is subject to the control of the monopolist-like actor. Only thereafter will buyers then have to decide which output to purchase. This is the basic criticism of Bertrand that restates Cournot by instead assuming that price is what is held constant by others as one oligopolist considers its own pricing strategy. The only determinate equilibrium, in the case of no product differentiation (as in the original Cournot model), proved to exist is that where price is equal to marginal cost. In essence this renders oligopolistic competition identical to perfect ditto, something of course putting in doubt the very reason for its own existential pretension. This is the Bertrand Paradox (Scherer and Ross (1990, pp 200-201)). Bertrand furthermore asserts that Cournot does not properly take into account the case where sellers might collude on price. It is, as noted by Friedman (1983, pp 46-48) of course advantageous to be able to concentrate on price. But it is *as* true that the differentiation of products is hardly dealt with at all in this argument, something rendering it less 'expandable' than that of Cournot's.

number of suppliers and customers, product characteristics, barriers of mobility, cost schedules) that in its turn affects the conduct (for instance pricing and product strategy) of firms, something which ultimately results in a particular *performance* discerned, among other things, as efficiency and effectiveness at the industrial level. There are furthermore feedback loops from structure and industrial conduct to the preceding ones. In addition, both market structure and conduct is subject to the influence of public policy (as seen in the legal pursuit of 'anti-trust' thus curtailing the some actors' market power), an emphasis that distinguishes this stream of industrial thought from that adhering much more to an overt analytical praise of laissez-faire (as found within the 'Chicago school'). If anything the structure-conduct-performance paradigm is explicit as to its structural character ever since its inception in the 1930s by Mason (inspired by Chamberlin's work on monopolistic competition) to the preoccupation of Bain with entry barriers and Porter's business studies thereof. That is, conduct is subject to certain structural properties of the industry under scrutiny. Since these structural conditions to a considerable extent coincide with at least three of the four core assumptions which embody the perfect competition paradigm, industrial organization is in this sense very much within the realm of this tradition. Its present application is however much more inclined towards true empirical issues than what is conventional microeconomics.

> [I]*ndustrial organization is concerned with how productive activities are brought into harmony with the demand for goods and services through some organizing mechanism such as a free market, and how variations and imperfections in the organizing mechanism affect the success achieved in satisfying an economy's wants. ... [Microeconomics and industrial organization] differ mainly in the richness of the variables they attempt to subsume and in their concern for applying predictions and explanations to concrete real-world cases. Microeconomic theorists thrive on simplicity and rigor; they are happiest when they can strip their models to the barest essential assumptions and variables. Industrial organization economists are more inclined toward explanations rich in quantitative and institutional detail.*[76]

Game theory

As related above, the one epitomizing characteristic of oligopolistic competition is actor interdependence. This is also the major reason behind the difficulty of modeling oligopoly appropriately. Economics applications of game theory is then one viable manner of addressing the contingent character of strategic conduct over time. The underlying assumptions are less structural but more behavior-oriented in character than those of conventional neoclassical models. These appear as the rules of game theory. The conducive rules of any non-cooperative game are four. 1) There must be two or more players. 2) Each of these is a utility ('payoff') maximizer. 3) Every player is aware that the action of like informed others will affect his own payoff schedule.[77] 4) The interests of players are neither

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[76]Scherer and Ross (1990, pp 1-2)

[77]Hence, players are both 'rational' with respect to maximization of own utility and 'intelligent' as they realize that others are rational (Sridhar Moorthy (1985, p 262)).

'perfectly opposed, nor 'perfectly coincident'. As seen, the first two of these rules are found also in standard microeconomics models as assumptions whereas the two latter are not. There are further some additional rules that characterize the particular game underway, such as a) the articulation of cooperation (can players make binding agreements or not?), b) the exact number of players (will they be more than two?), and c) the structure of payoffs (is the game of a constant zero-sum- or a 'general variable sum'-character?) (Friedman (1983, pp 207-209)).

Non-cooperative game theory constitutes 'a generalization of optimization to multiperson decision making' (Tirole (1995 (1988), p 4)) and this is also the kind of game that the majority of oligopoly models actually reflect (Friedman (1983, p 14)).[78] Herein each player thus pursues her own interest, subject to that of others who in their turn depend from this player et cetera. The most decisive factor of a game is *the character of its equilibrium solution* enabling it to come to and end. This is attributable to the very ex ante modeling of the game. This an equilibrium is furthermore articulated by way of *strategies* played out. A strategy could then be either 'pure' in the sense of an action plan or 'mixed' as a probability distribution of pure strategies. Game dynamics allows for time to work out. A game where players have a finite number of strategies will always have an equilibrium, maybe via the interplay of pure and mixed strategies, whereas this must not necessarily be the case for games with an infinite number of strategies. If an equilibrium cannot be found it is not possible to predict conduct in terms of strategy choice (Sridhar Moorthy (1985, pp 262, 266, 267)). When strategies are optimal in the sense that the *payoff* to one player, given the strategies of others, cannot increase by being altered, the game is in *Nash equilibrium*.[79] A Cournot-type of game will always have such an equilibrium solution. This type of equilibrium can be elaborated in a number of ways allowing for change of the initial rules so as to allow for asymmetric information that was not the case at the outset (Tirole (1995 (1988), p 206)). The reason why equilibrium matters so much is that it is the only instantaneous regime wherein there is no impetus for change. This is so as subject to competition there will be no binding agreements that can force a temporal equilibrium to stay in place. It must do so by virtue of self-enforcing agency (Sridhar and Moorthy (1985, p 265)).

The crucial dictum of oligopoly theories as to the assumed fixed character of others' quantities or prices can hence be directly related in game theory. In a Cournot-type of game others' fixed quantities are thus conjectured. The ensuing *Nash equilibrium in quantities* is

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[78]Cooperative games on the other hand assume some kind of collusion and will not be considered here. The epitome hereof is however the well-known prisoners' dilemma. The meaning is that cooperation and not conflict is always a viable first strategy in a setting where information and communication is imperfect. The most well-articulated formalization hereof is obviously Axelrod's (1984) 'tit-for-tat'-strategy. To maximize joint benefits, cooperate on the first move, then always follow what the other player does.

[79]a 'prediction about how rational and intelligent firms will compete' (Sridhar Moorthy (1985, p 264))

then a viable outcome in situations where it is considered relatively more costly to change output than price as a player might for instance be close to its production capacity limit. Another way of putting this is that marginal costs are sharply rising. If competition is intense and / or the marginal cost schedules of firms are rather flat, it is more viable to reach out for a *Nash equilibrium in prices*. This is accomplished by applying a Bertrand-type of game wherein the fixed prices of others is what is presumed. Predictions as to price will differ a lot (given the standard assumptions of no product differentiation and like constant marginal costs) as this latter case entails the establishing of price equal to marginal cost which is below that of the former. As seen these two types of games are not really rivals furnishing contradictory results in terms of price predictions, but mere complements applicable in somewhat differing contexts (Sridhar Moorthy (1985, p 268), Tirole (1995 (1988), p 224).

The micro features of games can be mapped in a number of ways. *First*, consider whether strategies are played out simultaneously or not. When this does not prevail, there is a leader-follower game ending in a Stackelberg equilibrium. Herein the leader assumes that the follower will act so as to maximize profits, but as the former is in an advantageous situation regarding information, the follower will be relatively worse off, an outcome however subject to similar player cost structures (Sridhar Moorthy (1985, p 264), Weitz (1985, pp 231-232)). *Then* consider the longevity of games. In the long run there will necessarily be several new aspects to games. For one thing it is viable to assume that somehow learning takes place so that players know successively more about each other. What is more, a game being played over time is either repeated as unfolding over several periods or it constitutes a supergame, being infinitely repeated. In the latter case multiple equilibria might be at hand. A peculiarity with these kinds of games is furthermore that the solution arrived at will always be 'backward-looking' since subject to what happens in the first period, the remaining ones will display the character of a 'foregone conclusion'. In consequence, the strategies pertaining to the initial period are chosen with the successive periods also taken into account. When a Nash equilibrium is to be determined, thus in essence applying to several periods, it is enough to consider the first-period strategies as the ensuing dittos reside implicitly therein (Sridhar Moorthy (1985, p 273), Tirole (1995 (1988), p 206), Scherer and Ross (1990, pp 213-215)).

Market contestability

Ever since the emergence of industrial organization economics, barriers to entry into, and exit from, an industry are considered one of the main impediments to competition. As seen the absence thereof is also endemic to one of the assumptions pillaring the idea of perfect competition. The presence of these obstacles provides markets with pockets of isolation from non-incumbents. Competition can hence be distinguished as prevailing either among incumbents only or as also encompassing those outsiders that eventually consider market entry. The rudimentary reason for considering entry is that profit opportunities, not yet 'competed away', accrue within an industry. In the very short run entry will always be blocked by the mere fact that whichever the product, some time is required to set up a commercial activity. In the somewhat longer run this type of barrier always vanishes, however, as it is 'consumed' by time. Barriers to entry can show up in a variety of guises, from patents and product differentiation to the exclusive supply of certain raw materials and the actual pricing behavior of incumbents that temporarily lower their prices in order to dissuade customers from switching business to a newcomer. In addition both cost economies of scale and absolute-cost barriers deprive a potential supplier the opportunity to realize a profit sufficient to induce entry. A related though still different kind of mobility barrier is that pertaining to industry exit. The key concern here is the existence of sunk costs that embodies a lock-in of existing resources in a particular market. These costs are incurred even if a firm stops producing for a market as there is no alternative manner wherein they can be deployed. Specific investments are of this 'sunk' nature as they are resource commitments that in addition constitute an entry barrier. Entry and exit barriers are thus associated in this regard as they depend on each other's presence. In sum, the prevalence of mobility barriers ensures incumbents some monopoly power enabling them to charge a price exceeding their marginal cost. That is, the upheaval of these barriers necessarily blurs the border between actual and potential competition since structural industry patronage then no more serves as a protection against outsiders that are prone to entry (Caves (1992, pp 22-32)).

One manner in which actual and potential competition can be illuminated is by focusing on the relation between sunk and fixed costs and how this relation affects barriers of mobility. This is the idea of contestable market theory. There are a few key features that clearly set this approach apart from more conventional dittos. *Firstly*, there are fixed costs that are not sunk. Or alternatively, some investments made can be regarded as reversible in the sense that they can be easily recovered at a speed superior to that characterizing the behavior pattern of incumbents. There is the 'possibility of costless and reversible entry'. What conventionally gives rise to entry barriers that induces monopoly power is hence not scale economies, but sunk costs. Or, more correctly, the expectation of sunk cost prevalence. This furthermore implies that exit, in the absence of sunk costs, is free and as alluded to above this impediment to entry in consequence does not exist either.[80] *Secondly*, market entry can be looked into in the light of existing 'pre-entry' price as there is a certain inertia attributable to incumbents not found among fast-acting potential new entrants. That is, retaliatory pricing as an entry barrier is not an issue. *Thirdly*, what matters is mostly the conduct of outsiders, not incumbents' behavior. As a result any obstacle to entry which prevails can be actively dismantled by a potential new entrant and firms already present within the industry are the ones thus rendered

[80]By recognizing the difference between fixed and sunk costs, the theory of contestable markets fills a void identified by McNulty (1968, p 650). 'One fundamental deficiency of competition as the concept has been employed in economic theory is that it has never been related in a systematic way to costs of production.'

reactive. *Fourthly*, rivalry is considered as both actual and potential competition, the meaning of which is that also those currently not present in a market condition its competitive character.[81] These initial features render a market (perfectly) contestable and thus accessible to outsiders. Such a market has furthermore got two major characteristics. 1) A potential entrant can freely go after the identical market demands, trusting the same technology, as incumbents. 2) A potential entrant is able to evaluate the profitability of entry beforehand, following the pricing and cost conditions just mentioned. For a 'sustainable' market configuration to exist, there are three prerequisites consistent with equilibrium (a non-sustainable configuration invites a type of market entry that alters the configuration) (Baumol et al (1988, pp 5-6)).

- The joint market quantities demanded must exactly correspond to the aggregate output of all firms in the configuration.
- All suppliers in the configuration must be able to fully cover their full costs at prevailing prices.
- For those potential entrants that consider incumbents' prices as fixed, there exist no opportunities for profitable entry.

The argument can be formalized as follows under the assumption of an industry with n firms, enjoying the same technology, and producing the identical homogeneous product. To produce output q costs C(q). In the case of no production, there are no costs, C(0)=0. There are m incumbents and of relevance to the industry is both incumbents and potential entrants, n-m>0. The configuration of this an industry is a set of incumbent outputs, qi, charging price p. This configuration is 'feasible' only in case the market clears in the sense that aggregated demand and supply are equal at price p and that incumbents make profits as (pqi>C(qi). The configuration of this industry is 'sustainable' when no potential entrant can make a profit by taking the price of incumbents' as given. That is, therc is not a price charged by an entrant, pe<p and an output qe<D(pe) so that peqe>C(qe). Decisive is thus the fact *that it is not realized entry per se, but mere the 'threat of entry', embodying potential competition, that renders a market contestable.* This in its turn impacts the conduct of incumbents in a crucial manner so that they will charge a price just equal to marginal cost thus depriving them of any supra-normal profits. This conclusion holds for the cases both of monopoly and oligopoly so that, contrary to conventional wisdom, under less than perfectly competitive regimes, but subject to the presence of contestability, perfect competition pricing will apply. This is so as both incumbents and potential new entrants are in the position to exert some market power via 'control of prices.[82] 'In the absence of actual competition, potential competition is very

[81]Confer Bailey (1988, pp xii, xv), Baumol et al (1988, p 2), Scherer and Ross (1990, pp 374-377).

[82]This is observed by Bailey (1988, pp xiii-xiv) who also recognizes that the assumptions of a great many firms rendering price approaching marginal cost under perfect competition is here substituted by contestability. That is, a mere numeric prerequisite is replaced by the power of potential competition.

effective in disciplining the incumbent firms' (Tirole 1995 (1988), pp 308-309)). The welfare implications hereof for monopolies should be obvious.[83]

This idea has been logically confirmed in game-theoretic experiments. There is however considerable doubt as to whether it applies outside the realm of deductive logic, something holding in particular for the alleged feasibility of sunk costs and response lags (Scherer and Ross (1990, pp 376-377)). As a case in point Bailey (1988, p xiv) however relates the airline industry, being characterized by major economies of scale, low (if any measurable) sunk costs (pertaining to the aircraft themselves), and relative ease of entry. Allegedly, provided that some airlines have access to airport facilities in two cities currently not served by them, a single incumbent carrier flying this route is not likely to be able to derive any monopoly profits in light of the potential competition faced from these other airlines. The entire argument is succinctly summarized by Bailey (1988, p xiii).

> *A perfectly contestable market is defined as one in which entry and exit are easy and costless, which may or may not be characterized by economies of scale or scope, but which has no entry barriers.... Potential entrants are assumed to face the same set of productive techniques and market demands as those available to incumbent firms. There are no legal restrictions on market entry or exit and no special costs that must be borne by an entrant that do not fall on incumbents as well. An entrepreneur will enter the market if he expects to obtain a positive profit by undercutting the incumbent's price and serving the entire market demand at the new lower price. If the incumbent readjusts his price, reducing beneath that of the entrant, then the new competitor can readily exit from the market without loss of investment. Thus, potential entrants are undeterred by prospects of retaliatory price cuts by incumbents and instead are deterred only when the existing market prices leave them no room for profitable entry.*

The ambiguous neoclassical market

Despite its close intuitive association with competition there is not much space for an elaborated notion of the market in the neoclassical discourse. This obviously does not mean that the notion of markets is completely absent, but when touched upon it is most often in a rather superficial for-given-taken manner. This might at first sight seem rather odd but stems from the fact *that the market is not the subject-matter under scrutiny.* That is, whatever there is of market theory within the neoclassical school resides implicitly in the guise of price theory. Alternatively it can be traced in relation to market actors within the theory of constrained choice. The market appears as the realm, the invisible institution, wherein other phenomena are looked into. This is but logical as the same seemingly holds also for its twin market concept competition. The neoclassical market however does not, like 'structural competition', condition other issues (such as price) that instead are governed by a host of other independent variables. There are two major implications thereof. On the one hand the

[83]As noted by Bailey (1988, p vi), when to figure out the cases under which a monopoly can serve society more efficiently than others, it is not economies of scale, but the 'subadditivity of cost' that shall be taken into account.

market becomes an 'empty generic conceptualization' of an arena (Demsetz (1982, p 6)). On the other it has got very much of contingency to its character according to which its definition (overt or not) is subject to 'the use to which it will be put'. It becomes an 'empirical difficulty' that mostly is not paid any further attention to (Tirole (1995 (1988), pp 12-13)). This a primitive notion of the market is most salient in the work of Thin (1960, p v) who foreshadows his 'theory of markets' as 'a general study ... of pricing in three different markets – perfect competition, perfect monopoly, and imperfect competition'. That is, the market is embodied in the type of structural definition of competition at hand. This inevitably means that any treatment of the market is subject to the idea of equilibrium.

> [M]*arkets are the scene of those active processes that have long been dismissed with bare mention as the "higgling of the market", by theorists whose main interest lay in the equilibria of demand and supply that were supposed to be reached when this higgling had run its course.*[84]

The most 'extreme' consequence hereof is found within non-applied microeconomics where the market is analytically 'derived' from the demand curve pertaining to the 'quantity demanded by all the consumers' in a particular context. The demand curve (that is, 'the market') then reflects how much *of a particular product* that is asked for by consumers at each individual price level and this in its turn is a function of consumer income, product characteristics, the price of other similar products, and consumer taste (Mansfield (1982, pp 86-87, 110-112)). As this view of the market initially seems demand-oriented but subsequently turns out to relate the supply side of the market (the product offered is *the* single decisive impetus for any demand schedule) it is in fact viable to ask whether the market is best defined in terms of a) sellers, b) buyers, c) or both. Clark (1961, p 104) here points to that, from within more of an applied perspective, how to grasp the market stems from who is the observer. If there for instance is a hands-on product for sale, the market is allegedly made up by the distribution channels through which this product gets closer to its final consumption.

Scherer and Ross (1990, pp 73-75) recognize the supply / demand difficulty which, it seems, in part is attributable to the notion of an industry. Within industrial organization theory '[e]mphasis is often placed on similarity of production processes, which may or may not reflect product competition interrelationships.' That is, following the definition of industries these tend to take on a somewhat blurred relation to the concept of the market. Are these two one and the same, or? Nightingale (1978, p 36) looks into this particular issue and provides some alternative ways of understanding. He concludes that whereas an industry is supply-defined, with a particular emphasis on production technology within a certain time frame, a market has got more of an institutional, 'eternal and unprecise' character as a forum for

[84]Clark (1961, p 107)

recurrent meetings between customers and suppliers. There is then a difference in that an industry is clearly supply-defined whereas an appropriate market definition allegedly must recognize *also* substitution in consumption (measured maybe, regarding cross elasticity of demand between products a and b, as (dQa/Qb) / (dPa/Pa)). By thus relating also demand when defining a market, a link is provided as to how competition enters the picture. In the case of cross elasticity of demand, this both tells about how consumption behavior is likely to unfold and how two products relate to each other in terms of competition (confer Tirole (1995 (1988), pp 12-13)). It is obvious here that a market is hardly conceived of if one does not start out at the product level. This implies that markets could only be single-products dittos as it is on the level of individual-product transactions that competition can be conceived of in the most straightforward manner, given the discourse recapitulated above (confer Thin (1960, p 7), Clark (1961, pp 104-105)). In this vein a market can be characterized as a 'collection of homogeneous transactions' (Bannock et al (1992, pp 273-274)).[85]

An additional effect of this rather curtailed and non-institutional neoclassical view of the market is that it misses out on virtually any micro-social aspect thereof (Swedberg (1994, p 263)).

> *From the viewpoint of markets as social structures, however, some of this more recent research* [in contemporary economics] *is less relevant. The abstract model of the market that can be found in general equilibrium theory is, for example, unable to handle unemployment, historical time, or significant economies of scale.*

The customer in neoclassical ideas of competition

To summarize, neoclassical economics is an equilibrium theory of price prediction wherein competition is an underlying state of affairs that by itself is pillared by a few key assumptions that eventually are altered as various areas of inquiry are turned to. This holds ever since the inception of the perfect competition dictum in the early 1900s until today's highly formalized industrial organization argument, as seen in game and contestability theories' attempt to grasp oligopolistic interdependence. Within this realm of parametric price determination, competition constitutes an abstract and rigorously defined concept that is very well suited to

[85]One consequence of this unclear status of the market in the neoclassical discourse, wherein it on the one hand seems to be identical to an industrial supply structure, and on the other is the exclusive territory of one product, is that there is a very close affinity between a likewise restrained view of competition. In the words of McNulty (1968, pp 641, 645), 'the failure to distinguish between the idea of competition and the idea of market structure is at the root of much of the ambiguity concerning the meaning of competition.' In a similar manner Stigler (1987, pp 531, 533) claims that 'the merging of the concepts of competition and the market was unfortunate, for each deserved a full and separate treatment.' That is, *their close to joint conceptions have contributed to the blurring of both.* In Stigler's view the market is 'an institution for the consummation of transactions' whereas competition is 'a rivalry between individuals'. His view converges with that of McNulty regarding the need for a distinction between the market and competition, but differs interestingly enough concerning which is the more conditional. Whereas Stigler posits 'that even today a market is commonly treated as a concept subsidiary to competition', McNulty (1968, p 645) has it 'that competition has been conceived of as a concept subsidiary to that of the market rather than the other way around'.

contribute to the understanding of other phenomena (confer welfare economics) by means of a dedicated and highly advanced model schedule. In itself, however, it is less apt to constitute the subject of any major scrutiny. That is, neoclassical competition is mostly well equipped to answer the questions for which it is intended and formally designed, but less appropriate in a number of other areas. This very fact is reminiscent of the highly contingent manner in which the market is treated in mainstream economic theory.

Any claim as to the *general* prevalence of customer-based interpretations of competition within neoclassical economics is futile. It is here that the reactive and thus passive customer, only responding to the choice of suppliers, that dominates the analysis. Consider for instance oligopoly theory where a few 'active' sellers condition the market opportunities at hand for buyers. Of course there are assumptions concerning the utility functions residing with consumers, and of course there are at times accounts that focus also the structure of the supply side of markets. But, by and large, none of these contributions explicitly recognize the customer as embodying by any means an agency in the position to fuel competition. It is highly questionable if even suppliers, in their role as price-takers, embody such an agency. But they are at least modeled in a way that foreshadows this to be the case. This overall neoclassical dictum of mostly leaving the customer aside is readily discerned in both the classics' focus of market supply conditions and Cournot's early preoccupation with sellers only. This is just slightly modified, it appears, with the advent of Edgeworth's 'negotiability of contracts' which stems from the mysterious trading bodies of Jevons, and with similar accounts drawing on the elasticity of demand as an input to the analysis. If anything it is Chamberlin's discourse on monopolistic competition, with its open recognition of market imperfections, that steers away from this supply-biased perspective. It is therefore not a surprise that his thinking, involving for instance 'conditions of sale' embodying product differentiation (in the eyes of the consumer), is the main source of fundamental inspiration for ideas in marketing. It would be insufficient, however, if one were to stop short of any further analysis in this area of customer-based competition as the general absence of neoclassical accounts in this regard does not mean that they are completely non-existent. That is why this paragraph ends by providing an example of how customers are made an integral part of the neoclassical analysis of competition.

This comes about via the notion of *market power* which thus can also stem from within the demand side of the market. This means that the mostly assumed prevalence of an infinite mass of individually weak customers is relinquished to also allow for the potency of buyers. In structural language there is a resulting set-up of market types basically discerned as bilateral monopoly, pure monopsony, bilateral oligopoly, and oligopsony respectively. The most typical case of supply and demand interplay in this respect is without doubt that of bilateral monopoly wherein two 'sides' of market power operate in parallel. The key issue is then whether price leadership is exerted by the buyer or the seller. 'By exercising monopsony power, the buyer might break the monopolist supplier's price leadership and move toward higher output and joint profits.' Neither case will however display joint profit maximization. This prevails only as the marginal cost of the monopolistic supplier coincides with the customer's marginal revenue product. As some sort of price leadership will be around instead, price will be indeterminate and subject to bargaining. Further, there is always the possibility that such a bilateral monopoly can be broken by means of vertical integration in either direction. Of particular interest here is the fact that once a firm occupies a monopoly situation at any stage of the distribution chain, its monopoly power cannot be increased by vertical integration into other stages in competition. This is so since a monopolist gains by learning from those competitive stages closer to the consumer on how to derive its own demand function. That is, by monopolizing these stages, less learning will be attained regarding how to understand own demand (Scherer and Ross (1990, pp 519, 520-521)).

The most distinct elaboration of the impact of buyer power on competitive conditions in an industry is John Kenneth Galbraith's idea of *countervailing power*.[86] Instead of focusing either supply or demand side conditions when relating competition, Galbraith (1993 (1952, pp 110-134) argues in favor of an integrated perspective with particular emphasis on the power exercised through buyer behavior. Countervailing power is then allegedly a third disciplining market force in parallel to those of competition and state intervention. This view is of course far from the standard assumptions of the perfect competition paradigm where demand agency is purely reactive. In short, *customers have occasionally got an immense role to play for competition by their exercise of market power.* It shall however be observed that in cases of 'pure' countervailing power this force does not per se invoke or curtail competition within a structure of sellers. Instead it constitutes a type of disciplining market force that resides in parallel with, or instead of, supplier competition. There is nevertheless an implicit notion of the ability of customers to affect market supply and once this is in place it is viable to assume that this could have more of a direct impact also concerning the manner in which suppliers relate to each other as competitors. The argument is empirically derived as a reaction to the establishment of seller potency. Galbraith thus recognizes the coming into being of not only large suppliers, but also of like customers, something of course endemic to the fact that very few manufacturers sell directly to consumers but only through *multi-staged* channels of distribution.[87] It however also obviously applies very much in the case of labor markets.

> *In the typical modern market of few sellers, the active restraint is provided not by competitors but from the other side of the market by strong buyers. Given the convention against price competition, it is the role of the competitor that becomes passive in these markets. ... In the market of small numbers or*

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[86]Galbraith is of course more of an ('old') institutionalist than a clear-cut neoclassical economist.
[87]'One of the seemingly harmless simplifications of formal economic theory has been the assumption that producers of consumers' goods sell their products directly to consumers' (Galbraith 1993 (1952, p 117)).

> *oligopoly, the practical barriers to entry and the convention against price competition have eliminated the self-generating capacity of competition. The self-generating tendency of countervailing power, by contrast, is readily assimilated to the common sense of the situation and its existence ....*[88]

An imminent threat underlying the presence of countervailing power is further that of backward vertical integration and the concentration of business to only one or a few sources of supply in relation to which a buyer then will become even more powerful. The daily exercise of this customer power consists however of (notes Galbraith (1993 (1952), p 121)), the 'keeping [of] the seller in a state of uncertainty as to the intentions of a buyer who is indispensable to him'. To respond to countervailing power, a supplier could react in the same fashion by forward vertical integration so as to directly reach out to the customer via own fully controllable means. Galbraith (1954, pp 3-4) further recognizes that the wealth of consumers in a world of countervailing power stems a lot from the competition prevailing in retailing, closest to these consumers. That is, benefits derived from the countervailing power of a retail chain must necessarily somehow be passed on to consumers for the attainment of alleged social gain. And this can only occur by way of competition among retailers.

> *The buyer must be powerful enough to constrain the monopolistic seller's prices, but lack the power as a reseller to charge monopoly prices. ... We see that countervailing power is most likely to benefit consumers when three conditions hold simultaneously: when upstream supply functions are highly elastic, when buyers can bring substantial power to bear on the pricing of monopolistic suppliers, and when those same buyers face substantial price competition in their end product markets.*[89]

The game-theoretic essence of countervailing power, as noted by McAfee and McMillan (1996) is that 'horizontal competition' and 'vertical bidding procedures' can be considered as two clear-cut alternatives for a supplier about to sell, or a customer about to buy, a goods on the market. Good bargaining skills on someone's part could then act as 'artificial competition' as far as pricing impact is concerned. That is, a talented customer could, via wise negotiation, attain a price from an oligopolistic or monopolistic supplier that corresponds only to that conventionally prevailing in the case of more competition among several suppliers. If there is a choice, it however always seems preferable for a customer to 'place more faith in the power of competition among alternative suppliers than in ... her own negotiating skill' (McAfee and McMillan (1996, p 265)). The game-theoretic reason for this is that competition is generally more 'robust' than what is vertical bargaining (which means it is less subject to specific conditions threatening to violate the underlying assumptions, the rules of the game). In consequence, say McAfee and McMillan (1996, p 266), it is important to understand how

[88]Galbraith (1993 (1952), pp 112, 114)

[89]Scherer and Ross (1990, pp 527-528) These conditions are, it is further said, most likely to apply as bilateral oligopoly prevails. Therein 'sellers are few enough to recognize their interdependence, but too weak to maintain a disciplined front against the whipsaw tactics of a strong, shrewd buyer' (Scherer and Ross (1990, p 532)).

customers can 'induce' competition among suppliers.[90]

As a case in point, consider the contribution of Snyder (1996). He erects a game-theoretic model in the guise of 'an infinitely repeated procurement auction' wherein the potential for suppliers to collude (which is the same as competition being curtailed) stems from customer characteristics. In this manner there is, then, a more or less direct vertical impact on horizontal competition. The buyer is here presumed to be able to act autonomously in terms of its own purchasing pattern. That is, there is an ongoing stream of 'consumption opportunities' facing the buyer who under the given assumptions is in the position to postpone the placing of orders until a mass thereof is accumulated 'in-house'. Only then does the customer approach the supply market, imbued with a considerable amount of buying power. As a result the customer is able to derive a lower price in the form of major volume discounts, something thus counterbalancing any collusive attempts from suppliers. The clue is that a mere threat in this direction (confer the claim of contestable market theory regarding entry of yet another competitor) is enough to induce sellers to quote more 'competitive' (that is lower) prices. It can then be said that the customer remains in the position to fuel an element of competition into a supply market structure where this previously is not the case.[91] This insight is also elaborated upon as buyers are treated as at times being able to act in concert, thus balancing the force of a powerful seller. This is allegedly the case with skiers buying lift tickets through alpine clubs and similar.

> *A limited degree of monopoly ("substantial bargaining power"), on one side of the market, can be of great service in maintaining competition on the other. A strong, **alert** buyer, large enough so that the loss of his patronage is not a matter of indifference, constantly on the watch for a break which he can exploit by rolling up the whole price front, able to force concessions first from one and then from all, and followed by other buyers, can collapse a structure of control or keep it from ever coming into existence.*[92]

vi. Austrian economics

As the discussion of neoclassical economics is now in place it is time to turn to the last school of thought that recapitulates competition theory in this chapter. That is the Austrian school of economics. It emerges in the 1870s with the advent of Carl Menger's *Grundsätze der*

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[90]Confer Wilson (1977) for an elaborated theoretical case of the interplay between auction-like bidding and competition and Bulow and Klemperer (1996) for the interplay between monopoly and auction theory. These authors argue, in line with McAfee and McMillan (1996), that under certain assumptions to be a good negotiator is less important than to find some extra competition on the other side of the market.

[91]'The results turn out to depend on three key variables. The usual results hold for the number of firms N and the discount factor δ: collusion becomes more difficult as N rises and δ falls. A new parameter is introduced, θ, which measures the relative ease with which the buyer can transfer its consumption opportunities intertemporally. In general, θ is less than one, implying that the benefits from buying at the preferred time degrade with delay. The broad result is that as θ increases, the maximum collusive price falls. This result can be seen intuitively: the larger is θ, the more valuable is any backlog of unfilled orders the buyer accumulates, ie, the larger is the endogenous "boom" in demand generated by the buyer. The sellers are forced to lower the collusive price to prevent undercutting' (Snyder (1996, p 749)).

[92]Adelman (1948, p 1300, added boldface)

Volkswirtschaftslehre (Principles of Economics). And as with neoclassical economics, the ideas thus framed some 130 years ago continue to inspire the school's contemporary view of competition, now however with an often overt reference to *der Vorvater*, Menger. A brief survey of Austrian economics, from its appearance in the days of *der Methodenstreit* until today's alternative interpretations, is provided in Chapter VIII. In the following its treatment of competition will be highlighted through the contributions coming forward in the works of Menger, Mises, Hayek and Kirzner. These authors not only furnish the most crucial aspects of Austrian thought, but they do so in a manner that constitutes a logical whole within the particular version of this school that comes forward in the United States (foremost through scholars with the New York University) ever sine the early 1970s.

Carl Menger

Within his overall theory of 'human' economics, originating in the subjective theory of value, Menger approaches competition by relating instances of bargaining. The ensuing argument in Principles of Economics (Menger (1994 (1871), pp 175-180)) rests on acts of exchange distinguished in bilateral monopolies. The reason for someone engaging in exchange is in order to satisfy needs by way of acquiring goods and this (satisfaction) potential must be realized via knowledge possessed by both exchange parties' planning in advance. Trade will not cease until both parties simultaneously realize that marginal costs and gains are equal. Menger is not caught in the trap of drawing *explicitly* on competition when there are only two parties to exchange bargaining. Instead he clearly distinguishes isolated exchange, 'the simplest case in which an exchange of goods takes place between two economizing individuals who are not influenced by the economic activity of other persons' (Menger (1994 (1871), p 197)), from other cases.

> *What has just been said becomes still more evident if we consider the case in which foundations for economic exchange operations with the grain farmers exist not only for A, but also for several other owners of horses, A2, A3, etc. ...* [In cases of several horse owners Ai] *we have to deal with much more complicated relationships than the* [earlier] *one ... In the first case, foundations for economic exchange operations exist between a monopolist (in the widest sense of the term) and each of several other economizing individuals who, in their efforts to exploit the exchange opportunities confronting them, are in competition with each other for the monopolized good. In the second case, the foundations for economic exchange operations are present simultaneously on the one side for each of several owners of one good, and on the other side for each of several owners of another good; on each side, therefore, these persons are in competition with one another... Barring error and ignorance on the part of the economizing individuals involved, prices are therefore formed under the impact of the entire quantity at the disposal of all the competing suppliers.*[93]

As seen Menger succinctly manages to distinguish, in just a few lines, two important features of competition. A) Both sellers *and* buyers can compete for exchange. B) competition is

[93]Menger (1994 (1871), pp 198, 224)

foremost a horizontal phenomenon impacting the vertical exchange later to unfold. There is hence a close affinity with the 'competition first for opportunities of exchange later'-argument of Weber.[94] He (Menger (1994 (1871) pp 199-216)) goes on to consider several cases of price formation subject to different competitive regimes which follow the presence of one or several monopolized goods, free and fixed pricing and, finally, the policy of a monopolist more in general.[95] Common to the cases is that the competitors' relative valuation of the good at stake will decide who is to exchange and price formation will take place according to an ensuing (vertical) bargaining process between seller and buyer. It seems as if whichever 'competition' is around in the first place in fact has not as decisive an impact on the outcome of price as one could expect. Instead Menger sketches a kind of three-step process where the relative valuation of the potential exchange among all competitors serves as a screening device and sets some price limits (subject to the evaluations of those two 'most eager' competitors) during the first two steps of the process. This is later followed by the bargaining itself in the final phase between the foremost eager competitor and its exchange counterpart. The taking of others into account is thus very obvious in this bidimensional way of reasoning.

Apart from exchange itself, Menger also, in a true Weberian spirit (trained as they both are in the German historical tradition), notices how the microfoundations of society in terms of competition are subject to the 'progress of civilization'. The argument (Menger (1994 (1871, pp 197, 216-218)) goes that there is a positive correlation between civil progress and competition following the number of 'economizing individuals' ready to engage in trade and thus to compete. 'Monopoly, interpreted as an actual condition and not as a social restriction on free competition, is therefore, as a rule, the earlier and more primitive phenomenon, and competition the phenomenon coming later in time' (Menger (1994 (1871), p 217)). There could, however, be restrictions to competition following special society grants. He notes that social barriers are at the outset not present to hinder the emergent monopolist, for instance an artisan with special skills. But as time goes by (and society hence becomes more civilized) things change. There will then always be other *as* skilled artisans around and the original character will hence no longer be in the position to reap the benefits from his (temporary) monopoly. Hence Menger, without explicitly stating it, makes another two remarkable observations for competition thought. A) Free market entry favors competition. B) Entrepreneurs enjoys a 'right' to 'earn' a monopoly position in the market that, as time goes by, anyhow will be scooped out by the arrival of new challengers following prevailing free market entry. Menger (1994 (1871), pp 221-225) finally relates the possibility of collusion and the monopolist deliberately cutting back on output. He concludes his reasoning on

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[94]And one can always ask whether in fact Weber is not inspired by Menger, despite him not recognizing this.

[95]This precise tying of the understanding of competition to an elaborated theory of price void of any 'natural' aspects thereof (in the sense of the classical economists) is of course very much reminiscent of how neoclassical economics ever since conceives of competition in the realm of price formation.

competition by alleging the social welfare implications associated therewith by way of higher output available for, and less exploitation of, consumers.[96]

Menger's subjective theory of price is for obvious reasons very much anchored in individualism. That is, once value is considered in terms of marginal utility it becomes necessary to focus the individual as no collective notion of utility is presumed. One consequence thereof is that the market is not very much treated in its own right, although some implicit institutional consequences thereof are alluded to (Menger (1994 (1871), pp 248-253)).[97] There is however a structural interpretation thereof as the number of actors on each side of the market allegedly affects exchange considerably. 'Market' appears as tied to a particular good on the one hand and on the other a geographical location, a market place, for that particular good. If anything, an implicit definition of markets is as 'points of concentration of trading and price formation', the role of which thus is to facilitate exchange. This is to render a product 'marketable', something very much facilitated by the prevalence of an 'organized market' wherein exchange can unfold 'at prices corresponding to the general economic situation'. That is, a market as organized exchange (confer the argument put forward by Weber). As seen, the notion of exchange is also endemic to Menger's coming to grips with competition, the two are in fact very much related. To Menger exchange also epitomizes the idea of marginal utility. It is instrumental in enabling individuals to satisfy their needs. That is, exchange is at the center of the transformation of classical political economy to neoclassical economics (inclusive of Austrian ditto). Parties to exchange are further assumed by Menger to have a relationship, a concept that however is not really elaborated upon save for this meaning of it.

> *The principle that leads men to exchange is the same principle that guides them in their economic activity as a whole; it is the endeavor to ensure the fullest possible satisfaction of their needs. The enjoyment men derive from an* ***economic*** *exchange of goods is the general feeling of pleasure they experience when some event permits them to make a better provision for the satisfaction of their needs than would otherwise have been possible. ...* [The limit of economic exchange] ***is reached when one of the two bargainers has no further quantity of goods which is of less value to him than a quantity of another good at the disposal of the second bargainer who, at the same time, evaluates the two quantities of goods inversely.***[98]

Ludwig Mises

The economics of Ludwig Mises is much overshadowed by his consistent 'crusade against virtually everything that smacked of socialism, interventionism, inflationism, egalitarianism

[96]For an elaborated treatment of Menger's conception of competition with a particular emphasis on its influence on subsequent Austrian thought, see Endres (1997, pp 108-125).

[97]'In Menger's work there is a clear reluctance to aggregate: that is, to move from an analysis of individual bids and offers in auction market contexts to market demand and supply relations' (Endres (1997, p 216)).

[98]Menger (1994 (1871), pp 180, 187)

and trade unionism; his uncompromising championship of libertarianism; his scathing criticism of the use of mathematical and econometric techniques in economics; his unconventional, [and his,] to put it mildly, views on epistemology' (Boehm (1990, pp 209-210)). And maybe this inherently polemical stance of his is one of the reasons why the better part of his influence on economic thought is of an indirect nature, by way of other Austrians (confer Boehm (1990, p 211)). Still, the 'pure' contribution of his easily defends its place in the Austrian development of thought, particularly within contemporary 'Kirznerian' economics.

> *Human action is purposeful behavior. ... Action is will put into operation and transformed into an agency, is aiming at ends and goals, is the ego's meaningful response to stimuli and to the conditions of its environment, is a person's conscious adjustment to the state of the universe that determines his life.*[99]

This is the core of Mises' overall argument.

The most general, and in this sense most influential, of Mises' ideas is that of economics being a subdivision of catallactics (the science of the market phenomenon) that in its turn is subordinate to the science of human action, praxeology.[100] The central axiom of human action is that individuals use means in order to pursue ends.[101] 'The category means and ends presupposes the category cause and effect' (Mises (1963 (1949), p 22)). Action here is the choosing of one alternative over the other (in order to increase the level of satisfaction) whereas events are the action consequences that follow from the conduct of purposeful humans. This is further to be understood by means of a deductive theory-laden epistemology. What makes Mises stand out in relation to most other social scientists is not this way of reasoning per se which is highly *comme il faut*. His claim in terms of individuals' dynamic scales of values has got the air of preferences and does not render him controversial either. The unique 'Misesian' touch to it is that axioms of human action (such as people's purposefulness) are per definition true *a priori*. In consequence there is no need of empirical verification. Vaughn (1998 (1994), p 71) sees here a remnant from the reasoning of Menger (in *der Methodenstreit*) which makes all data historical data that needs a pure non-contaminated theoretical tool in order to be analyzed in a proper manner. Mises is further very subjective in the sense that the means and ends relevant when used to explain behavior are those *perceived* by the actor and nothing else. And from here also follows that human action implies the primacy of the individual (confer Mises (1963 (1949, p 41)). More of a hands-on

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[99]Mises (1963 (1949), p 11)

[100]It is here but inevitable to relate the overall position of economics relative to the other social sciences (confer Swedberg (1990)) and notice that Mises occupies a stance where economics is interpreted as a sub-discipline of social theory. According to Boettke (1998, p 70) 'praxeology' is the synonym of 'sociology', the latter however, according to Mises, having been 'collectively contaminated' by Durkheim and thus inappropriate to use.

[101]This implies that the notion of rationality per se is irrelevant since human action by way of the definition provided always will be rational (confer Mises (1963 (1949), p 19)).

aspect of action is its close connection with exchange whereby 'one state of affairs [is exchanged] for another state of affairs' (Mises (1963 (1949), p 194)).

> *Action is an attempt to substitute a more satisfactory state of affairs for a less satisfactory one. We call such a willfully induced alteration an exchange. A less desirable condition is bartered for a more desirable. What gratifies less is abandoned in order to attain something that pleases more. That which is abandoned is called the price paid for the attainment of the end sought. The value of the price paid is called costs. Costs are equal to the value attached to the satisfaction which one must forego in order to attain the end aimed at.*[102]

As seen, there is a very explicit touch of marginal utility and opportunity cost in this reasoning, thus closely following the spirit of Menger. Mises (1963 (1949), p 194) further stresses that there is a distinct element of reciprocity ('intentional mutuality') to all (social) exchange. That is, action as exchange is undertaken in the expectation of having something in return and this renders two actors tied to each other in a social relation. Action embodying exchange then serves as a cement in the human web. 'Interpersonal exchange of goods and services weaves the bond which unites men into society. The societal formula is: *do ut des*.' This is in essence why '[s]ociety is concerted action, cooperation' (Mises (1963 (1949), p 143)).[103] An important pillar of Mises' overall argument, with obvious ideological undertones, is that this coordinative property of cooperation cannot ever be reduced to some central governance. That is, taking the social aspect of society into account does not necessarily mean that the mechanism governing coordination must be centrally imposed from above. Rather the other way around.

There is however also an additional facet of action, other than exchange, that is less structural in character. That is entrepreneurship. As time passes any action unfolding will necessarily both embody and induce change. And since the implication thereof cannot ever be known in advance there is uncertainty. This renders the notion of any determinism in connection with human choice superfluous. That is, the prevalence of determinism would imply no uncertainty and in consequence there would be no ground whatsoever for man to act at all, as everything would already be set.[104] As men however do act and determinism does not prevail, the resulting uncertainty means that there must be a substantial element of speculation in human action. The outcome hereof is that '[i]n 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 (Mises (1963 (1949), pp 252, 253, 254)). The entrepreneur thus occupies a most generic societal function which renders virtually *all* action

[102]Mises (1963 (1949), p 97)

[103]Cooperation can allegedly be either of a 'contractual-coordinative' or of a 'command-subordinative' type (Mises (1963 (1949), p 195)).

[104]This passage owes its origin to Vaughn (1998 (1994) , pp 70-75)

entrepreneurial. Mises is however not particularly clear as to the very reason for someone to be an entrepreneur. But from his reasoning on exchange above it follows that there is a certain opportunity for gain present. Hence, the passing of time implies uncertainty which opens up the possibility for speculation eventually resulting in profit. The yardstick eventually distributing profit in this sense is the ability to successfully anticipate consumer demand (Mises (1963 (1949), pp 251-255)).[105]

These two dimensions of human action, exchange and entrepreneurship, recognize marginal utility and uncertainty respectively. Once this is established, it is viable to ask how human action, conceived of in this manner, can be tied to the economy as a whole via the market. Mises scrutinizes this by calling upon the market as the process governing interpersonal coordination in an orderly manner and embodying the opportunity for gain.

> *Everybody is both a means and an end in himself, an ultimate end for himself and a means to other people in their endeavors to attain their own ends. This system is steered by the market. The market directs the individual's activities into those channels in which he best serves the wants of his fellow men. ... The market alone puts the whole social system in order and provides it with sense and meaning.*[106]

Hence it is obvious how Mises, focusing action, retreats from the original 'primitive' idea of action provided by Menger which encompasses *only* exchange and the elapse of time. The clue is of course that Mises emphasizes the institutional character of the market, something really not done by Menger who instead chooses to consider the means of exchange, money, in this an institutional manner. What is striking then is that Mises still manages to endorse a very dynamic view according to which the actual market process is the governing institution of exchange and entrepreneurship. This is labeled 'the – continually changing – state of the market'. At each moment in time this state is discerned in the prevailing ratios of exchange, that is the price structure thus informing customers and suppliers (Mises (1963 (1949), p 257))). The distinct reason why change actually comes about, rendering the market truly dynamic, is tied to people's learning from experience. Subject to conclusions drawn from earlier behavior and the outcome thereof, evaluations (id est preferences) change and other goods will be demanded. For the market then to work out via prices inducing trade, money is an indispensable feature. Money is also necessary as a unit of calculation which is the only way in which preferences can be articulated over a wide range of goods when compared and hence chosen between. Calculation is then a tool by means of which alternatives that face the individual, and likely future consequences of each of these when undertaken, can be matched.

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[105]'Profits or losses result from the fact that the adjustment of output to the new situation is not completed at one stroke throughout the market system. Entrepreneurs who correctly predicted the change and acted accordingly receive surplus because, on the one hand, they realize higher prices for the product, and on the other hand, because they can still buy means of production at the lower prices corresponding to the earlier situation.' (Mises (1994 (1961), pp 156-157)).

[106]Mises (1963 (1949), p 57)

This is however far from rational economic man calculation since the frames of Mises' calculator are in constant change. That is, economic man rationality and calculation is not, contrary to most interpretations thereof, the same (Mises (1963 (1949), p 199)). Mises also takes some pains in tying the concept of the market to that of consumer-induced freedom leading to universal benefits, a praise for the market that makes him resemble some of the classical writers within political economy (Mises (1994 (1961), p 152)).

> *All market phenomena result from attempts by everyone seeking to buy or sell on the market to secure the best possible covering of their requirements. It is wrong to describe such individual actions as unconscious behavior by contrasting them to conscious intervention by the authorities. ... The freedom which the market gives to individuals may be questioned by metaphysical thinking. But it embodies, in respect of the satisfaction of wants, the ideal freedom ... In this sense, a market which is ultimately governed by consumers is an essential element in the modern social order and culture.*

In contrast to several others arguing in the same vein it is still crucial to stress the *social* nature of Mises' overall argument revolving around how coordinative cooperation, seen in relations endemic to exchange, guides the market process.

> *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.*[107]

As the market is a very human concept, resulting from the choices undertaken by buyers and sellers, 'the focal point to which the activities of the individuals converge ... [and] the center from which the activities of the individuals radiate' (Mises (1963 (1949), p 257)), it is all the more stunning how Mises relates to the economy as a whole and the eventual equilibrium there prevailing. His concern with equilibrium is in fact rather odd but stems from a trial to use this market concept in order to understand change on an aggregated level. Vaughn (1998 (1994, pp 81-82) identifies three different equilibrium constructs making up his reasoning. Firstly there is the 'plain state of rest' which is a temporary position exemplified by the stock exchange at the end of the day when no more trade is undertaken. Secondly there is the 'final state of rest' where the market ends up in case of no change in data. And thirdly, instead of focusing prices and quantities, there is an abstract 'imaginary construct' ('a mental tool') by Mises labeled the 'evenly rotating economy'. This is an equilibrium in terms of expected static *external* data that stretches out through time and hence is continuously restored one day after the other. And herein lies a paradox since once data is static, time loses its role as past and future will be the same as the present. Consider the effect on pricing (Mises (1994 (1961), p 153)).

> *At any given time, market prices tend towards a situation in which supply and demand coincide. At that*

[107]Mises (1963 (1949), p 315

price ... everyone who wants to buy can buy and everyone who wants to sell can sell. But since the factors determining price is subject to constant change, the final price in reality – contrary to the image of the regular economy of static equilibrium – changes again and again before the market price has caught up with it.

An evenly rotating economy is thus a convergence process taking off in perfectly inert data. Things are here in incessant 'static change' revolving around an abstract center that cannot be touched but that still is. That is, things change, but in an identical manner. The clue of the reasoning is however that this state of affairs is hardly of interest in its own right. 'It provides a foil against which to understand aspects of reality' (Vaughn (1998 (1994), p 82)). What is strange is also that in this (abstract) evenly rotating economy, where no data that changes prices is around, there seemingly cannot be any entrepreneurial action.[108]

Are all types of human action then *as* central to the market process? No they are not, says Mises, clinging to the notion of consumer sovereignty. That is, supply is always subject to, and conditioned by, demand. This is a truly Austrian stance diverging from the majority of neoclassical writing that, as shortly will be seen, has got a decisive impact for the manner in which competition is conceived of. What is striking in particular is the interplay between entrepreneurship, speculation, and the sovereignty of the consumer.

The direction of all economic affairs is in the market society a task of the entrepreneurs. ... [But,] [i]*f a businessman does not strictly obey the orders of the public as they are conveyed to him by the structure of market prices, he suffers losses, he goes bankrupt, and is thus removed from his eminent position at the helm. Other men who did better in satisfying the demand of the consumers replace him. ...* [In this process, the consumers] *are merciless bosses, full of whims and fancies, changeable and unpredictable. For them nothing counts other than their own satisfaction. They do not care a whit for past merit and vested interests.... Every penny spent has the power to work upon the production processes. ... The decision of a consumer is carried into effect with the full momentum he gives it through his readiness to spend a definite amount of money.*[109]

That is, entrepreneurship is indeed subject to the discretionary choices undertaken by the consumer. It also goes without saying that this will impact how entrepreneurs-suppliers will relate to each other. *The thus alleged sovereignty of the consumer is the core around which Mises frames his view of competition.*

Mises' argument on competition revolves around a few easily distinguished parallel themes that unfold in a rather straightforward manner (Mises (1963 (1949), pp 117, 273-279)). First and foremost, competition is, like the market, a social phenomenon, the *function* of which is

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[108]This passage on equilibrium in Mises' thought is much inspired by Boehm (1990, pp 222-224), Vaughn (1998 (1994), pp 39-41)
[109]Mises (1963 (1949), pp 269-270, 271)

to safeguard customer satisfaction. This means that competition cannot ever be 'antagonis[tic] in the sense in which this term is applied to the hostile clash of incompatible interests'. The primacy assigned to market demand, the epitome of which is decisive customer influence, further means that competition here above all will be traditional 'horizontal' competition between suppliers. But it also prevails between sellers that 'must outdo one another by offering higher prices'. The most articulated social aspect is that competition assigns 'social positions.' To buy or not to buy from someone in particular is then decisive for the way in which potential suppliers will find themselves in the social stratum and this comes about *by way of competition thus induced by consumers.*[110] Freedom of entry into a market (= the occupation of a social position therein) is hence conditioned by the discretionary choice of consumers in their decision eventually to opt for new sources of supply. Competition is in consequence but a propellant behind and a consequence of, the striving of individuals for societal positions subject to consumer influence.

> *Entrance into a definite branch of industry is virtually free to newcomers only as far as the consumers approve of this branch's expansion or as far as the newcomers succeed in supplanting those already occupied in it by filling better or more cheaply the demands of the consumers.*[111]

An additional important thread of argument follows Mises initial observation of cooperation as endemic to societal human behavior. Social (as opposed to biological) competition then allegedly takes place within the realm of social cooperation that is in need of a function which performs the task of 'variety of selection' to fully reach a satisfactory division of labor. That is, competition yes, but only subject to cooperation first. And this cooperation needs competition to be able to satisfy human wants, something underway as each individual performs the task that he is best suited for. This means that competition and antagonism, combat, war et cetera are dissimilar phenomena not to be judged along the same continuum of reference. 'Military terms are inappropriate for the description of business operations' (Mises (1963 (1949), p 117)).

> *Competitors aim at excellence and preeminence in accomplishments within a system of mutual cooperation. The function of competition is to assign to every member of a social system that position in which he can best serve the whole of society and all its members.*[112]

Competition will furthermore always be imperfect, or restricted, following the scarcity of production factors and the choice of end customers. The classical notion of 'free competition' hence cannot apply as scarcity in one way or the other will always be around. This is so also

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[110]For a similar line of reasoning within the realm of German market process theory, confer Kerber (1994, p 502) where the entrepreneur is seen competing by testing various hypotheses. And by choosing one of these as the 'correct hypothesis' the consumer acts as a referee in the competitive contest.

[111]Mises (1963 (1949), p 275)

[112]Mises (1963 (1949), p 117)

as a consumer focuses her own need satisfaction and will not take any overall responsibility in buying from everyone all the time. The choice of consumers will hence create pockets of non-competition in each individual situation (as all possible suppliers will not be considered in parallel all the time). This means that monopoly will always be around to a certain extent as the outcome of customer conduct. But at the same time there will also always be at least some competition present in the market since '[o]n the market every commodity competes with all other commodities' (Mises (1994 (1961), p 278)). So by trying to be unique, and thus to attract customers by being able to meet their specific demands, the seller can be said to create a particular social position for himself, an act that on its own however embodies the prevalence of competition. Since if the customer would not have an array of alternatives to choose from, that is if competition would not prevail, there would be no reason whatsoever for the seller to try to distinguish himself from others. The practical implication thereof, says Mises, is that a monopolist is also subject to the eternality of competition in his pricing since in the end there will always be another product that to some extent affects the demand curve facing his own goods.[113]

> *All goods and services are in competition with all other goods and services. One mistakes the nature of competition if one thinks that the manufacturer's efforts to "distinguish" his products – ie, to give them properties which should make them more desirable to consumers than those of other manufacturers – are measures which give competition a 'monopolistic' structure. The drive to supplant competitors by means of such product differentiation is one of the most important methods of competition.*[114]

In the guise of the initial two dimensions of human action identified (exchange and entrepreneurship), it is clear that Mises' argument on competition is unfolding more along that of exchange as he emphasizes the social aspect of competition. The speculation thus tied to the entrepreneurial function is not *that* closely tied to competition, a task later on to be fully worked out by Kirzner (1973).

There are, then, two dimensions to human action. On the one hand there is action as exchange subsequently embodying cooperation and social relations that keep the market together. This aspect closely ties in to the idea of marginal utility. On the other there is action as entrepreneurial speculation which means 'reaction' to market changes following eternal uncertainty. This composite human action is furthermore governed by the market process and the competition therein prevailing. Whether human action is profitable or not mostly stems from the extent to which it takes the unique sovereignty of consumers into account. Infinite consumer sovereignty hence powers competition, a most social and eternal phenomenon that in consequence assigns social market positions among suppliers who either stay on the market, are expelled, or are let in. This granting of social postures stems from the need for

[113]Confer contestability theory.
[114]Mises (1963 (1949), p 154)

cooperation, for a selective device epitomizing a satisfactory division of labor. Since resources will always be scarce, however, imperfections are endemic to competition. It follows that there will, all the time, be a potential around for improvement of society's overall allocation of productive assets.

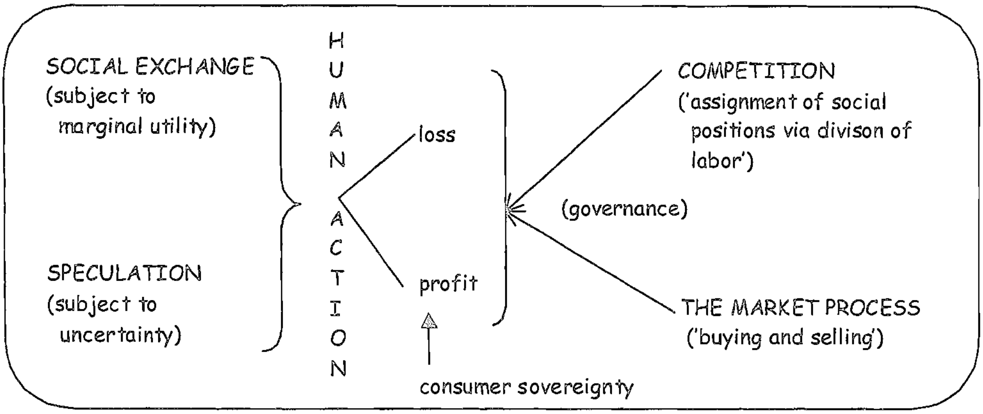

Figure IIIg; The Misesian market logic

Friedrich Hayek

The writings of Hayek are in part inspired by Mises and constitute at times an *as* aggressive ideological stance. They however differ in emphasis in their treatment of markets and competition. Whereas Mises follows Menger in exploring the rather concrete exchange which embodies one facet of human action, Hayek chooses to emphasize the role of uncertainty and the reduction thereof as knowledge. To Menger the issue of knowledge pertains to the recognition of human needs and the satisfaction thereof in light of time. Hayek differs by centering his argument not only around isolated individual, but around spread out, 'social' knowledge by means of which the entire market can be understood via the notion of order. That is, whereas Misesian 'markets-as-exchange' alludes to rather hands-on events, 'Hayekian' 'markets-as-order' is less concrete. Herein action per se is not really important but only plans to act, derived from emergent knowledge.

Hayek's slightly abstract reasoning, in the present text, is most easily approached via his ideal-type notion of markets as a type of social order.[115] This implies some element of stability in a context wherein several individuals must be jointly considered. It further means that it is relevant to consider this setting in terms of equilibration, something thus rendering it in part comparable to conventional economic analysis. In contrast to Mises' opaque work in this respect (the 'evenly rotating economy'), Hayek's notion of equilibrium is much more

[115]Hayek himself is however most precautious as to the use of the word 'social', presumably because of its, in his opinion, ideological undertones.

elaborated and integrated into his overall view of the market. The basis of the reasoning is that any action is preceded by plans to actually perform that particular action. Conventionally, says Hayek (1948a (1937), p 36), equilibrium is analyzed as how actions relate to each other, be it manifest in overall supply and demand schedules or as the interplay between relative cost and value. To gain some genuine understanding it is however crucial to start out at the level of the intentions of the individual. It is then feasible to say that actions are in equilibrium to the extent that they make up one and the same coherent plan.

> *Only if this is the case, only if all these actions have been decided upon at one and the same moment, and in consideration of the same set of circumstances, have our statements about their interconnections, which we deduce from our assumptions about the knowledge and the preferences of the person, any application.*[116]

As someone's actions, when actually carried out, necessarily follow one upon the other it is obvious that time cannot possibly be assumed away from an understanding of the equilibrating process. That is, plans are likely to take hitherto realized action into account. Experience then matters since it affects knowledge whereupon the formulation of plans is based. Knowledge is hence acquired as experience is learned from. If knowledge is altered, the plans will change and the original idea of equilibrium will no longer be in place. Eventually another one will be restored as fresh knowledge is taken into account. In essence this means that a particular *individual* equilibrium will prevail only 'during the period in which ... [someone's] anticipations [of something] prove correct'. This is how things turn out when only one single actor is considered, but what really counts for Hayek (1948a (1937, pp 35, 37-38, 41, 42-43, 44) is the social relations in a market embodying the interaction of several actors. In this case, the individual actions that make up one plan only matter as an input towards the 'social equilibrium' made up by an array of (simultaneously formulated) plans originating with several independent people. The attainment of such a collective equilibrium requires that there is correspondence first between actions within an individual plan and then between this plan and those of others. That is, *individual equilibrium is a necessary though not sufficient precondition for social equilibrium*. The full actual attainment of social equilibrium is a phenomenon not easily conceived of. There are two major reasons for this. On the one hand all individuals taken together must subjectively expect *the same external events* to occur. This is so as anything 'known' will necessarily be subjective. Whether these 'knowns' in fact reflect something 'objectively true' or not is not the point. On the other hand, under the regime of market exchange, plans must necessarily take also *other plans* into account as isolated exchange cannot be. If either of these prerequisites do not apply, a particular set of plans cannot ever comply with each other. Hayek here takes particular pains in relating the 'common expectations of external data'. The argument is that if

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[116] Hayek (1948a (1937), p 36)

the underlying 'objective' external conditions change from a point in time where there is social equilibrium (that is, external perceptions coincide), it implies that expectations held regarding this 'new' set of data are no longer in mutual compliance, and equilibrium will not be restored. As it is subjective, and not objective, facts that matter, this type of equilibrium analysis is principally feasible also under conditions of intertemporal change. The telling example related by Hayek is the construction of a house where the plans of a mass of individuals, such as brickmakers, engineers, and plumbers must be in harmony, also in the light of weather forecasts ('external data') that otherwise might overturn any action foreseen. As plans are brought to coincide this could further very well be as an outcome of people being 'equally wrong', 'the systematic disappointment of some kind of expectations' (Hayek (1984a (1978), p 259)).

> *This means that the plans of different individuals must in a special sense be compatible if it is to be even conceivable that they should be able to carry all of them out. Or, ... since some of the data on which any one person will base his plans will be the expectation that other people will act in a particular way, it is essential for the compatibility of the different plans that the plans of the one contain exactly those actions which form the data for the plans of the other.*[117]

The obvious question to ask is then whether such a social equilibrium does in fact exist (as Hayek himself is firmly anchored in the recapitulation of 'real' situations to justify his reasoning). He (Hayek (1948a (1937), pp 42, 44-45)) clearly stops short of ascertaining the very prevalence of social equilibria but asserts that there are tendencies in this direction since 'the knowledge and intentions of the different members of society are supposed to come more and more into agreement'. People's expectations gradually become more appropriate. Humans are intelligent and realize that plans not being in equilibrium will have to be altered for further mutual compliance. That is, in equilibrium the foreseeing is correct in the sense that there is no reason for anyone, under the prevailing circumstances, to change their plans (an assertion on the verge of game-theoretic Nash equilibrium). Viable foresight thus defines, and does not give rise to, equilibrium.[118]

After thus having established the pillars of his view of the market, Hayek (1948a (1937), pp 50-52, 1948b (1945), pp 77-78, 80, 83, 85, 86)) goes on to scrutinize the particular role that knowledge, underlying the formulation of plans, plays. *This is also the means by which he sets out to articulate the view on competition.* The general argument rests upon his particular notion of the structure of knowledge as dispersed among individuals and how this knowledge, via the spontaneous interaction of people trying to pursue their plans, can be coordinated in a way that brings about market order as relative coherence of prices and costs. The special

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[117]Hayek (1948a (1937, p 38))

[118]'[B]efore we can explain why people commit mistakes, we must first explain why they should ever be right' (Hayek (1948a (1937), p 34)).

character of this process, ultimately seen in the deployment of resources, is also conditioned by the fact that knowledge is 'incomplete and frequently contradictory'. Of particular interest is then how 'subjective data' and 'objective facts' interact in an orchestrated manner, as epitomized in the acquiring of knowledge. This coordination process is highly complex, especially as the most 'correct' knowledge is contingent on 'the particular circumstances of time and place' that by definition will be in constant flux. Plans will in consequence have to be adapted and updated accordingly.

For all this to work out, the market is in severe need of a coordinating device that can tie actions and thus plans together. This tool serves like a processor of information that is gathered and subsequently dispersed. It is the price system. Herein individual prices jointly constitute signals of data that can be drawn upon and thus converted into knowledge. Thanks to the unique transparent properties of this system it is sufficient for an individual actor to get but a glimpse hereof and still to be relatively informed. And the entire market landscape is covered as an infinite number of bits of knowledge overlap so as to embody an appropriate 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), p 88)).

The price system is however not enough as the sole coordinator of prevailing market knowledge. There must also be a dynamic dimension thereof, pertaining to how knowledge in fact is acquired from less explicit market data. Whereas prices signals convey relatively standardized knowledge, there must also exist a function that is able to convey knowledge at a deeper level, into the area of 'which kinds of things or services [that] are wanted, and how urgently' (Hayek (1984a (1978, pp 256-257))). The 'tutor' in this regard, making the learning of particularly relevant market knowledge occur, is competition. Hayek's tying of competition and knowledge in this manner is not coincidental but follows closely the standard neoclassical assumption of perfect knowledge as a prerequisite for competition to prevail at all (Hayek (1948d (1946), pp 94, 95-96)). Under perfect competition everyone is assumed to know instantaneously about the bidding plans of everyone else and the market is simultaneously 'cleared'. Hayek's argument is very different in assigning to competition the character of a discovery procedure by means of which relevant market knowledge, endemic to the overall tendency towards market equilibrium, is successively gained. This gives competition the character of 'a voyage of exploration into the unknown, an attempt to discover new ways of doing things better than they have been done before' (Hayek (1948d (1946), p 101)). It furthermore necessarily renders competition very much a behavioral phenomenon that also has got distinct social qualities. This is far from surprising given the underlying Hayekian conception of equilibrium.

> *Advertising, undercutting, and improving ("differentiating") the goods or services produced are all excluded by definition – "perfect" competition means indeed the absence of all competitive activities. Especially remarkable in this connection is the explicit and complete exclusion from the theory of perfect competition of all personal relationships existing between the parties. In actual life the fact that our inadequate knowledge of the available commodities or services is made up for by our experience with the persons or firms supplying them – that competition is in a large measure competition for reputation of good will – is one of the most important facts which enables us to solve our daily problems. The function of competition is here precisely to teach us who will serve us well: which grocer or travel agency, which department store or hotel, which doctor or solicitor, we can expect to provide the most satisfactory solution for whatever particular personal problem we may have to face.*[119]

Since competition then is only relevant as the process through which determinants of competitor action are discovered, these determinants cannot possibly be known of beforehand. The process must necessarily have an unpredictable outcome and also entail that some expectations and actions are not correct. If all were, and if the competitive result would be perfectly anticipated, there would be no room for competition (Hayek (1984a (1978, p 255))).

Echoing the debate of the days concerning the imperfect nature of competition, Hayek (1948d (1946), pp 97-98, 105) also asserts that heterogeneity in supply and demand will always be around. This however does not indicate the absence of competition. Quite the opposite, as the inherent differentiation of goods merely mirrors that people have different needs that in this manner are more likely to be aptly met. 'If no two doctors are perfectly alike, this does not mean that the competition between them is less intense but merely that any degree of competition between them will not produce exactly those results which it would if their services were exactly alike.' In the light hereof Hayek also takes on a rather reconciliatory stance towards monopoly, as long as it is in place following 'superior efficiency', and subject to the threat of the potential arrival of another actor being even more efficient.

Apart from the behavioral, social, and imperfect nature of competition, Hayek (1948d (1946), pp 101, 102, 103) chooses to single out its dynamic aspects. They particularly apply in relation to competitive conduct. This inevitably follows from the presence of change in fundamental external data that requires adaptation in actor plans. Were there no change, there would be no need to acquire new knowledge and a purely static conception of competition would be viable. In essence, says Hayek, one must distinguish between the 'objective' underlying facts in a particular event that constitute a 'given' that cannot be altered, and those 'competitive activities' that are applied by someone as a means of adaptation to this situation. The process of competition will then be constantly underway as 'competitive adaptation' will lag with respect to the change unfolding in underlying external data.[120]

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[119] Hayek (1948d (1946), pp 96-97)

[120] 'The confusion between the objective facts of the situation and the character of the human responses to it

> [Hence,] *competition is essentially a process of the formation of opinion: by spreading information, it creates that unity and coherence of the economic system which we presuppose when we think of it as one market. It creates the views people have about what is best and cheapest, and it is because of it that people know at least as much about possibilities and opportunities as they in fact do. It is thus a process which involves a continuous change in the data and whose significance must therefore be completely missed by any theory which treats these data as constant. .... The point to keep constantly in mind is that all economic adjustment is made necessary by unforeseen changes; and the whole reason for employing the price mechanism is to tell individuals that what they are doing, or can do, has for some reason for which they are not responsible become less or more demanded.*[121]

In sum, Hayek draws on competition as a means to understand creative market ordering. This does not mean that competition is the key to understand everything. '[I]ts capacity to predict is necessarily limited to predicting the kind of pattern, or the abstract character of the order that will form itself, but does not extend to the prediction of particular facts' (Hayek 1984a (1978), p 256)). As opposed to conventional reasoning, wherein equilibrium is articulated by the mutual compliance of price- and quantity-determined supply and demand schedules, Hayekian social equilibrium is the convergence of individuals' plans, each of which is made up of a concatenation of intentions as to actions. For these plans to tend towards mutual coherency they must somehow be coordinated in the realm of dispersed knowledge. If knowledge was instead 'perfect', equilibrium would per definition prevail indefinitely. A crucial element of this knowledge is the underlying 'objective' external data that are perceived by actors in a way that corresponds to the subjective knowledge thus held. On one level plans are brought into coordination via price signals telling how much actors are willing to buy and / or sell at said prices. On an additional, more crucial, level, the coordinative tool is competition. It is a discovery procedure by means of which actors learn how to do things differently in a manner that better corresponds to the market needs that continuously will change as underlying fundamental data is altered. Knowledge-based competition is hence both behavioral and social in character.

Israel Kirzner, epitomizing a contemporary version of Austrian economics

The role of Israel Kirzner for contemporary Austrian economics is unique. This for at least two, mutually related, reasons. He epitomizes the particular kind of mid-range Austrian version (halfway between the neoclassical 'equilibrium' mainstream, and outright subjectivism devoid of any market order at all) that ever since the early 1970s is developing in the United States. And in doing so he furthermore draws on the contributions by Hayek and Mises, thus bringing forward more of an encompassing market process theory that neither of these are in the position to provide. In short, whereas Mises identifies entrepreneurship as the function actually propelling the market, the market as an entrepreneurially driven process,

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tends to conceal from us the important fact that competition is the more important the more complex or "imperfect" are the objective conditions in which it has to operate' (Hayek (1948d (1946), p 103)).

[121] Hayek (1948d (1946), p 106, 1984a (1978), p 261)

Hayek realizes that knowledge is the actual 'force' underlying market dynamics, knowledge which improves market interaction towards equilibrium (Kirzner (1997b, p 67)). Both furthermore tie their reasoning to the processual character of competition, but from slightly different angles. That is, Mises provides the frame of human action as exchange and entrepreneurship, and Hayek the actual learning agency emerging within that frame. Since these two Austrians do not refer a lot to each other's work in this respect, Kirzner both combines and (where appropriate) reconciles them. He sides with Mises in recognizing the perennial role of entrepreneurship for market progress, but is steered into the realm of knowledge by Hayek in order to find out more in detail how this entrepreneurship spurs the market. For Kirzner, the entrepreneurial dimension of human action is embodied in the notion of alertness, a particular kind of knowledge constituting an inclination to see what others do not see. This, the ignorance of others concerning market opportunities, then embodies the scope of alertness in terms of market profit.

> *What **drives** the market process is entrepreneurial boldness and imagination; what **constitutes** that process is the series of discoveries generated by that entrepreneurial boldness and alertness.*[122]

The market theory of Kirzner's explicitly aims at both substituting *and* complementing conventional economic theory. If one individual feature is to be singled out in this respect it is no doubt that of the market as an unfolding process towards, but not as an attained state of, equilibrium. Other phenomena are only seen in light thereof. Some issues dealt with by Kirzner, such as the price system and competition, are the ones often run into in neoclassical economics whereas others, such as entrepreneurship and the role of knowledge, are less conventional acquaintances, at least in the guise they now appear. It is crucial to point out that Kirzner does not entirely dismiss the idea of market equilibrium. There is such a thing, be it a Hayekian market order, different from the mainstream idea hereof.

Why is it then that it is so important to distinguish a 'state of affairs' from a 'process' once the market is to be understood? *The* case in point emphasized by Kirzner (at the outset of the 1973 Competition and Entrepreneurship argument, pp 3-7) is the role of price theory. Once this, and only this, is seen as the springboard into grasping the highly complex market, it is but natural to go after *the* price which for obvious reasons only can be around once things have come to rest. This prevails under perfect competition and does not meet with Kirzner's approval. The very way in which things have come to rest really does not matter in such a context. Instead all energy goes towards grasping the implications of this price being around for other *selected* phenomena. A non-determinate theory of price must simply be a paradox. In case some of these selected phenomena are allowed to change themselves it is by way of their effects on price that further selected phenomena can be understood. *The* price is thus

[122]Kirzner (1997b, p 73, emphasis added)

both the focal point and the bridge by means of which the market is understood. A major effect of such a perspective related by Kirzner is that changes in price do not result from deliberate actor decisions, but emerge in an impersonal way as if being aided by an impersonal force ('the mysterious Walrasian auctioneer'). This parametric nature of ('one') price, where actors are mere price-takers, implies the absence of human action, the key Misesian pillar in Kirzner's argument. His own market theory also assigns price a crucial role but it is not *the* role around which *everything* else revolves. Instead, grasping prices serves to understand how it is that decisive market forces, by way of human interaction, come into play and thus induce *dynamics* concerning prices and other relevant supply and demand market phenomena such as consumer taste and manufacturing technology. *Prices are information carriers but not decision-takers.* It is only human activity that centers on decisions and it is 'this series of systematic changes in the interconnected network of market decisions [that] constitutes the market process.' (Kirzner (1973, p 10)).

Kirzner (1992a, pp 38-39, 42) distinguishes three major features of the market process, all of which revolve around the notion of change. 1) The market is in a state of flux. 2) These dynamics stem from two different elements of change, exogenous and endogenous. Whereas the first pertains to 'structural' alterations of supply and demand (for instance technology and preferences), the second is a direct outcome of the equilibrating interplay of forces itself, resulting in both allocative efficiency and market growth. 3) For market dynamics to work out there is but one fundamental prerequisite (as opposed to the conventional neoclassical view of equilibrium where there is a host of assumptions required). That is free market entry. To frame market dynamics Kirzner furthermore associates each of the two elements of change with a class of variables. Exogenous change stems from alterations of 'underlying variables' whereas alterations in 'induced variables' (such as prices, production methods, product qualities and quantities) are endemic to endogenous change. The role of the first 'underlying' class of variables is to impact the generation of the second, 'induced' class. In equilibrium theory, alleges Kirzner, the actual values taken on by the 'induced variables' are equilibrium figures as these are 'predetermined' by those values found in the 'underlying variables'. In case of a market process context things are different as the values of the 'induced variables' 'are *not* fully determined by the values' of the 'underlying variables'. They are only somewhat loosely coupled to the underlying layer and are instead self-generating. That is, whereas prices in process theory are decided upon by actors subject to decisions on quality et cetera, they come automatically in the equilibrium approach as they then are 'mechanically given' 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.*[123]

Hence, as induced variables do not slavishly follow the underlying dittos, but are affected thereby, equilibrium cannot be, without rendering the notion hereof completely superfluous. Instead, it is viable to posit that the market process is 'tending systematically towards' equilibrium, without however attaining it. The equilibrating tendencies of the market process reside within the profit incentives that originate in the prevalence of unexploited market opportunities. Once these are realized they are no more a source of profit but in their place others will come as underlying variables will keep on changing. The existence of such profit potentials by themselves means that equilibrium cannot be as there will always be scope for better fitting interaction between buyers and sellers. They also embody the 'mutual ignorance' of market actors that do not see what they might be able to see. The division between the short and the long run, so often an issue of controversy in economics, here loses much of its relevance (Kirzner (1997b, p 62, 1992a, pp 44, 45, 49-50)). As already seen this also renders the role of prices very different from that in equilibrium theory. Such 'equilibrium prices' are coordinative as they are pre-articulated in order to accomplish this via related decisions. This can only be said for 'disequilibrium prices' in the sense that they inform market participants ex post, via the 'failure' of existing prices, about the direction in which their future pricing decisions, in order to improve their coordinative capability, might take. Kirzner (1992a, pp 146, 151) also claims that these disequilibrium prices in fact do not perform very well as 'communicative signals'. Because of this nature of theirs they are not very wise to consult if a 'right' advice is sought after.[124] They should however not be completely dispensed with as they might be considered as 'spontaneously generated flashing red lights *alerting* hitherto unwitting market participants to the possibility of pure entrepreneurial profit or the danger of loss.' That is, they do not tell, but they foreshadow what might eventually be. In the spirit of Hayek it follows that what actually 'makes up' the market is the 'interacting decisions' of its actors as seen in the plans of theirs regarding future action. These plans are impacted by an array of factors, but as for their systematic change over time a particular role is played by how they affect each other, both within and between (an) individual(s). This prevails irrespective of changes unfolding in the 'underlying' variables. 'Taken over time, this series of systematic changes in the interconnected network of market decisions constitutes the market process. The market process, then, is set in motion by the results of the initial market-ignorance of the participants' (Kirzner (1973, pp 9-10)).

The above constitutes the necessary ground for Kirznerian market analysis. As said earlier

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[123]Kirzner (1992a, p 43)

[124]Endemic to the market process perspective is of course that there really is no such thing as a 'correct' piece of advice since at the time it is eventually provided this would by itself upset the hitherto momentarily prevailing configuration of actor plans.

there are two main interrelated pillars thereof, knowledge and entrepreneurship, each of which is inspired by Hayek and Mises respectively. These two also make up the argument on *competition as an Austrian discovery procedure tightly interconnected with the entrepreneurial element of human action.*

It is lack of insight regarding market opportunities that renders knowledge a crucial phenomenon as this spurs the opportunity for profit. This however does not mean that knowledge is 'scarce' in the conventional sense of the word since scarcity as such implies that one is informed about the knowledge that one misses out on. Someone's knowledge instead stems from relatively less market ignorance than what others display. To be in the position to know more than others pays off. This is hardly a uniquely Austrian insight but what renders it special is the particular kind of knowledge, *originating in discovery and not search*, and also its direct translation into profit opportunities. The overall character of Austrian knowledge in this regard is closely associated with how equilibrium is perceived. In a conventional equilibrium context knowledge is either perfect, or imperfect, with reference to some distinguished facts-eventually-to-be-revealed. If it is perfect there is no meaning to look into its coordinative powers, as such an ability is already subsumed in knowledge being perfect. If knowledge is imperfect, whichever insight is around is but a logical outcome of preprogrammed conduct as 'deliberate search and learning'. Such deliberate search must always be 'fully determinate' as 'one knows ... exactly as much as one has chosen to know'. If, on the other hand, the idea of equilibrium is fully dispensed with there is a context of complete uncertainty. Within this a setting of 'radical subjectivism' the issue of knowledge does not really count as its very pillar is that facts cannot really be known, at least not in the common meaning associated herewith. This follows from the genuine 'kaleidoscopic' character of such a context thus providing no hints (confer Lachmann (1976)). Any systematic coordination of knowledge is irrelevant as insight is here akin to 'windfall surprise'. Kirzner's stance on knowledge as discovery via alertness, endemic to 'equilibration without equilibrium', is midway between these two positions of knowledge as 'perfect' (the outcome of deliberate search) and pure luck (Kirzner (1992a, pp 4-5, 46, 48)).[125]

> *What distinguishes discovery (relevant to hitherto unknown profit opportunities) from successful search (relevant to the deliberate production of information which one knew one had lacked) is that the former (unlike the latter) involves that surprise which accompanies the realization that one had overlooked something in fact readily available. ... This feature of discovery characterizes the entrepreneurial process of the equilibrating market. What accounts for a systematic tendency toward that succession of wholesome surprises which must constitute the equilibrative process, is not any implausible series of happy accidents, but rather the natural alertness ... to possible opportunities (or the danger of possible disaster) which is characteristic of human beings.*[126]

[125]'Market coordination is not to be smuggled into economics by assumption; but neither is it to be peremptorily ruled out simply by referring to the uncertainty of the future.'
[126]Kirzner (1997b, p 72)

The essence of human action as on the one hand purposeful and on the other necessarily speculative is easily distinguished here. The alertness referred appears in light of others' 'sheer ignorance' regarding market potential. The 'utter' character of this ignorance, 'unthought-of-knowledge', is very different from imperfect information as it is overcome only with the help also of a bit of surprise that cannot be conceived of in advance. Market actors do not realize their lack of insight. *What is not known is not known.*[127] The discovery eventually accruing to some actors at the expense of others means that an initial state of ignorance is diminished and so the entire market process is converging towards equilibrium since coordination of actor plans successively improves. Over time this implies that the entire market decision pattern of one period will always differ from that preceding it as discoveries, in parallel to eroding original profit opportunities, also create the potential for further dittos within the realm of an entirely new plan set-up. This is the very meaning of human action that continuously alters the entire means-ends framework of decision-making as learning by experience prevails (Kirzner (1973, pp 12, 15, 33, 36, 1997b, pp 62, 73)).[128]

Since profit opportunities which stem from alertness are derived from ignorance elsewhere it follows that not every act completed in the market brings actors closer to each other in terms of plan coordination. There is a unique feature endemic to all human action that mostly, but not always, makes discovery come true. That is entrepreneurship. This is, according to Kirzner (1973, pp 31, 33-34, 36), inherent to human action as such and is always extra to what is generally meant by 'economizing behavior' (= allocation of *given* entities).[129] That is, apart from adhering to a given means-ends framework as efficiently (in the input-output meaning of the word) as possible, being entrepreneurial also entails (and this is the crucial aspect) the very notice and interpretation of the means-ends framework itself. The inclusion of entrepreneurship in human action is obviously very far from the price-taking mechanical character of economic man. But it also differs from 'anarchical man' who makes no judgements at all. That is, action without real deliberation of the consequences of conduct. Action by pure speculation subject to luck. That a view of man fits nicely into a setting completely devoid of any tendencies towards market equilibration. Once some kind of systematic coordination is reached out for, it is however not viable anymore. Then it becomes necessary to include also the idea of human judgement (Kirzner (1973, p 86)). And in a market process setting this pertains foremost to market opportunities. As these, given the account of knowledge provided above, are not given, but discovered as a consequence of alertness, market entrepreneurship, 'an element of human action', entails judging non-obvious

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[127]'One is ignorant of the fact that there is a specific fact which one does not know' (Kirzner (1992a, p 22)).

[128]'[It is] necessary to postulate that out of the mistakes which led market participants to choose less-than-optimal courses of action yesterday, there can be expected to develop systematic *changes in expectations* concerning ends and means that can generate corresponding *alterations in plans*' (Kirzner (1973, p 71))

[129]Kirzner (1973, pp 84-87) is keen to acknowledge the Misesian thread that inspires him. Mises however emphasizes speculation as crucial for entrepreneurship whereas Kirzner assigns more weight to deliberate judgement of unnoticed profit opportunities.

potentials for market arbitrage. '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 (1992a, p 12)). There are all in all four separate notions of activity that could be labeled entrepreneurial, arbitrage (acting on price discrepancies), speculation (acting on arbitrage over time), innovation (creation of something future to be put to use), and alertness (acting on existing arbitrage and perceiving intertemporal dittos). They all converge in their emphasis of 'value knowledge'. The last one obviously occupies a particular position in market process theory (Kirzner (1985, pp 84-86)).

Entrepreneurship prevails jointly with pure calculation and has got the air of action surrounding it, something not being the case for alertness. It is furthermore discerned as the formulation of plans and the subsequent alterations thereof. Alertness, then, constitutes the micro-foundation of entrepreneurship since being entrepreneurial in this sense implies 'alertness as the propensity to see, discover, market (profit) opportunities' in terms of new means-ends frameworks by way of market experience gained. Alertness in itself 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)). Or, '[the] motivated propensity of man to formulate an image of the future'(Kirzner (1985, p 56)). True, since one can hardly imagine the future as such. That is, there are no 'real future realities'. It is more a question of 'choosing among alternative imaginable "realities" that ... prospective action may be initiating' (Kirzner (1992a, p 27)). But how does this crucial alertness then come about? Kirzner (1985, pp 11, 27) argues that it is the opportunity of profit that 'switches on the alertness' just like an alarming device. As seen above prices here act as a 'flashing red lights'. Still, what this device actually *is* remains unknown, which seems inherent to the logic pursued itself. 'We [simply] cannot explain how some men discover what is around the corner before others do' (Kirzner (1979, p 8)). If we could alertness would necessarily cease to prevail. This is the same as saying that a unique competitive market advantage cannot be properly described. Since if that is the case it could easily be imitated and would in consequence cease to constitute such an advantage at all. What seems clear is however that whereas entrepreneurship is a generic dimension of human action only found in non-equilibrium contexts, alertness is an individual property that only accrues to some within that context.[130]

The 'pure entrepreneur' is 'a decision-maker whose entire role arises out of his alertness to hitherto unnoticed opportunities' (Kirzner (1973, pp 39, 16, 40, 47, 50)). This 'purity' also implies the absence of explicit means / asset ownership so that anyone could be an entrepreneur anytime. From this insight also follows that competition for market opportunities is eternal and ever-present since no 'entrepreneurial protection' can be around. The resulting gain, 'pure entrepreneurial profit' is different from 'exchange profit' (based on the parties'

[130]Entrepreneurship and alertness are further discussed in the successive chapter.

differing valuations) in the sense that it is more 'straightforward'. You simply sell at a higher price than what was paid when something was bought.[131] It is a 'return to alertness' (confer Ricketts (1992, p 68)) subject to the decision to act (Kirzner (1973, pp 50-51)). 'The discovery of a profit opportunity means the discovery of something obtainable for nothing at all' (Kirzner (1973, p 48)). But, as noted by Kirzner (1985, p 14) the discovery itself cannot in any sense be planned, it is 'undeliberate, but motivated'.

Despite its key function as a market coordinating mechanism, market process entrepreneurship is however far from the clear-cut path towards progress that sometimes is alleged.

> *Except in the never-attained state of complete equilibrium, each market is characterized by opportunities for pure entrepreneurial profit. These opportunities are created by earlier entrepreneurial errors which have resulted in shortages, surplus, misallocated resources. The daring, alert entrepreneur discovers these earlier errors, buys where prices are "too low" and sells where prices are "too high". In a world of ceaselessly changing tastes, resource availabilities, and known technological possibilities, this entrepreneurial process cannot guarantee rapid (or slow) convergence to a state of equilibrium. But it does at each moment guarantee profit-incentives tending to nudge the market in what, from the perspective of that moment, must be recognized as the equilibrative direction. The critical question for an entrepreneurial theory of market process, is how to understand, in the existence of such profit-incentives, the existence also of a systematic tendency for entrepreneurial errors to be replaced by profit-making entrepreneurial corrections. For this aspect of the entrepreneurial discovery theory we must postulate a tendency for the profit opportunities generated by earlier entrepreneurial error, to be noticed and grasped.*[132]

So even though in general epitomizing market progress towards increased plan coordination, it is obvious that entrepreneurship also entails errors. And this is in part what renders the notion hereof less straightforward than what is the case for alertness, the latter exclusively being associated with the mistakes of *others*. Entrepreneurial errors however open up new market opportunities for other entrepreneurs and, 'although entrepreneurs can … make errors, *there is no tendency for entrepreneurial errors to be made*. The tendency which the market generates toward greater mutual awareness, is then not offset by any equal but opposite tendency in the direction of diminishing awareness' (Kirzner (1997b, p 82)).

There are hence two distinct features of Kirznerian entrepreneurship (Kirzner (1979, pp 173-175)).

1. General market equilibrium constructs can never host entrepreneurship since the necessary profit opportunity is not present. A disequilibrium market misallocates social

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[131]And the pure entrepreneurial aspect hereof is not the act itself but the decision to undertake it by way of the entire original plan (Kirzner (1973, pp 50-51)).
[132]Kirzner (1997b, pp 70-71)

resources in the Pareto way of reasoning but omnipresent entrepreneurship tends to successively reduce these market errors. As entrepreneurship reveals price disequilibrium, prices will be pushed towards equilibrium, but disequilibrium will still, following recurrent market changes, be ever-present.

2. The reason why real markets always host entrepreneurship is that profit opportunities are omnipresent. These opportunities reflect the market presence of several prices for the same item and particularly so as any bundle of resources is evaluated below what is readily paid for the productive outcome of this bundle of resources. Alertness is not deliberately 'present' following market demand since it is not overly recognized as being. The resulting profit is then 'purely entrepreneurial' and not a factor income.

In sum, whereas in a world of full equilibrium there is no place for entrepreneurship this is very much so in a market process context. Entrepreneurship here means those dimensions of human action that are not merely calculative but also somewhat daring as they by definition imply steps into the unknown dark which might also entail errors. The making- up of plans for subsequent action is what epitomizes entrepreneurship and in this endeavor it relies heavily upon the prospect of discovery, something however not coming true until alertness is actually 'working out' in real time by way of surprise.

Whereas entrepreneurship serves as the lubricant of the market system, making it go around, it is alertness that fuels it in the direction towards equilibrium as actor plan coordination is improved.

The *'Kirznerian' stance on competition* resides firmly in the above account of the market process wherein knowledge and entrepreneurship are the two main pillars. Competition is here a discovery procedure. It arises for market opportunities and the outcome is subject to the entrepreneurial alertness residing with entrepreneurs that are able to freely move into the market.

> *Competition, in the process sense, is at least potentially present so long as there exist no arbitrary* ***impediments to entry****. So long as others are free to offer the most attractive opportunities they are aware of, no one is free from both the urge and the need to compete. Only when one is aware that others, despite the possibility of their offering something more attractive to the market, will be barred from doing so can one feel secure from competition. The competitive process depends entirely on the freedom of those with better ideas or with greater willingness to serve the market to offer better opportunities. Every arbitrary impediment to entry is a restriction on the competitiveness of the market process. ...* [As for a process view of competition] *there can be no doubt that* ***the necessary and sufficient*** *condition for competition to exist without obstacle is complete freedom of entry into all kinds of market activity. When we assert that purely entrepreneurial activity is always competitive, we are then asserting that with respect to purely entrepreneurial activity no possible obstacles to freedom of entry can exist. ...* [In sum,] ... [t]*o induce dynamic entrepreneurial competition ...* [Austrians] *require the fulfillment of only one*

condition: guaranteeing free entrepreneurial entry into any market where profit opportunities may be perceived to exist.[133]

Devoid of the opportunity for entry, eventually resulting in profits, there is simply no scope for alertness as there is nothing (no profit opportunity) that can 'switch it on'. This renders competition necessarily both actual and potential, something implying that not only is there competition between those already in the market but they also constantly face the threat from outside by potential new entrants (Kirzner (1973, p 98)). Actual competition in isolation among incumbents is then not really competition in the Kirzner's sense of the word. This is most reminiscent of one of the key neoclassical assumptions thus emphasizing the role of absent mobility barriers for competition.

Apart from this insight as to the crucial role of market entry, the twist of Kirzner's competition argument is the intertwined nature of competition and entrepreneurship. They are very much mutually dependent as one cannot exist without the other and in consequence 'entrepreneurial activity is always competitive and ... competitive activity is always entrepreneurial' (Kirzner (1973, pp 16-17, 94)). That is why competition here cannot be treated as a separate subject matter but only as tightly interlinked with entrepreneurship. It is within the process of this entrepreneurship, as alertness, that the discovery procedure of competition emerges. This occurs when market opportunities, not seen by others, are realized. In practice this is discerned as the 'eagerness' of market actors to buy and sell which is communicated to other market participants by way of pricing and plans as to quality et cetera. In particular there is supplier rivalry as they try to outperform each other by way of offers to their potential customers. This activity, and the plans associated therewith, then constitutes an entrepreneurial space wherein only in retrospect distinct patterns can be discerned as competition between entrepreneurs (Kirzner (1973, p 15, 1997, p 73)). It goes without saying that in the case of market equilibrium, this processual and behavioral type of competition as 'an active force' is ruled out by definition. *In the market process, instead of reacting to the market forces, the actors themselves constitute these forces via their planned and realized conduct.* They are not 'price takers', but 'makers' of price, quality and an array of other market features. In this manner their behavior embodies the equilibrating tendencies in a market (Kirzner (1973, p 13, 1997b, pp 64, 69)).

Further, the way in which Kirzner manages to reconcile the vertical and horizontal market dimensions is of particular interest (Kirzner (1973, pp 44-45, 180-186)). This is a bit reminiscent of Menger's discourse on exchange but above all mirrors that of Mises on consumer (thus implying customer) sovereignty. The argument rests upon the assumed symmetry prevailing between entrepreneurship in the demand and in the supply market

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[133]Kirzner (1973, pp 97-99, 1997b, p 74, added boldface)

respectively. That is, one can exert entrepreneurship not only towards one's customers, but also towards one's suppliers. The pure coordination of activities in supply ('buying resources') and demand ('selling products') markets thus constitutes an often overlooked entrepreneurial opportunity, says Kirzner. A case in point here is that the more external resources are relied upon in the supply market, the more of pure entrepreneurship is around in the sense that the more 'brokerage' is undertaken (Kirzner (1973, p 45)). If, then, the customers themselves are considered as competing entrepreneurs, the bidimensional market implication of Kirzner's reasoning becomes even more apparent.

> *His* [the customer's] *buying effort has succeeded in entrepreneurially 'differentiating' that which he buys, in exactly the same manner as* [a] *selling effort 'differentiates' entrepreneurially that which a producer offers for sale... It turns out, we have discovered, that the entrepreneur's role as buyer in the factor market is wholly symmetrical with his role as seller in the product market. ... The entrepreneur-producer discovers that in this way he can simultaneously offer opportunities in the factor market and in the product market, at terms that leave him with a profit. ... In the factor market, too, the entrepreneur's function must surely include making factor owners aware of the opportunities to sell which he is prepared to offer them. Thus there is nothing so far to suggest that buying effort by entrepreneurs-producers should necessarily be less vigorous than their selling effort.*[134]

That is, by acting in an entrepreneurial way 'vertically', in buying in a certain manner, the entrepreneur is in the position to influence the way in which the suppliers-entrepreneurs relate to each other.

It is however crucial, claims Kirzner, to realize that the pivotal role of competition does not rule out any and all monopolistic tendencies in an equilibrating, generally competitive, market. Whatever monopolistic signs there are can be traced to 'restricted access to resources'. The prevalence of monopoly as exclusive resource control clearly offsets competition as it impedes full entry since any and all products cannot be manufactured by any and all potential entrepreneurs. Monopoly then cannot be without some kind of exclusive resource control. Monopoly in this sense does not necessarily have to be an evil or even an impediment to the market process as the very capturing of the monopolistic stance 'was a step toward eliminating the inconsistencies between the decisions of consumers and those of the earlier resource owners.' This is so as a 'monopoly situation may be won by alert entrepreneurial (and hence competitive) action' (Kirzner (1973, pp 23, 99, 103, 131, 1997b, p 69)). This is in no way the same as a long-term guarantee for such a privileged standing.

> *The monopolist's position, which I have defined so as to perceive its impact upon the competitive process, creates a pocket of economic activity (**around** which competitive-entrepreneurial activity swirls) within which the monopolist hopes to enjoy his quiet life. But the quietness of his life is, by the very*

[134]The first part of the argument relates the labor market but it is explicitly recognized that it pertains to '*any* kind of buying effort' (Kirzner (1973, pp 181-183)).

> *nature of his position, subject to the impact of the competitive turbulence which* ***surrounds*** *and impinges upon his activity.*[135]

Much of Kirzner's reasoning both epitomizes and summarizes a particular Austrian economics, midway between neoclassical equilibrium theory and radical subjectivism. It is but a logical elaboration of the evolutionary path discerned in the works by Menger, Mises and Hayek. In particular, this holds for the general stance taken towards the market as a dynamic process.[136]

- The market is a non-determinate equilibrating process wherein actor plans never quite converge in the light of eternal change of both underlying (for instance preferences and technology) and induced (for instance pricing, quality and quantity) variables. This tendency towards equilibrium means that there will prevail an ('incomplete') social order resulting from human interaction.

- The two main areas of scrutiny which characterize the market process is Hayekian knowledge as discovery and Misesian lubricating entrepreneurship. Entrepreneurship is tightly intertwined with competition as these are two faces of the same coin. In this vein entrepreneurship, in parallel with market prices, also informs knowledge. Entrepreneurship and knowledge furthermore converge in the notion of alertness, the prescience to see what others are ignorant about. The ignorance of one constitutes a market opportunity for another.

- The market has got a bidimensional character, something meaning that neither 'horizontal' states of affairs between competitors and / or collaborators, nor 'vertical' relationships between customers and suppliers can be analyzed in isolation. This is so as one depends from the other. This thread of reasoning (in addition to the argument of Kirzner's) is overtly recognized in the argument of Menger on exchange, and of Mises on consumer sovereignty.

- Exchange is endemic to how a market functions, something rendering it a most social

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[135]Kirzner (1973, pp 106-107, original emphasis)

[136]Ikeda (1994, pp 28-29) then asserts that there are six salient features in the Austrian market process view that distinguish it from its neoclassical static counterpart.

1. There is some, but no full, coordination of actor plans.
2. Human action is purposeful, but not rational in the sense that the means-ends is not fixed and hence not known.
3. Change is unpredictable following actors' incomplete knowledge of market data resulting in error and surprise.
4. Economic profits and losses are endemic to a market.
5. The prevalence of parallel prices in non-equilibrium mirrors discoordination but foreshadow market opportunities
6. Market error induces non-Panglossian inefficient resource allocation, something the market process strives to correct.

feature. This is seen in Menger's theory of price following 'organized exchange' and Mises' recognition of exchange. It is one of the two key dimensions of human action and makes up exchange relationships subject to which purposeful calculation unfolds in the realm of cooperation.

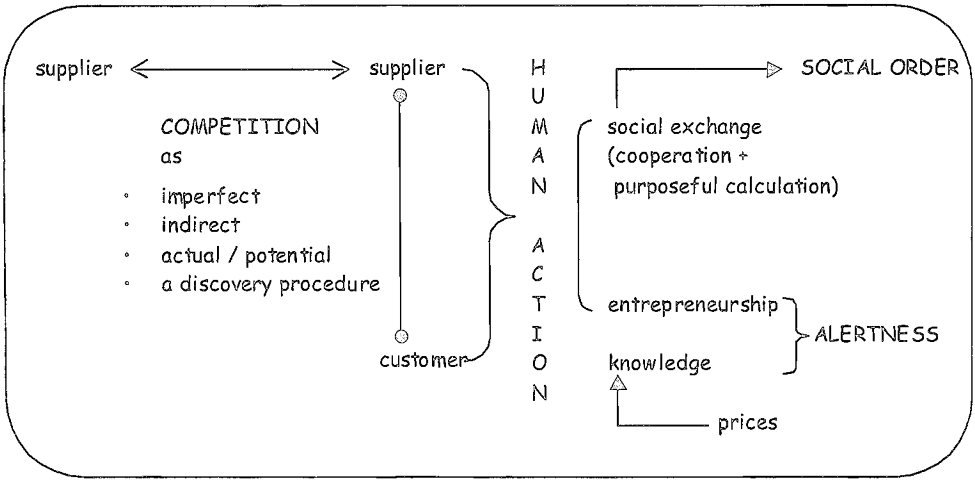

Figure IIIh: The Austrian market logic with regard to supplier competition

As said above, the Austrian view of competition very much inheres in the process character of the market in general and in the idea of entrepreneurship in particular. In addition to this the following aspects can be emphasized.

- Since the market is a process which tends towards but does not attain, equilibrium, competition must by definition be imperfect as there are always unfulfilled plans present. The antithesis of competition is then not monopoly, something that can only apply in the case of exclusive control of production resources, but non-competition.

- As the market is a bidimensional dynamic feature the same will hold also for competition that in consequence is indirect and appears as an unfolding process.

- Given the immense role of both entrepreneurship and knowledge for the market process both of these are tightly interlinked with competition, as seen in the notion of competition as a discovery procedure fueled by entrepreneurship relative to hitherto ignored (not-known of) market opportunities.

- The one necessary 'formal' precondition for competition in the Austrian sense is the free entry of all potential entrepreneurs into a market. In consequence, the prospect of 'full' competition cannot ever prevail unless 'actual' competition between incumbents exists also in parallel with 'potential' ditto from eventual new entrants.

The above follows from the concerted impact of a) Menger's view of competition as conditioning *bargaining*, b) Mises' assertion of *consumer sovereignty* as ruling the competitive process, c) Hayek's emphasis of *discovered knowledge*, and, finally, d) Kirzner's idea as to *the intertwined nature of competition with entrepreneurship.*

As seen consistently throughout the text, an endemic feature of the Austrian notion of competition is furthermore *the crucial role occupied by the customer in powering competition*. Ideas on the verge hereof are salient, although not to such an extent that Austrian competition merits the label 'customer-based'. The spirit thereof is discerned both in Menger's preoccupation with the subjective demand side of the market (a characteristic of the marginal revolution), and in the entrepreneurial symmetry (pertaining to both sides of the market) endorsed by Kirzner. Nowhere is it however as distinct and explicit as when Mises states that the customer-consumer is in fact the ultimate judge of the competitive process, the demand force thus conditioning supply.

vii. The schools of competition summarized

The paragraphs above all delineate perspectives on competition as appearing within a few distinct areas of sociology and economics. What is learned here will serve as the main impetus for how competition will be explained in the explanatory model subsequently to be erected as this thesis continues. As seen some attention is also paid in this chapter to the market given its irrevocable close association with the notion of competition. This is recapitulated below.

The market

There is no doubt that *neoclassical economics* is the strand of thought with the least well elaborated market idea. This is no surprise since this school does not set out to provide such an account either. It is a theory mostly of price prediction wherein the market is on the one hand taken for granted and precisely adapted to the contextual purpose at hand, and on the other not referred to at all *in its own right*. In consequence, any coverage hereof becomes necessarily either 'over-contingent' on the use to where it is put or simply 'empty'. As a case in point mirroring the latter characteristics it is not unusual for the market to be interpreted as equivalent to the aggregated demand curve. Since the concept is not very well elaborated it also becomes troublesome once scrutinized in any detail. It is for instance at times unclear whether the market is supply- or demand- side defined. In the former case the market is typically seen as identical to an industry defined by manufacturing technology, in the latter as chains of substitution. Still these substitution characteristics start out in the idea of a defined set of products which by itself necessarily is closely tied to supply, so... An additional obscure issue is whether a market can be looked into from the angle of one product only, or if other products must also be taken into account. That is, can the market for product x really be understood without taking into account also product y to which it is related as a substitute or a complement? This holds in particular for accounts starting out in the idea of imperfect competition such as those provided by Chamberlin and scholars within the industrial organization paradigm. Some (confer McNulty (1968), Stigler (1987)) have it that this ambiguity in part stems from the blurring of the borders between what is a market and what is competition unfolding within such a market. The notion of (market) equilibrium is furthermore at the core of the neoclassical agenda. This state of rest means that there is no tendency for change, be it within partial or general equilibrium analysis.

Ensuing market analyses are further mostly unidimensional so that supply and demand structures are considered in separate. Out of the other strands of thought recapitulated there is no doubt that *the Austrian school* is the one that most easily lends itself to a direct comparison with neoclassical theory in this regard. Therein market equilibrium is not fully determinate and hence matters only in terms of equilibration tendencies. Market order is furthermore not traced in terms of prices and quantities but as actor plans. This implies that the market is not a static structure but an unfolding process that cannot be understood in the technically advanced manner found in conventional microeconomics. This is so as the assumptions required for such a formally elegant analysis are not made. Austrians however side with parts of the neoclassical agenda in explicitly focusing customer demand, via consumer needs, and not supplier technology. Their idea of the individual human being is however completely different from neoclassical reasoning as they, in all of their analyses, go way beyond standardized profit and utility functions. One implication hereof is that entrepreneurship and (less than perfect) discovered knowledge, mostly absent from mainstream thinking, are both paramount to the Austrian market agenda. Following the original ideas of Menger, explicit exchange is further more of an issue for the Austrians as this is endemic to the Misesian idea of human action. The pinpointing hereof also means that the market becomes much more of a social feature than what it ever can be in the neoclassical discourse wherein cooperation is not a major issue. This is also seen as market order, the equilibrating tendencies, can only be understood as 'social' in that it pertains to the interplay of plans formulated by humans.

Still, in comparison to *the sociological sources* recapitulated, also the Austrian market conception seems a little bit socially detached. True, this mostly stems from the fact that Austrians reason at more of an abstract level than sociologists. To the former relationships are uncertainty-reducing social institutions and not hands-on interpersonal connections as in facets of sociology. Consider further the notion of exchange, a concept treated rather superficially in economics, be it with a slightly social touch in the Austrian (Misesian) version hereof. The foremost elaboration hereof from a human, thus underlying a social, point of view, is that of Simmel. To him exchange appears as pure 'objectification of human interaction' embodying full reciprocity between two parties. The value of this exchange to the parties however not only stems from what is had in return, but also from what is given up. This is in fact a truly Austrian way of thinking in terms of 'cost as foregone utility'. A similar way of reasoning is found in contemporary social exchange theory wherein the relation between two parties can be understood by means of exchange via the concept of power-dependence. The dependence of one party upon the other is here inversely related to the number of alternative exchange partners and directly related to the value of market exchange to the party scrutinized. Weber's original idea of exchange (a compromise of interest involving transfer of control) is furthermore unique in the sense that it posits *what actually is* to *what might eventually be* in the future. The market is then 'realized potentials of exchange'.

Whereas classical sociology thus comes to terms with exchange in the market it is less explicit regarding the manner in which repeated acts of exchange come to make up market relationships. The elaborated view of markets as not only organized sets of exchange but as relationship structures is something mostly furthered by contemporary works perceiving markets as networks of such interaction structures. As said it is possible to distinguish two broad paths of reasoning here, the 'formal-analytical' and the 'informal-governance' network approaches. Whereas the former assigns a certain primacy to abstract reasoning with hands-on market activities mostly in the background, the latter (as seen within the 'industrial networks' tradition) revolves around how such activities are governed by concrete interpersonal relationships. Herein the interconnected and also indirect character of relationships render viable a view wherein such ties are conceived of as featuring 'mutual orientation' that to varying extents might encompass purely economic features. Following the heterogeneity of network markets they will necessarily be at the same time 'imperfect' and in constant swing. As a result the idea of equilibrium is not really an issue, not even in terms of Austrian equilibrating tendencies. Both of these two network approaches take on a view where markets are stable (as relationship structures endure) but not static (as relationships feature an array of unfolding 'internal' events). Given this a network perspective any market analysis is necessarily bidimensional. There is also a special role taken on by how subjectivism impacts the market view. This most readily appears in the supply-side based idea of White according to which markets are 'produced' and 'reproduced' as sellers continuously mirror each other.

The market ideas thus furthered are summarized in the table below.

MARKET FEATURE	THEORETICAL SCHOOL NEOCLASSICAL ECONOMICS	AUSTRIAN ECONOMICS	CLASSICAL SOCIOLOGY[137]	'MARKETS-AS-NETWORKS'
'Market' elaborated?	No, empty and contingent	Yes, a core feature	Not really, save for aspects of Weber	Yes, in the guise of a relational structure
Equilibrium?	Yes, a core feature in terms of p / q relations	No, but equilibration of actor plans	Not applicable	Not applicable
Role of price?	A core feature to be understood via other parameters	A communicator of *past* market activity	One of several meaningful variables	One of several meaningful variables
Crucial market sides?	Supply- and demand-oriented	Mostly demand-oriented	Both market sides are foreshadowed	Both market sides are overtly treated in an integrated manner
Role of exchange?	Implicit and thus indirect	The epitome of the 'social' market	A core issue, it 'objectifies human interaction'	A core feature, in particular as it is repeated
Role of relationships?	Invisible save for some 'standardized' ideas	An uncertainty-reducing institution, which pillar the market as a spontaneous social order	Important, but slightly underdeveloped	The core element constituting markets
Human action?	No, except for standardized assumptions	Yes, very much so	Yes	Yes, but subject to the social context
Resource characteristics?	Homogeneous	Heterogeneous	Heterogeneous	Heterogeneous
A 'social' view?	No, not at all	Yes, via exchange and social order	Yes, very much so	Yes, very much so
Structure or process?	Mostly structural orientation	Process	Mostly process orientation	Both, but stability devoid of statics
A bidimensional view of the market?	Sparsely so, only in an isolated manner	Yes, but in a rather implicit fashion	Yes, when contextually relevant	Yes, networks *are* multidimensional

Table IIIf; Market ideas in economics and sociology[138]

Competition

As recapitulated throughout this text and as succinctly articulated by Weber (1968 (1922), p 635), '[a] market may be said to exist wherever there is competition'. This means that a stance taken on either will necessarily apply also to the other. Still it is of course, in light of the subject matter of this text, necessary to recapitulate them in separate. Where this is the least necessary is probably within *neoclassical economics* as both the market and competition converge in their emphasis of structural conditions to the extent that at times they tend to become one and the same (confer McNulty (1968, pp 641, 645), Stigler (1987, pp 531, 533).[139] The conditions of equilibrium in a 'perfect' market are thus the same structural assumptions (id est a mass of actors each of which without market impact) that underlie the

[137]as discerned in the works of Weber and Simmel

[138]It goes without saying that the table entries only refer to the particular contributions within economics and sociology recapitulated in this text.

[139]As noted earlier this is most readily seen in Thin (1960, p v).

notion of perfect competition. If any of the fundamental assumptions are relieved, this is done in a manner which still corresponds to the thus ruling paradigm. Once knowledge, for instance, is no more perfect but imperfect, it is still generally assumed that there is a price that can be paid to get a hand on the missing information. One is, in consequence, perfectly informed about the reason for the imperfect nature of knowledge. Competition herein is mostly a state of affairs, an end result of an event chain that is assumed as given in the sense that it is not scrutinized at all in its own right. Most behavioral underpinnings of an attained result are, apart from mere reactive price-taking, assumed away according to the applied assumptions (for instance restricted profit maximization resulting from, in the case of perfect competition, the perfectly elastic and horizontal demand curve). The key to understand competition is here on the one hand found via supply considerations as industry emphasis and on the other as relative substitutability between products in the eyes of consumers. As commented upon there is however a major divider at hand in that some works start out in the idea that competition is essentially imperfect. This is very much the epitome of contributions discussion either product differentiation (id est Chamberlin) or the restricted number of sellers (id est oligopoly theory). In both cases dependence between sellers is an issue when price, as an outcome of competition, is to be understood. This means that social and behavioral aspects of competition stand out in a different light than what is the case for the perfect competition paradigm. This is seen in theories of games and contestable markets. The latter of these is in fact one of the instances where there is a tendency towards unanimity between Austrians and *some* of the neoclassical economists.[140]

It shall however be noted that whereas this issue is the one and only 'prerequisite' adhered to by *the Austrian school*, it is but one ('perfect mobility') out of several found in the neoclassical argument. That is, the free entry of all potential entrepreneurs into a market is the fundamental assumption pillaring the entire Austrian argument on competition. As a consequence thereof competition cannot be only *actual* among incumbents to an industry. It must also necessarily encompass those prospective new entrants rendering it *potential* as well. Another of the fundamental assumptions of neoclassical reasoning of competition pertains to knowledge. This is also central to the Austrian discourse, but in a manner most different from that on perfect or imperfect knowledge as one of the preconditions subject to which a specific type of neoclassical competition structure is formulated. To Austrians competition embodies a particular kind of knowledge since it is seen as a procedure of discovery of hitherto ignored market opportunities. To 'see' the unexpected is to be alert and thus competitive. This notion of competition is furthermore most behavioral in character as it comes forward within the entrepreneurship dimension of human action. Since there are always new opportunities to be discovered competition cannot ever be perfect. This also follows the fact that equilibrium

[140]Confer Kirzner (1997b, p 74), referring to contestable market theory as a 'substantive theoretical improvement[…] into our understanding of competition'.

does not exist. A further, and to Austrian economics even more crucial consequence hereof, is that competition, like the market, necessarily must be a continually unfolding process, and never a static outcome of preceding events unrelated to competition.[141]

Once relationships are the key feature of markets, as in *sociology-based accounts*, it follows naturally that they take on a similar position when competition is to be understood. Weber provides hints in this direction, but the essence should be clear. *In the case of interconnected relationships forming a market structure it is obvious that these relationships, and not the transactions underlying them, must be the object for which competition takes place.* This follows as competition always must occur for scarce resources and the most valuable resource in this a network setting must necessarily be the relationship. The twist of Weber's in this regard is to focus also the relative openness and closure of relationships for which competition then takes place. Closed relationships are signs of appropriation implying that the entrance of others into these relationships, in the place of incumbents, is foreclosed via monopolization. Open, non-appropriated relationships are in a similar vein embodying competition as there is free entry into the relationships subject to which either of the parties can become substituted. Substitution is otherwise not an issue with much of an impact in the sociology-inclined discourse. Instead it is firmly rooted in the notion of complementarity, a relational facet featuring cooperation and not really competition. In fact, whenever competition is drawn upon by these contributors it is seldom in its own right but merely in parallel to the prevalence of cooperation. That is, competition is viable, but only within the realm of cooperation. The most elegant manner of relating this, but also expanding hereupon, is no doubt that of Weber. He chooses to delineate competition as a purely social phenomenon wherein others are taken into account. The more social this process is, videlicet the more that others are openly considered as potential exchange parties, the more competition there is.

Apart from the pure subject matter of competition related in this passage there is also an additional angle to the argument that is only implicitly distinguishable above. That is the manner in which competition is conceived of epistemologically, something closely interrelated with the overall ontological stance of each school of thought. An in-depth treatment hereof is way beyond the scope of this chapter (see however Chapter VIII for aspects thereof pertaining to economic sociology and Austrian economics respectively) but

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[141]Even though it is viable to argue that the Austrian notion of competition comes to grips with some of the problems that neoclassical thought faces in the light of its overall static framework, this however does not imply that it is devoid of similar criticisms. 'It is said that the Austrian notion of a competitive *process* is superior to the neoclassical conception of competition as a *situation*. But in none of these schemes is the treatment of the rivalrous, *intersubjective* nature of competition satisfactory. The reason is that all are constructed around the idea of a system (reflecting equilibrating and disequilibrating forces). When the theorist defines the problems of economics as pertaining to the operation of a system, he adopts a standpoint (and language) which obscures the nature of and meaning of competitive conduct. The language of equilibrium or of the market process does not furnish the tools to study the individual's, or manager's perceptions of his relationships with other people or firms' (Addleson (1994, p 100)).

the subject nevertheless merits some mentioning, albeit in passing. There is no doubt that neoclassical conceptions of competition are positivist in character in the sense that there allegedly are some objective facts 'out there' waiting to be discovered. As a case in point concentration ratios are often alluded to once the practice of competition is to be accounted for. Also within the purely theoretical realm, the close adherence to a formal mathematical apparatus conceives of analyzed facts in such a manner. The case is different within Austrian economics firmly rooted in methodological subjectivism. Since this type of analysis however hardly lends itself to direct empirical observation it does not have to come to grips with the challenges faced by neoclassical studies in this respect. A similar way of reasoning is valid for classical sociology wherein foremost the works of Weber subscribes to a subjectivist turn of *Verstehen*. The issue of intersubjectivism (referring to when not only isolated humans, but also social aggregates are taken into account) might appear somewhat troublesome given the methodological individualism residing both among Austrian and Weberian thought (confer Addleson (1994, p 100)). This is something overcome within contemporary economic sociology that for the better part seems to be adhering to a 'softer' type of individualism where the individual matters, but only to the extent that she is conditioned by her social context. By being embedded the individual's action is subject to an overarching whole that in its turn depends on the conduct of individuals. In terms of ontology the world will then necessarily be socially constructed as the context of an individual is enacted and subsequently mirrored in her pattern of conduct. As for competition this subjective stance, in comparison to its objective counterpart, means that competition only prevails to the extent that it is perceived as being there. That is, someone cannot really be considered to be a competitor unless that someone actually is subjectively perceived in this manner by someone else. This is a perspective endorsed by Addleson (1984, p 158, 1994, p 96).

Customer-geared competition

So, finally, what is there of *customer-based competition* in the accounts of above? The overall assumption of consumers as a passive and responsive-only agency that merely reacts to decisions taken by suppliers effectively hampers any attempt to make customers an integrated part of *neoclassical competitive analysis*. This is very much an outcome of how the market is interpreted, as a unidimensional horizontal construct by and large devoid of explicit productive connections to other vertical layers. The one instance where customers do occupy a different role is once market power is recognized as varying between different vertical levels. This is the idea of the argument concerning countervailing power that in some of its contemporary applications make use of progress made within game theory.

More overtly inclined to an appraisal of bidimensional market impact is the Austrian discourse, something discerned in the bargaining-argument of Menger's and Kirzner's claim regarding entrepreneurship 'reaching out' in several market dimensions. It is here however to be observed that this bidimensionality does not necessarily mean that the influence has to go *from* the vertical customer-supplier relationship, *to* the horizontal state of affairs prevailing between suppliers. The impact could also unfold the other way around. Such a reservation is not called for once the overall argument of Mises is considered. His view of competition is explicitly customer-based, given the discretionary role assigned to customers via recognition of their eternal market sovereignty.

	THEORETICAL SCHOOL			
COMPETITION FEATURE	NEOCLASSICAL ECONOMICS	AUSTRIAN ECONOMICS	CLASSICAL SOCIOLOGY[142]	'MARKETS-AS-NETWORKS'
Competition elaborated?	Yes, in the guise of structures	Yes, a lot, as tied to entrepreneurship	Yes, in particular in relation to individuals	No, not really
Actual *and* potential?[143]	No, not in general[144]	Yes, free market entry is *the* key assumption	Yes, as market openness is crucial	Yes, to a certain extent
Norm of competition?	Mostly perfect, but also imperfect	Imperfect	Imperfect	Imperfect
Object of competition?	Transactions	Transactions	Third party benefits[145] and relationships[146]	Relationships
Means of competition?	Mostly price, but also product differentiation	Price, quality, advertising, et cetera	Price, quality, advertising, et cetera	Price, quality, advertising, et cetera
Subject of competition?	Firms and products	Entrepreneurs	Mostly individuals	Individual and collective actors
Behavioral as conduct?	No, not really save for a) assumptions made, b) oligopolistic dependence	Yes, very much so	Yes, in particular as others are related to	Yes, to the extent that dynamics are present within a given structure
Role of knowledge?	One of several underlying assumptions	The epitome of competition as discovery	It matters, but not in a decisive manner	It matters, but not in a decisive manner
Ontological stance?	Competition is objective	Competition is subjective	Competition is subjective	Competition is socially constructed
A 'social' view?	No, save for some standard assumptions	A bit as it directly ties to the 'social' market	Yes, this is the epi-tome of competition	Yes, but in a slightly indirect manner
Outcome or process?	Structural outcome	Unfolding process	Structure and process	Structure and process
A customer-based view?	No, not in general[147]	Yes, in part	Yes, very much so	Yes, in part very much so

Table IIIg: Ideas of competition in economics and sociology[148]

At least *as* discretionary is the role of customers for competition in the classical sociology

[142]as discerned in the works of Weber and Simmel
[143]This implies the key character of free market entry.
[144]save of course for contestable market theory, as seen in some contemporary auction-like game-theoretic models
[145]Simmel
[146]Weber
[147]save for the theory of countervailing power and derivatives hereof
[148]It goes without saying that the table entries only refer to the particular contributions within economics and sociology recapitulated in this text.

framed by Simmel. There is no doubt that he, without really touching upon the market, he furnishes the most eloquent elaboration of competition, hence as an indirect phenomenon. He does this by positioning competition as a sub-entity of conflict which, in contrast to competition, is direct. This indirect character of Simmelian competition is furthermore structurally tied to the prevalence of an intrusive third party (for instance a customer) between two other actors then competing with each other for the favor of this 'third'. That is, a triad imbued with competition between the two somehow invoked by the influence of the third. In this manner the subjective motives of competitors transform into objective social values that eventually leads to the subjective satisfaction of a third party, for instance the buying public at large. In this manner *there is a distinct impact from the vertical towards the horizontal* market dimension. There are a few contemporary markets-as-networks accounts that furnish *as* explicit proof of customer impact. This is then alluded to as the 'creation of competition between sellers by buyers' or the 'mediation of supplier competition by related customer-supplier relationships'. Although Weber does not dwell upon the issue a lot he recognizes the indirectness of competition by way of his general bidimensional market analysis. Herein competition among the many is tied to exchange between the few.

In sum, the major prerequisite for a customer-based perspective on competition is that there is a bidimensional view of the market that also takes the social aspect thereof into account. Once this is in place, the overt recognition of competition as indirect clarifies the direction of impact from the vertical to the horizontal market dimension. The structural illustration hereof is the triad.

The idea of this chapter is to furnish an account of how competition appears within a few schools of economics and sociology. These contributions are summarized in the two tables above pertaining to markets and competition respectively. What is learned about competition is subsequently transformed into nine dichotomies to come forward in the next chapter. These dichotomies, by furnishing an explicit definition of competition, also provide the first brick, the explanandum, of the model on competition subsequently to be formulated. The chapter now closing also establishes that a customer-based view of competition stems from the recognition of the market as social phenomenon, a bidimensional sphere wherein competition is necessarily indirect.

IV. TERTIUS GAUDENS, COMPETITION AS A MECHANISM

Until now this text paves the way for the argument to advance to a point which allows for the construction of an explanatory model of customer-geared competition. Apart from the programmatic description of this effort in the first two chapters, the preceding chapter homes in on the subject matter itself by recapitulating a number of theoretical contributions in the area of competition. With the chapter now opening, the very formulation of the model begins. This will occur in a number of phases. The chapter starts out by looking into the explanandum of the model. That is, it begins with a proper definition that tells how competition is seen in this text. This definition, it should be noted, has no pretensions whatsoever towards furnishing an all-inclusive view of competition outside of the model for which it is articulated. It is the explanandum of a particular context. No more and no less. The explanandum thus defined is furthermore derived from nine overlapping dichotomies which originate in the schools of competition discussed in Chapter III. Once the explanandum of the model is in place the 'nature' of the mechanism to inhere in the model will then be looked into. This is the discussion of Tertius Gaudens, the social mechanism devoid of which the argument cannot ever meet the stated purpose. The next step is to turn to the explanans, the factors that allegedly affect the explanandum. They tell about 'how and why?' competition can be understood in the said manner. This is where the particular version of the social mechanism of relevance for this essay, the 'socio-Austrian Tertius Gaudens' begins to appear. The explanans constitute the general agency of the model and they will be derived from two guiding principles. On the one hand alertness-ignorance. On the other autonomy-embeddedness. The combination of these principles results in the two explanans customer alertness and social capital by means of which the model is rendered almost complete and then eligible for final elaboration and subsequent scrutiny.

i. The explanandum of the model, originating in nine dichotomies of competition

Before an explanatory model can be worked out in full concerning its propellant parameters, it is necessary to come up with a precise idea of exactly *what is to be explained*. That is, some 'resulting key events' (in the ordinary explanatory language) must be identified. This entails an in-depth scrutiny first of the phenomenon in general, and then the particular manner in which this phenomenon is put to work in the model under construction. The former is the subject matter of the entire last chapter where competition as a generic phenomenon is discussed. The latter constitutes the undertaking of this paragraph, to advance a workable definition of competition that can be put to use in the model as its explanandum. The role of tying the first *general* scrutiny of competition to the *precise* definition thereof is assigned nine overlapping dichotomies. These are not, given the theoretical account provided, the only feasible ones, of course. But they constitute, in the author's opinion, those which exhaust most the views expressed from within economics and sociology as appearing in this text. These nine dichotomies are commented on below *as the explanandum gradually emerges by way of dichotomous choices*.

COMPETITION, *as*

an objective fact	or	subjective enactment
normatively perfect	-"-	essentially imperfect
exclusively actual	-"-	composite, actual *and* potential
non-behavioral	-"-	human conduct
occurring for transactions	-"-	occurring for relationships
seen only in the tool of pricing	-"-	seen in a variety of tools
a non-social phenomenon	-"-	a social phenomenon
a structural outcome	-"-	a process within a structure
direct	-"-	indirect

Table IVa; Dichotomies of competition

Dichotomous choices

1. Competition *as* subjective enactment

It goes without saying that the way in which the world, for instance markets, is looked upon (the ontology), necessarily affects the stance taken on competition. There are two main alternatives available (confer Morgan and Smircich (1980)). Either competition is what 'objectively is' in a market, or it is what market actors perceive it to be. Whereas the first view is positivist in nature, the second is subjectivist. An interpretive view of competition obviously inheres in the dictum of human market action. This is seen in Austrian methodological subjectivism and in the social constructionism of economic sociology. Both of these rely on the works of Schutz. This is obviously not the case for the standard neoclassical discourse firmly rooted in 'objectifying positivism'. In practice, the Schutz-inspired view means that competition appears as a social construction that only prevails to the extent that this is perceived to be the case among the relevant market actors (confer Berger and Luckmann (1971 (1966)), Porac et al (1995)). A matter of discussion is obviously whether actors can be subject to competition that they do not perceive. They probably can and this is one of the major drawbacks of this perspective. Hence, *competition is what an actor perceives as prevailing when those others thus labeled competitors engage in competitive market activities that subsequently are enacted by the actor first mentioned.* In this manner the prevalence of competition is endemic to the actual subjective creation, and recreation, of competitors. This is akin to a self-fulfilling mental construct (confer White's (1981) argument as to interaction structures which 'produce' competition). What this comes down to is that competition on the part of a focal actor is a phenomenon that pertains to how the presence and acting of others emerge in that actor's own frame of reference via enactment. On a market in general competition can in consequence be described as intersubjectively enacted by those considering themselves part of that market.

Another way of grasping this subjective competition is to ask about who performs the interpreting. Is it the actor herself that is 'within' competition, or is it an external spectator located 'outside' of competition? More of an outspoken subjective stance is obviously to be found in a 'within' view (that mirrors everyday business life) rather than in an 'outside' perspective that does not have to take those pragmatic aspects into account. Such an inside-outside approach to competition is that of Addleson (1984, 1994). He claims that the economics discourse in general is mostly preoccupied with an outside view, thus alienating itself from a straightforward interpretation where competition is distinguished as individuals *identify each other* as competitors.

> *The question of whether or not two individuals are competing with each other cannot be resolved entirely in terms of what we see these individuals doing; the answer requires that we either know, or infer, something about their 'states of mind' – their intentions and their plans. Competition is ultimately connected with people's motives, their perceived relationships with one another in terms of the impact of their actions on the consequences of their interrelated activities. ... Perhaps the essential element in competition is that competitors, in whatever situation occurs, recognize one another as opponents or as rivals. ... We interpret certain social situations as instances of competition or of competitive conduct.*[1]

Once this subjective perspective is taken it is fair enough to ask whether any further discussion of competition is really necessary at all since 'interpretation seems to be everything'. An ultra-subjectivist could, there is no doubt, pursue such an argument. The view subscribed to in this thesis is however that endorsed by Kirzner (1992a) which implies that subjectivism does not have to entail 'ultra-subjectivism' in the sense that 'underlying market realities' do not matter at all. Instead, these 'realities' (for instance people's actual conduct as discerned in human action) inform the interpretation that unfolds via enactment. That is why there is reason to penetrate yet other competition dichotomies. Still, it is obvious that all of these appear conditioned by the subjective stance thus taken here. In consequence, *no dichotomous choice interfering with the idea that competition is subjective enactment is feasible*.

2. Competition *as* essentially imperfect

   This dichotomy stems from Chamberlin's argument on monopolistic competition whereby he elaborates on the ideas of Sraffa on monopoly theory concerning the true character of markets. The essence is that products are always differentiated regarding their quality, the particular conditions surrounding an act of exchange (such as the nature of the personal interaction between buyer and seller), et cetera. This means that each connection between a customer and a supplier constitutes a pocket of monopoly. It is a unique tie with no equivalents. No one product is a perfect substitute for another, but the degree of substitutability will instead vary *in the eyes of the customer. The subjective element in how competitors view each other should be obvious.* Another way of putting this is that market resources will always be partially heterogeneous, something holding in particular for relationships that are the most crucial resource in a markets-as-networks context

[1] Addleson (1984, p 158, 1994, p 96)

(confer Hägg and Johanson (1982, pp 31-39)). That is, no one relationship is identical to another one, following (for instance) the prevalence of asset specificity (confer Williamson (1987, pp 62-65)).

This perspective is something that sets Austrians and sociologists on the one hand, and mainstream neoclassical economists on the other (except for those following Chamberlin), far apart. As for competition itself, the subscription to an imperfect character hereof *as a point of departure* (an assumption which underlies all of business studies as seen in works of marketing and corporate strategy) means that the prerequisites endemic to the notion of perfect competition are not seen as a viable analytical tool. Further Austrian arguments regarding the imperfect character of competition are firmly anchored in the negation of the state of equilibrium and the idea instead of a market's equilibrating tendencies. These however do not reach a state of rest as continuous change renders at least some market ignorance ever-present.

3. Competition *as* composite, actual *and* potential
The seeing of competition as both 'actual and potential' implies that not only incumbents, but also potential new entrants into a market, are taken into account when competition is understood. This entails the conception of the market as a truly dynamic phenomenon devoid of explicit borders. The essence hereof is that both companies already active in a particular market and those that eventually consider moving in are competitors *in the eyes of all the others. The subjective implication thereof should be obvious.* Both company categories then constantly constitute threats in the eyes of *all* actors. There is one crucial assumption which underlies this idea of composite competition. That is free market entry. This also means that 'exit' must be likewise free. The mobility of resources is hence non-constrained.

The longstanding idea of free market entry is one of several assumptions that underlies the paradigm of perfect competition. And it is in a similar manner one of the main pillars of industrial organization reasoning on oligopoly. In contrast to these neoclassical threads of thought (where it is but one among several preconditions for competition), it is only within Austrian economics and classical Weberian sociology that it stands out as a unique prerequisite for competition to prevail. To Austrians this is but a logical consequence of the dynamic characteristics of a market. 'In market process theory, the necessary and sufficient condition for competition is free entry, the sole requirement of which is the absence of a monopoly over an input essential to a line of production' (Ikeda (1994, p 25)). To Weber, free entry means everyone's universal access to relationships that are not appropriated by the parties to them and thus monopolized. This argument is endemic to the idea of the market as a web of relationships. If each and every exchange party never considers alternative partners all relationships will be closed. In consequence there cannot be much competition. Once others *are* being taken into account, this impediment however cannot prevail. In this sense the degree to which barriers of entry into relationships are perceived to exist will serve as the crucial measure as to how intense composite (=actual *and* potential) competition can be. This also means that once relationships are considered as resources, to jointly 'own' a particular relationship without letting outsiders in, is to create a monopoly by means of erecting an entry barrier (confer Vaughn (1998 (1994), p 102)).[2] Despite these Austrian and Weberian insights the most elaborated treatment of composite competition, stemming from the notion of free entry, is that within contestable market theory. True, this neoclassical line of reasoning draws on other assumptions as well but manages, by introducing the idea of sunk costs and certain action / reaction patterns of incumbents and entrants, to come up with a coherent and viable argument of oligopolistic theorizing which embodies the idea of competition as composite.

4. Competition *as* human conduct

In the understanding of competition it is obvious that the behavior of market participants can be emphasized to varying degrees. It is hardly ever completely absent but its appearance can range from merely distinguishable in standardized assumptions that entail the maximization of profits and utility to the true recognition of human deliberation and imagination concerning the entire means-ends framework of decision making. *It is obvious that subjective elements have more of a role to play in the latter.* Whereas the first type of assumptions lends itself to highly formalized analysis this is hardly the case for the latter, more open idea imbued with eternal uncertainty. Most notably it is found in Mises' (1963 (1949)) idea of human action. He notes that there are two dimensions to this human conduct, entrepreneurship and exchange. Whereas the former is closely tied to competition per se via knowledge-as-alertness, the latter is on the one hand the outcome of purposeful goal-oriented reasoning and on the other the association to others via cooperation that results in social structures. Hence, by means of exchange, action transforms into interaction where also other actors by necessity must be taken into account. This is where sociological reasoning proves to be most contributive as the conduct of an individual will always be subject to the presence of others (for instance competitors) via the notion of embeddedness in space and time. The presence of entrepreneurship however means that social structure alone is hardly sufficient to grasp competition by means of (for instance) structural equivalence. This observation is discerned in the idea of structural holes that combines entrepreneurial conduct (the 'spanning of holes') with the underlying social network qualities (Burt (1992)).

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[2]The meaning of free market entry in a network setting is, as said, entry into relationships. The literal implication hereof is however the freedom to create new relationships with market incumbents as each relational tie is unique and cannot be 'entered' by someone else.

5. Competition *as* occurring for relationships

When a market is conceived of as a network of relationships it follows that these bonds constitute the most valuable resource in such a context. This is so as a particular relationship, apart from being a resource on its own also connects to other relationships videlicet further resources in the network. If resources in addition are assumed to be in any sense scarce, competition will occur regarding the control of these resources.[3] In consequence competition in such a network setting will necessarily unfold for those relationships. *They become the objective of competition* (confer Hertz (1992, p 120)). Since relationships only prevail to the extent that they are perceived to be around by parties to them *this target of competition necessarily connects to structures of subjective meaning of competition.*[4] In practice actors will strive to establish and maintain relationships, at times at the expense of others (as the maintenance of a relationship in itself is a most resource-demanding activity). To say that two suppliers compete here means that both are willing to establish, maintain or develop a relationship with the same customer in order to explore the opportunity of exchanging valued resources (confer Cook and Emerson (1984)). A relationship, an objective of competition, then appears in different guises, all of them however subject to the enactment thereof by relevant actors. The most tangible aspect of a (commercial) relationship is repeated economic exchange where transfer of control of money and goods ties the parties together.

These arguments are very much endemic to sociological accounts whereas this is not really the case for economics, something holding in particular for the neoclassical mainstream.[5] The foremost reason is that this latter view conceives of markets as made up of instantaneous and atomistic events with no real dependence between them, be it in time or space. Relationships then mostly appear as disturbing frictions since competition in this a detached setting necessarily takes place for individual transactions isolated from one another. It is obvious that this standard neoclassical notion entails much more of an objective, distinct and clear-cut approach to competition since transactions are far easier to distinguish and comprehend than relationships. This view is very visible in the words of Stigler (cited by Hayek (1948d (1946, p 97))).

> *Economic relationships are never perfectly competitive if they involve any personal relationships between units.*

True, the prevalence of relationships is not a very salient feature of Austrian reasoning.

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[3]It is then viable to argue that all resources, at least in the short run, must necessarily be considered as scarce.

[4]Confer Håkansson and Snehota (1995, p 25) who see a relationship as 'mutually oriented interaction between two reciprocally committed parties'.

[5]As observed by Granovetter (1990b, p 101), relationships might at times be discerned in the neoclassical argument but then merely in a narrow sense void of both particularity and interconnectedness rendering them both atomistic and faceless (and in consequence meaningless).

On occasion, as noted by Ricketts (1992, p 82), this is an outright nuisance to Austrians who at times seem to anticipate the absence thereof to be able to frame entrepreneurship. This however does not imply that they are virtually non-existent. This is discerned in the reasoning of Hayek (1948d (1946), pp 96-97) who asserts that the absence of human relationships in the neoclassical discourse on competition is one of its major shortcomings.[6] To Austrians in general, relationships however mostly constitute uncertainty-reducing institutions (confer Lachmann (1971, p 13)).[7]

6. Competition *as* seen in a variety of tools

Like any (market) activity, the pursuit of competition is in need of means to attain ends aimed at. That is, to compete means to use tools to attain competitive success. In case market resources are considered heterogeneous competition must necessarily be imperfect. In consequence tools of competition cannot be confined to pricing, but must encompass an array of factors such as product features, advertising, and distribution issues. This type of reasoning lies at the heart of the Danish 'parameter theory' on the verge of economics and marketing as seen in the works of Rasmussen (1955) and Mickwitz (1959). Its main ideas still abound in the predominant paradigm of marketing (confer Kotler (2000)). The fundamental argument here is hence that several means of competition, in addition to that of price, matter. This is in essence the recognition in separate also of 'sales costs' (confer Chamberlin (1969 (1933), pp 130-176), Kirzner (1973, pp 135-186)). These costs are not recognized in mainstream neoclassical thinking as different from production costs.

> *Entrepreneurial competition expresses itself, therefore, in the kinds and qualities of goods and services being produced and offered for sale ... As part of his **entrepreneurial** role, it is the function of the producer to go beyond the mere fabrication and delivery of a commodity to be available for the consumer. He must also alert the consumer to the availability of the product, and sometimes he must even alert the consumer to the desirability of an already known product ...* [thus] ***relieving the consumer of the necessity to be his own entrepreneur.***[8]

Within the sociological discourse sales costs are not a major concern. The presence thereof however resides implicitly in the argument often pursued concerning markets. Isolated exchange is an issue only insofar as it is considered as part of a relationship. And it is the prevalence of social ties within a relationship that is the most crucial variable governing that exchange. Pricing of course matters, but only also together with other features. A relationship, thus embodying several tools of competition endemic to a social approach, can furthermore be distinguished as to both its dynamic and structural

[6]Confer Addleson (1994, p 98)
[7]See further Chapter VIII.
[8]Kirzner (1973, pp 135-136)

characteristics. These jointly make up one crucial aspect of the competitive box of tools by means of which either relationship party tries to stand out in front of the other and in relation to this other's prospective alternative exchange partners.[9] As seen there is not a clear-cut connection to competition as a purely subjective phenomenon here save for the fact that relationship features (here, means of competition) necessarily reside in the eyes of the beholder. *As* true, however, is that there is nothing in the argument that does not fit with an enactment perspective.

7. Competition *as* a social phenomenon

The most elegant phrasing of competition as a purely social feature is without doubt that of Weber. His argument stands firmly in light of the market as made up by economic social action where others are constantly taken into account. As noted he claims that the more actors take each other into account, the more there is competition in a market.[10] *The subjective element is, to say the least, salient.* This dictum of Weber's applies in general as it embodies market transparency but obviously carries special weight when competitors are perceived as watching each other (confer White (1981)). By tying this reasoning to markets relationships, Weber likewise associates openness of such bonds to the prevalence of competition. In consequence, *closed and thus appropriated relationships are not really social as competition then cannot really be.* The potential of exchange between the many must prevail in the first stage only later to be realized in acts of vertical negotiation and actual exchange between the few. The equivalence found in contemporary economic sociology is the discourse pursued around embeddedness. Not being embedded would mean to be secluded from any and all parts of the market except maybe for those exchange partners that one already has an established relation with. This kind of argument is in fact most reminiscent of Mises' (1963 (1949)) Austrian notion of the market as the 'foremost social body' since it relies upon the exchange aspect of human action via cooperation. It is furthermore close to the likewise Austro-Hayekian idea of social order as the spontaneous outcome of plan coordination. The alternative to the view thus adopted, competition as a social striving for relationships, is competition as an non-social result of rivalry for transactions. This is not very far from the great majority of neoclassical ideas of competition. Therein action is propelled mostly by economic factors such as self interest and others are by no means taken into account.

[9]Confer Håkansson and Snehota (1995, pp 7-10) recognizing structural ('continuity', 'complexity', 'symmetry', 'informality') and dynamic ('adaptations', 'cooperation and conflict', 'social interaction', 'routinization') relationship characteristics.

[10]See also Park and Burgess (1924, pp 506-510) who further a similar social view of competition as 'interaction without social contact'. Competition is then seen as one '[o]f the four great types of interaction'. The social *processes* of competition, conflict, accommodation and assimilation link to the social *orders* of 'the economic equilibrium', 'the political order', 'social organization', and 'personality and the cultural heritage' respectively. The clue to the argument is then that to be 'social', an event does not necessarily have to entail direct interaction. This in fact lies at the heart of Simmel's idea of competition as an indirect phenomenon.

8. Competition *as* a process within a structure

A dynamic conception of competition necessarily entails a similar treatment of competition. Anything else, like a state of affairs that propels a process which ends up in yet another static situation would simply be a paradox. Either there is determinateness or this is not the case. This argument is in fact a blueprint of Austrian thought with obvious references to the eternal presence of change conditioned by emergent human action. But how does it relate to sociological reasoning? The slight challenge thus appearing is related to the notion of the market as a web of relationships. In its extreme, this view is akin to the reasoning found within the neoclassical claim of competition as a structural-only outcome, a context wherein dynamics for obvious reasons is not very much of an issue. In this setting competition is most likely interpreted as the prevailing level of structural equivalence or at the most as the rate of negative interconnectedness in place between two actors. So, how can dynamics then be grasped? The clue is found in the notion of market structure as stable (as relationships do in fact constitute the cement holding a market together) but not static (as there is a lot of change going on *within* relationships that once in a while also break down since new ones are created either as complements or substitutes). Whereas neoclassical economics does not really face this problem as it is (mostly) entirely static, the same holds for Austrian economics since it is entirely dynamic. The sociological agenda is not really forced to come to grips therewith either since competition is not really an issue of any main concern here.[11]

So, how to make this particular dichotomous choice? One viable answer is found by explicitly drawing on one of the other dichotomies, that pertaining to competition as composite, also entailing potential rivalry. The essence thereof, as found within contestable market theory, is that the competitive threat from potential entrants is ever present, given the complete absence of entry (and exit) barriers into (and out of) a market. In essence, the fewer mobility barriers in a market there are, the more competition. If this market is now viewed as a network of relationships it logically follows that composite competition entails the unimpeded move into and out of relationships, ties that at the same time thus constitute the object of competition. This is, as seen, clearly reminiscent of Weber's notion of appropriation of relationships as openness (as opposed to closure) thus embodying (composite) competition. In consequence, *dynamic composite competition in a network-market context entails the prospect of a flow of actors into and out of*

[11]The sociological discourse is obviously not entirely devoid of dynamic conceptions of competition. One example thereof, somewhat reminiscent of Hayek's dynamic notion of competition in the light of purposeful actor plan coordination, is Callon (1998). From within an 'anthropology of science and techniques' he interprets the market as a process imbued with opposing calculative agencies. '[T]he market is a process in which the calculative agencies compete and/or co-operate with one another. This simply means that once framed, each agency is able to integrate the already framed calculations of the other agencies into its own calculations. It is these cross-related calculations that contribute to defining the market as a dynamic process' (Callon (1998, p 32)).

relationships. On an aggregated market level this includes also the dynamics of a stable market structure. This is also where the subjective element of competition ties in. *Since the composite character of competition is subjective in character, and since the combination of static and dynamic competition connects to this composite nature, it follows that also the static / dynamic character of competition can be deemed as enacted.*

This is at the heart of Baldwin's (1998 (1993)) analysis. He (Baldwin (1998 (1993), pp vii-ix, 16, 29)) argues in favor of a dynamic perspective to competition. This view is anchored in the notion of market turnover as seen in entry (transforming 'latent or potential competition into actual competition') and exit respectively. These dynamics de facto epitomize what is competition, argues Baldwin. In this manner he claims to provide a framework that is more adapted to the reality of markets wherein stability and inertia allegedly are not as predominant as normally perceived, following the role of new market solutions.[12]

> *Mobility measures provide a direct measure of the intensity of competition. ... Entrants capture market share ... because they produce existing products more efficiently (imitative entry) or because they produce new products or produce existing products with new technologies (innovative entry). Intra-industry mobility of incumbents results from the adoption of innovative products and technologies.*[13]

9. Competition *as* indirect

A most representative view of contemporary reasoning in economics is that of Stigler (1987, p 531). 'Competition is a rivalry between individuals (or groups or nations), and it arises whenever two or more parties strive for something that all cannot obtain.' Competition is hence portrayed as being very *direct* between opposed parties. And this occurs without any interference whatsoever from those not directly involved. This view, where the outcome of rivalry is entirely in the hands of those parties to it, pervades economics. And it reflects a likewise unidimensional idea of the market. That is, the market is conceived of as a set-up of 'horizontal layers' that are rather independent in the sense that there is no vertical connection between them. Hence, *a direct conception of competition entails a unilateral and dimensionally non-integrated market perspective.* The most visible exception thereto is Galbraith's ideas on countervailing power. According thereto the distribution of power at one level of the market is in part controlled, and interfered with, by buyers in the successive market stage that is closer to the end of

[12]Baldwin (1998 (1993), p 206) provides extensive empirical proof for his argument regarding the crucial role of mobility for competition. Mobility measures then matter both in their own right and as determining industry structure. 'Decreases in concentration are shown to be associated with higher rates of entry and exit. Increases in concentration are associated not so much with lower rates of entry but with shake-outs in the continuing-firm population. The evidence [also] indicates that the traditional concentration measures are negatively associated more with entry than with continuing-firm turnover, thereby justifying an interest in the determinants of entry'.

[13]Baldwin (1998 (1993), pp 4, 6)

the distribution chain. In consequence these customers are in the position to affect also competition between sellers. A similar view is that which appears within various threads of sociology. Consider for instance the 'control' approach of Ahrne and Johansson (1994, pp 122-123) who choose to cross-tabulate 'position of resource control [relative to two parties facing each other]' with 'form of interaction [of these parties]' as follows.

	POSITION OF RESOURCE CONTROL	
FORM OF INTERACTION	INSIDE	OUTSIDE
STRUGGLE	Conflict	Competition
COOPERATION	Exchange	Collaboration

Table IVb; Forms of interaction between organizations[14]

There is hence a marked difference between competition and conflict. The latter implies that struggle *control* with respect to the position of resources is *within*, and the former (competition) that this is *outside* the two parties facing each other. A different way of stating this is to say *that conflict is direct whereas competition is indirect*. This distinction is absent in Stigler's interpretation above. It is however salient in a few contemporary works of economic sociology (Baker (1990), Podolny (1993)) and Austrian economics (Mises (1963 (1949)), Kirzner (1973)). All of these contributions however fall short of the original reasoning in the area provided by Simmel and delineated in the preceding chapter. Whereas conflict here is seen as a general tension-resolving mechanism leading to some kind of unity, competition is a sub-aspect thereof with particular implications (Simmel (1955 (1908), pp 13-14)).

The foremost sociological characteristic of competition is the fact that conflict in it is indirect.[15]

The fundamental argument which underlies Simmel's 'indirect' reasoning is thus that whenever there is competition, the outcome thereof is not controlled by the parties to this conflict themselves, but by someone else.[16] A corollary claim is that markets are bi- (and not uni-) dimensional constructs. This last claim is explicitly found in the reasoning of Weber according to whom there is an interplay between horizontal competition among the many for opportunities of vertical exchange among the few.

A workable identification of competition

The dichotomies are elaborated with some comments concerning the scholarly origins of their respective alternative interpretations. In addition, following the 'choice' undertaken with respect to each of the dichotomies, the first idea of the explanandum begins to emerge out of

[14]Ahrne and Johansson (1994, p 122). The original wording is slightly changed to fit the present context.
[15]Simmel (1952 (1908), p 57)
[16]Confer Park and Burgess (1924, p 574).'Both competition and conflict are forms of struggle. Competition, however, is continuous and impersonal, conflict is intermittent and personal.'

the dark. As said the last eight dichotomous choices are conditioned by the first implying that all of them cohere with the idea of competition as subjectively enacted.[17] This an explanandum then means a conception of competition that is at the same time a subjective (1), imperfect (2), composite (3), human conduct (4), occurring for relationships (5), by means of a variety of tools (6), as a social feature (7), implying dynamics within a structural realm (8) that appear as indirect (in a bidimensional market context) (9). *These are the conceptual pillars of the explanandum, the customer-based idea of competition as a social mechanism here to be understood by means of an explanatory model.*

Is it then really viable to promote such a conception of competition in the sense that it is internally coherent or does the preceding merely constitute a futile grouping in the dark for particularity as such? There are two major reasons for why the pillars thus chosen can be deemed logically viable in terms of internal coherence. *Firstly* each of them (for obvious reasons to varying extents) embodies ideas of competition that can be found within Austrian economics and economic sociology, at least according to the versions thereof endorsed in this text.[18] That this standpoint as such is acceptable is the subject matter of Chapter VIII. *Secondly*, they all also converge on a particular idea of the market. That is, when the market is discussed in connection with each of the dichotomies it is obvious that the arena wherein the explanandum is to unfold is interpreted in a rather unanimous manner. *This market is a perceived, elastic network made up of concrete interpersonal relationships that originate in heterogeneous exchange stemming from social economic action.* The borders of this market are furthermore most blurred since the market inheres *both* in the structure at hand *and* in the recurrent acts unfolding within, but also between, relationships. *It is, once again, crucial to emphasize that these dichotomous choices do not pretend to furnish an idea of what competition 'is'. They merely provide a view, pillared by the assumptions of this essay, concerning the manner in which competition can be understood 'as' something.*

However appealing the above idea of competition might seem, taken at face value, it hardly lends itself to any further elaboration in the role of model explanandum. It is simply too 'wooly' and imprecise. That is, to be truly workable from a model perspective as an explanandum it must appear in much more of a distinct guise. Competition must be properly *defined* in order for the explanans to have a 'target' in the model that is reasonably straightforward. To repeat, this definition is not an exhaustive development of the 'true nature' of competition. It is a definition that suits the purpose of this dissertation in coming up with a customer-based explanation of competition. It furthermore does not *explicitly* encompass all the dichotomous choices of above.[19] But it reflects them. It reads as follows.

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[17]The kind help of Hans Kjellberg for pointing this out is hereby gratefully acknowledged.

[18]That is, a 'mid-range' Austrian notion à la Kirzner and a 'soft structural' ditto à la Granovetter.

[19]As seen below the dichotomous choices explicitly drawn upon are numbers 1, 3, 5, 7, 8, 9

Competition is perceived freedom of entry into market relationships subject to the discretion of a third party.

ii. The nature of the model, Tertius Gaudens

The definition of the model explanandum is now in place. A logical next step would be to move directly on to the remaining pillars of the model, the explanans. This will however not be done. The reason is that the purpose of this dissertation has it that not just *any* explanatory model is to be built, but one wherein competition appears 'in the guise of a social mechanism'. That is, this social mechanism embodies the explanatory 'nature' of the model, its logics and the overall principle according to which it works out. It is the lubricant that renders the model alive and conceivable. The mechanism is what makes feasible, and what is made feasible by, the underlying assumptions pertaining to the model and the reasoning surrounding it.[20]

This social mechanism has it that, given these assumptions, a customer derives an advantage from the disunion of two suppliers by way of competition. The mechanism is Tertius Gaudens, the third who benefits from the discord of the two. The customer-geared competition model brought forward in this dissertation is hence very much inspired by two preceding efforts that argue similarly. The founding argument of Georg Simmel (1950 (1908)) is subsequently elaborated upon by Ronald Burt (1992).[21] These two contributions are recapitulated below and thereafter commented upon in light of the model underway in this thesis.

Simmel's Tertius Gaudens

As accounted for in the preceding chapter when Simmel's general view of competition is described, its foremost unique quality is that competition is seen as an indirect form of conflict. It is furthermore characterized by three related ideas. 1) The subjective aspiration of the competitor is tied to the objective outcome of competition also favoring others. 2) The objective of competition is *for the competitors* to benefit from the favor granted by a third party to the competitive tension at hand. 3) The successes of two competitors respectively are dependent. Simmel also goes to some pains in relating these ideas of indirectness to the social structure thus required. That is the triad, *die Verbindung zu dreien* subject to which a third party can appear between the two in three guises. 1) The third can appear *as* a rather invisible mediator that at the most lays bare what is already at hand between the two. 2) The third can appear *as* a helping arbitrator that directly interferes with the parties thus creating something *advantageous for them* that did not prevail before. 3) The third can appear *as* someone who

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[20]See paragraph II:iii, The thesis assumptions, in the second chapter.

[21]Two other contemporary works relating to the idea of Tertius Gaudens are Callon (1998, pp 9-10) and Hedström and Swedberg (1998, p 5)

mediates the tension between the two, *but with the explicit purpose of own gain.* That is Tertius Gaudens, the third who benefits from the disunion of the two.

Whereas the indirect character of conflict is the overarching dictum that renders Simmel's view of competition unique, *it is the reasoning on Tertius Gaudens as a social mechanism that makes the argument truly intriguing.* This is so as *it shoulders the structural anonymity, emptiness and reductionism* that easily inhere in an argument that is firmly based in purely structural reasoning (in Simmel's case the triad). That is, *the mechanism of Tertius Gaudens tells about how and why there is reason to see competition as indirect. It explains customer-geared competition at the same time as it embodies it.*

Hence, the third party is very much discerned already in Simmel's fundamental argument concerning competition. It is most notably so as the 'objective' outcome of competition, resulting from the pursuit of subjective selfish interests, has to accrue somewhere. It has to have a 'target', an aim. And this is the third party. It is furthermore not uncommon for Simmel to relate examples from business life in order to illustrate this role of the third.[22] 'In economics, the third party is the consumer ... [something mirroring] business competition for the consumer ... the net effect [of which] is the benefit of ... [this] third party' (Simmel (1955 (1908), pp 77, 59). That is, competition occurs to gain the favor of consumers (their interest and money). And the objective outcome hereof is that these consumers benefit from the competitive tension by being able to buy at relatively advantageous conditions that the suppliers are forced to offer in light of competitive bids. In consequence, says Simmel (1955 (1908), p 61) it is important for any competitor 'to come as close to that [benefiting] third ... as possible'. The implication for a supplier trying to approach its customers should be obvious.

> *Competition compels the wooer who has a co-wooer, and often in this way alone comes to be a wooer properly speaking, to go out to the wooed, come close to him, establish ties with him, find his strengths and weaknesses and adjust to them, find all bridges, or cast new ones, which might connect the competitor's own being and doing with his. ... To be sure, in ...* [competition], *a man fights another man, but for a third one. And the winning over of that third once can be achieved in a thousand ways only through the sociological means of persuasion or conviction, surpassing or underselling, suggestion or threat, in short, through psychological connection. But just as often, this winning over also means in its effect such a psychological connection, the founding of a relationship - from the momentary relation established by a purchase in a store to marriage.*[23]

As seen, in this fundamental part of the argument there is however no real emphasis

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[22]This is so despite his somewhat ambiguous interest for markets.

[23]Simmel (1955 (1908), pp 61, 64). See also the quote provided earlier, 'Antagonistic tension with its competitor sharpens the businessman's sensitivity to the tendencies of the public, even to the point of clairvoyance, in respect to future changes in the public's tastes, fashions, interests...' (Simmel (1955 (1908), p 62)).

concerning any agency outside that of the competitors. All of the above is, in principle, viable in a unidimensional context with the third party as an invisible and reactive shadow. This is however to change as the reasoning is expanded by means of Tertius Gaudens.

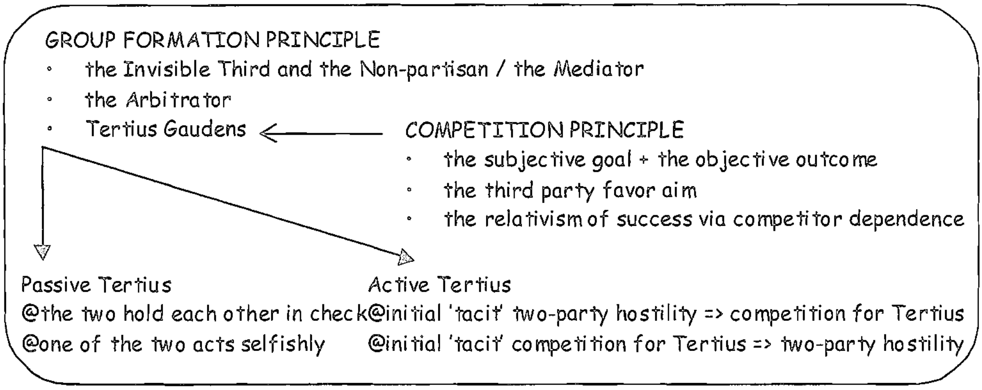

Figure IVa: The role of the third and principles of competition according to Simmel

Simmel's idea of Tertius Gaudens is firmly anchored in the structural reasoning of his. It emerges from the particular characteristics that are bestowed upon the dyad as it transforms into a triad by the adding of yet another actor. This 'non-partisan' occupies the role of either mediator, arbitrator or Tertius. What distinguishes this last role from the others is on the one hand the selfishness that surrounds it and on the other its interfering nature. It has got an intrusive character since it relates to someone that enters into a context where that someone originally does not belong. When looking more in depth into the role of this non-partisan Simmel (1950 (1908), pp 154 ff) distinguishes two aspects hereof, the passive and the active Tertius. In the first case the ensuing 'passive Tertius' advantage comes about either as the two opposed parties keep each other inactive or as a residual outcome when one of them pursues own selfish interests. There is hence either a sort of 'paralyzation of forces' that ultimately favors a non-deliberate Tertius (that however 'accepts' to reap this resulting benefit). Or, purposeful action on behalf of one of the two parties unfolds where Tertius, without taking any initiative, 'receives' something from this action. An example is here when Tertius receives something from one of the parties which is offered with the sole intent of offending the other party. Simmel labels this 'exploitation of altruism'.

An 'active Tertius' is very different. This actor turns to either of the two parties with the deliberate aim of own gain by means of 'supporting or granting'. The two options then available for Tertius is to draw on an already existing hostility between the two or to invoke tension by 'creating' competition between them, something *only then* turning into hostility.[24] In the first case some prevailing hostility 'takes off' and explodes into the open and continues

[24]Simmel (1950 (1908), p 159) is however keen to emphasize that the hostility does not have to be displayed openly to prevail.

only as Tertius makes the choice concerning whom of the two to benefit. In the second one there is initially no hostility between the parties *despite* there being contact between Tertius and both of them. They are hence initially rather independent. This is subsequently offset by Tertius who renders them aware of each other by a grant then bestowed upon one of them. Still this latter variant tends, says Simmel, to have the character of a one-time shot not invoking, as in the former alternative, more of a latent kind of competitive conflict. A choice is a choice and that is it. Whether hostility initially exists or not is hence crucial to know as this is the key to identify the manner in which Tertius succeeds in rendering his own 'granting' decision-to-be-taken contingent on particular contextual properties. That is, the particular manner in which Tertius' decisions tie to a situation stems from that situation itself.

Consider *the first case* when there is already some hostility in place as Tertius enters the stage thus pulling the tension into the open by exploiting it. This is, says Simmel a setting typical for various kinds of federations, be they families or nation states. Herein it might be sufficient for Tertius to control just a little bit of power as the influence hereof stems directly from the relative *initial* power positions of the two parties. Simmel here further delineates the role of small political parties in a representative democracy that tend to occupy influential positions not really reflecting their electoral mandate. '[T]hey can never gain … [influence] through their own significance but only because the great parties keep one another in approximate balance. … What alone is important is that the forces of two antagonistic elements paralyze one another and thus actually give unlimited power to the intrinsically extremely weak position of a third element not yet engaged in the issue. Of course, intrinsically strong third elements profit no less from such a situation' (Simmel (1950 (1908), p 157).

Then consider *the second case* where there is no initial hostility between the two as they, prior to Tertius' entrance, are relatively independent. This is characteristic, says Simmel, for a woman who is Tertius in relation to two men that both want her or for buyers that consider various seller alternatives. These two situations however differ a lot since the woman's discretion does not really consist of a pure choice, since feelings of love are not subject to this kind of a purposeful act.[25] Either they prevail or not. Much more explicit an example in this regard referred to by Simmel (1950 (1908), p 156) is that of customers in general.

> *On the largest scale, the tertius gaudens is represented by the buying public in an economy with free competition. The fight among the producers for the buyer makes the buyer almost completely independent of the individual supplier. He is, however, completely dependent on their totality; and their coalition would, in fact, at once invert the relationship* [that is, by way of collusion] ... *These situations of tertius gaudens may be arranged along a continuum. At the one end, perhaps, is the above-mentioned case of the woman between two suitors. Here the decision depends on the two men's natures, rather than on any of their activities. The chooser, therefore, usually makes no conditions and thus does not fully exploit the*

[25] Provided however that these feelings, and not the men's material wealth, is what matters.

> *situation. At the other end, there is the situation which gives the tertius gaudens his extreme advantage. It is found in* [a] *modern market economy with its complete exclusion of the personal element: here the advantage of the chooser reaches a point where the parties relieve him of the maximum intensification of his own bargaining condition....*

That is, *the more socially / affectively detached one is, the easier it is to be fully exploitative in one's role as Tertius since in that case the own decision is less directly conditioned by other circumstances at hand.*

Simmel (1950 (1908), pp 160-162) goes on to exemplify Tertius with the entrepreneur in the labor market and notes that the emergence of unions deprives this Tertius of some of its power. In this case labor unionization is thus equivalent to cartellization in the product market. That is, *any tendency of the two to unite, to lessen their structural tension, immediately offsets the potential impact of Tertius*. The particular power role occupied furthermore derives from Tertius' own relatively stable, intellectually controllable position in the realm of an uncertain and uncontrollable dispute fueled by affect and vested interests. Accordingly, *the more volatile, the more overt, and the more emotion-laden the hostility in place, the more there is to gain for a third intrusive party.* In consequence *Tertius' opportunities expand the more open, affective and unforeseeable the hostility, the less the tendency for unanimity and intellectual reasoning by the other two actors, and the more emotionally detached and rational Tertius herself is.*

Is it then viable to posit that Tertius in this manner actually 'produces' hostility from scratch in order to emerge as a 'successful third'? Yes, says Simmel (1950 (1908), pp 162-169) and explicitly relates how 'the third element intentionally produces the conflict in order to gain a dominating position'. This resulting notion of *divide et impera* on the part of Tertius however demands that there is at the outset, prior to the interference of Tertius, already some sort of *dependence* between the two parties and this non-partisan. The challenge of the third is then to redirect the forces of the two so that they, instead of being inclined towards the non-partisan, start to target each other. A case in point is Tertius' invoking of jealousy between the two, such as when a large group is divided into two smaller with one person in command of each. By then assigning the first commander a slightly higher rank than the second Tertius succeeds in preventing any joint opposition of the two by relying on '[t]he principle of the unequal distribution of values'. In this manner the two will balance and / or weaken each other so that there will be room for the appearance of Tertius. This is, then, a preventive version of *divide et impera* where it is relied upon ex ante in order for two other parties not *later* to be in the position to join forces against the third. Tertius may also, says Simmel, resort to either *similia similibus*, the promotion of like versus like, or support of one of the parties that first outperforms the other and only thereafter itself becomes liable for Tertius exploitation. This last situation is discerned in an economic context.

> *It is employed ... in competitive struggles in which three elements confront one another – perhaps a very powerful financier or industrialist and two less important competitors whose powers, though different from one another, are yet both a nuisance to him. In this case, the first, in order to prevent the two others from joining up, will make a price agreement or production arrangement with the stronger of the two, who draws considerable advantages from it, while the weaker is destroyed by the arrangement. Once he is, the second can be shaken off, for until then he was the ally of the first, but now he has no more backing and is being ruined by means of underselling or other methods.*[26]

To summarize, Simmel's notion of Tertius Gaudens is firmly rooted in his claim concerning the indirect character of competition. The three underlying ideas hereof (the combination of subjective aims and objective outcome, the goal of third party benefits and competitor interdependence) together with the structural reasoning regarding the triad, fuel directly into the discretionary role of the third. This renders alive the social mechanism Tertius Gaudens, the core concern of which is the gain by the third via the discord of two others. This a benefit can accrue to Tertius in two major ways. By being passive or active. In the former case the competitors themselves take on much of the agency required, in the second this is the undertaking of the third. Once Tertius is active there is the option of either exploiting a hostility that is already in place at the outset (something likely to occur in families and parliaments with small decisive political parties) or to make a sudden grant to one of two formerly relatively independent actors that hereby experiences an immediate hostility (something likely to happen in upcoming triadic love dramas and business). That is, the impact of Tertius is very much subject to the initial context at hand. A few general observations made by Simmel are that the occupying of an exploiting role Tertius is facilitated once a) the third party is socially / affectively detached from the other actors, b) there are no tendencies present concerning the joining forces of the two, c) the own position is relatively intellectually stable whereas those of the two are very volatile in terms of affect d) the hostility between the two is uncertain and displayed openly. An illustrative case of a particularly active Tertius is furthermore *divide et impera* according to which Tertius, maybe a business actor, benefits by openly creating tension between two others.[27]

Burt's Tertius Gaudens

Just like the reasoning of Simmel above, Burt's penetration of Tertius Gaudens is firmly anchored in his overall argument concerning competition. Or, more precisely, the 'social structure' thereof. His argument however differs from Simmel's in a number of ways. It is yet more structural and in consequence it is even more eligible for reductionism criticisms. It is further closely associated with the author's overall approach to markets (-as-networks), something hardly touched upon by Simmel at all. Burt's ideas are also more directly

[26]Simmel (1950 (1908), p 169)

[27]As seen the notion of 'Tertius' is here assigned to the third actor herself or the role that she occupies. 'Tertius Gaudens' is the mere principle, the social mechanism of the third's benefit form the disunion of the two, that places 'Tertius' in this a favorable position. These denominations will be kept for the remainder of the argument.

connected to the neoclassical view of competition as those arguments are referred to and in part criticized. In addition Burt's claim lends itself to empirical analysis, and subsequent proof, something which is not a key concern of Simmel's. Finally, Burt is much more concrete regarding the objective of competition, the target of competitive activity. To Simmel, competition takes place for benefits in general, to Burt it occurs for social capital (which is 'missing' social ties). It also seems as if the role of Tertius is more central in Simmel's ideas where it appears as the logical manifest of triadic interaction. To Burt the concept, despite its central impact, is put somewhat in the background following the technical sophistication with which he pursues his overall reasoning concerning what is labeled the 'social structure of competition'.

Burt's key dictum is the presence of so-called structural holes. This concept emanates from his idea of structural autonomy, something in its turn derived from the notion of structural equivalence. As discussed in the preceding chapter, the equivalence argument has it that the essence of competition is similarity regarding first and foremost connection to others in the (network) market via social ties. The more similar two actors are in this respect, the more competition there is between them. The extent to which the aggregate of *other* actors, by means of the law of supply and demand, are *unable* to constrain one's own desired action pattern Burt labels the degree of structural autonomy. To be autonomous then signifies that one is competitive since one 'controls' the environment by possession of relative freedom in the pursuit of own interests. This is seen in the formation of oligopolistic market structures. An actor is here not easily substituted by someone else since there is no one with whom one is structurally equivalent. As opposed to the case of a perfectly competitive market actors are here 'makers', and not mere 'takers' of price. This is achieved by specialization both as regards the own area of activity and structural location relative to others. To strive in this direction means to aim at the identification and creation of structural holes. These are 'black spots' in the market structure where there are no liaisons between actors. They are the 'negotiated agency underlying an attained position of autonomy'. To be in control means to have few holes around oneself and lots of holes around one's own immediate contacts. The claim derives from the power-dependency argument of social exchange theory and the realization that weak, and not strong, ties is what differentiate network actors (confer Granovetter (1973)). That is, *what really makes a difference is not what actually prevails, but what is absent, but could eventually, following someone's undertaking, be made to prevail.* It is then the *absence*, and not the *prevalence* of ties that constitutes (the value of) social capital.

In framing this 'social structure of competition' Burt has a few kernel assumptions. 1) A market is a web of interpersonal relationships. 2) These relationships embody 'social capital' upon which other kinds of organizational capital (id est human and financial ditto) is contingent. 3) Competition takes place for social capital that provides network benefits in parallel to 'deciding' on the outcome of competition. The inherent value of social capital means that it is worth a lot also when it is absent as it then constitutes an opportunity to be grasped and realized. This is the weak tie argument (confer Granovetter (1973).[28]

> *The social structure of competition is not about the structure of competitive relations. It is about the social structure of the relations for which players compete. The structural hole argument is not a theory of competitive relationships. It is a theory about competition for the benefits of relationships. ... The social structure of competition is about the negotiability of the relationships on which competitors survive. This is the essence of the structural autonomy concept.*[29]

As seen, these ideas take the reasoning one step beyond that of structural equivalence as they revolve around non-prevailing social ties. It has got a distinctive character of entrepreneurship around it. But this is a particular kind of entrepreneurship that focuses network heterogeneity in terms of differing patterns of interpersonal ties. 'Competition is not about being a player with certain physical attributes; it is about securing productive relationships. Physical attributes are a correlate, not a cause, of competitive success' (Burt (1992, p 190)). The argument is then intricate in realizing *that it is not the mere quantity of relations as such that counts in a 'the more the better' fashion but instead the manner in which these relations connect to each other relative to how other actors' relationships connect between themselves.* This is very much reminiscent of Granovetter's (1973) argument which implies that the value to an actor of each additional relationship is contingent on the extent to which this relationship marginally adds brand new contacts to the actor's network and not merely provides new channels to contacts already had. That is, a lot more of the same is marginally worse than just a little bit more of something entirely new. This could be seen as a truism but breaks firmly away from an array of network reasoning implying that 'more bonds are *always* preferable' to fewer since an actor then is more 'central'. Burt's notion of structural holes then pertains to 'the separation between nonredundant contacts' where the role of the hole is to act like an 'insulating buffer'. Redundancy can occur in either of two manners. Either two actors are 'redundant by cohesion', meaning that they are strongly tied directly together. Or, two actors are 'redundant by structural equivalence' to the extent that they have the same contacts. In neither case does a structural hole prevail. Once contacts are non-redundant there is a structural hole between them. This means that the eventual spanning of the chasm between these actors, by way of a weak tie, will supply each of them with *additive* network benefits (Burt (1992, p 18)). This is so since their respective micronetworks do not overlap. That is, their set-ups of relationships are neither coherent nor structurally equivalent. And the ability to bridge the hole is crucial for the competitive success of each actor, given the benefits coming forward through this activity. So whereas the structural equivalence

[28]As noted by Baker and Obstfeld (2000, p 4) this Burt's focus on social capital as the *absence* of ties means that he is at odds with more conventional, 'relational' arguments that instead focus the value inhering in the contents of relationship (trust et cetera).

[29]Burt (1992, p 5)

argument is a mere observation of a competitive situation, the 'hole claim' revolves around how this observation in fact could be acted upon. *What is originally missing is then entrepreneurially exploited.* The very clue to this idea which distinguishes it from most others is thus that structural holes are 'invisible relations of nonredundancy, relations visible only by their absence ... [connecting] invisible pieces of players' (Burt (1992, p 181)).

Each individual actor can then be conceived of via the market position that she occupies in terms of the number of structural holes found close by, and further away from, her (Burt (1992, pp 44-45)). This position, an actor's relative structural autonomy, is not merely a superficial structural measure, but the joint return to the actor of the surrounding structural holes. To measure it is to relate the efficiency and effectiveness of an individual's network (Burt (1992, pp 20-22)). *The former* pertains to the return in terms of *structural holes per relationship* and is positively connected to the number of nonredundant contacts in the network. That is, market efficiency as 'the average number of people reached with a primary contact'. *The latter* measure, effectiveness, sees these primary contacts as social portals and regards *the total return of the network in terms of others reached* by means of the primary (nonredundant) contacts. As said, an actor is more structurally autonomous, the more structural holes that prevail around that actor's contacts and the fewer around herself. Being autonomous in this sense implies that one is able to exploit market benefit opportunities that others have not discovered while by oneself not constituting this kind of opportunity for others. Actors are thus crucial not as 'the source of action' per se but as the 'vehicles' for making action come about (Burt (1992, p 181)). 'The summary conclusion is that players with networks optimized for structural holes - players with networks providing high structural autonomy – enjoy higher rates of return on their investments because they know about, have a hand in, and exercise control over, more rewarding opportunities' (Burt (1992, p 49)). To compete with someone however still implies to be structurally equivalent concerning the dependence on certain resources, that is, to buy from and sell to the same organizations (Burt (1992, p 209)). For a market as a whole, Burt (1992, p 206) concludes that the lower the aggregated autonomy of actors, the more competitive that market is. This is so as actors in this case are overall equal since market opportunities in terms of structural holes have already been exploited.

'The structural hole argument defines social capital in terms of the information and control advantages of being the broker in relations between people otherwise disconnected in social structure. ... The structural hole is an opportunity to broker the flow of information between people and control the form of projects that bring together people from opposite sides of the hole' (Burt (1997, p 340)). This brokerage undertaking is then an entrepreneurial market activity which arises from the thus presence of information and control market benefits. To repeat, *the first* ('information') benefit, to know what is about to unfold, induces a number of opportunities to exploit such as new contacts and project participation. This comes via access (to receive information and to know who can make use of it), timing (to know before others do) and referrals (to have others convey one's own information) (Burt (1992, pp 13-15)). *The second*, ('control') benefit, pertains to the negotiation of relationships by means of which the hole becomes spanned. These two types of benefits are dependent and mutually reinforcing. By possessing and then 'distributing' information to non-connected actors, *a third party* creates relationship control, the pursuit of which then provokes the reception of yet other pieces of information that themselves can be redistributed thus entailing further control et cetera (Burt (1992, pp 33-34)). *This is where Burt openly approaches Simmel by recognizing the Tertius character of this third party.* Access to, timing of, and referral of, information thus strengthen and are in their turn strengthened by, negotiated relationship control. The 'ease with which a structural hole can be developed for control and information benefits' Burt (1992, pp 42-44) labels 'the depth of a structural hole'. 'When the hole is deep between two individuals, it is easy to play them against one another with *tertius* strategies.' As noted earlier, redundancy can occur by either cohesion or structural equivalence and, accordingly, the depth of a hole is a function of both. Low cohesion foreshadows the presence of a hole, as does equivalence. But whereas the latter can be seen as the 'frame', the former is the 'indicator' of hole depth.

> *In terms of a regression model, the depth of the hole between two players ... decreases with the strength of relation between them, and decreases sharply with the extent to which they are equivalent and strongly connected.*[30]

Burt's reasoning then echoes that which unfolds some 80 years earlier by establishing *that competition in this sense is about how a third party, by thus spanning a structural hole, intrudes between two others. The third mediates the contact between the two others by undertaking an act of entrepreneurship in the pursuit of own gain* (Burt (1992, p 271)). In case the non-partisan is successful, she emerges as Tertius since she manages to negotiate the coming into being of two new relationships that hence become indirectly tied to each other via herself. A fundamental prerequisite for a successful Tertius is however that there is some tension present between the two potential competitors. But not just any tension but tension imbued with uncertainty, that is *uncertainty of control* within relationships implying the discretionary negotiability of these relationships on the part of Tertius (Burt (1992, pp 32-33)).[31]

Burt (1992, pp 31-32) then identifies two major strategic options for Tertius. These are obviously in part inspired by the corresponding argument of Simmel's. *The first alternative* is

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[30]Burt (1992, p 44)

[31]This last claim is obviously akin to the power-dependence reasoning found within social exchange theory.

to enter between two actors that aim at the same relation. This is seen in two sellers being after the same buyer transaction and two men being after the same woman. Here the customer / the woman holds positions of control benefits. *The second possibility* is to intrude between actors that already belong to different relations that have opposed objectives. A case in point is then two customer-supplier relationships with a common customer that hence can control relationship (market) benefits by negotiating each of the relationships accordingly. Just like Simmel Burt acknowledges that the third party can 'create' competition between the two by, for instance, making them aware of each other's existence. This eventually occurs as the third herself fades into the background of the conflict now entirely 'handled' by the two parties. In further echoing Simmel's reasoning Burt (1992, pp 34-36) distinguishes between an 'active' and a 'passive' Tertius. Whereas the latter can be in receipt of *information* benefits in separate, *control* (via the redistribution of information) demands an active Tertius. 'When you take the opportunity to be the *tertius*, you are an entrepreneur in the literal sense of the word – a person who generates profit from being between others. ... [T]he *tertius* is a successful entrepreneur.' The active Tertius is however not only someone that deliberately takes advantage of a prevailing structural context but an *actor that realizes the opportunity residing in a structure not yet prevailing* (Burt (1992, pp 230-236)). *This claim is very similar to the ideas brought forward by Kirzner concerning the reactive character of market alertness.* That is, *structural holes cannot only be exploited but prior to that also erected by means of insight.* This implies that 'the constraint of their absence ... [is] neutralized' by means of Tertius' 'navigating around the constraint of missing holes'. There are, then, allegedly three strategic alternatives available. *In the first place* one can decide to withdraw entirely from a 'high-constraint relationship' thus freeing resources for other more productive use. The downside thereof is however that market credibility is likely to be harmed, and it has the character of a definite, 'permanent' action that makes it difficult to restore the original contact later on. *A second alternative* is to expand the network by simply adding yet another contact to it that assists in reducing the constraint by its virtual existence. 'An example is the action of feigning interest in a third party to spark jealousy, and so renewed attention, from a neglectful lover.' Such a strategy is of course resource-demanding but also runs the risk of having others unite in a non-desired manner. *The third and final strategic possibility* is to leave things as they are, but to 'embed' the 'offending constraint' in a totally new relationship, thus altering the perceived overarching structural realm of the constraint. This is high-tech social engineering. It is seen when 'secondary structural holes', which imply a threat to the current exchange party because of the presence of others, 'capture the shadow of alternatives that define the negotiability of existing relationships'. The potential replacement of the original party is then hinted at, without any 'real' structural change however occurring. 'Embedding' is also discerned as the surrounding institutional context is referred to in one way or the other such as when seemingly unrelated strategic alliances are related.

In brief, says Burt (1992, p 30), referring to the industrial organization paradigm, the pursuit of relationship control via negotiation can be discerned as to *its structure* (the original presence of structural holes), *its conduct* (the motivation of being an active Tertius), and *its performance* aspects (successful entrepreneurship embodies Tertius). The natural expansion of the argument is furthermore for Burt (1992, pp 38-42) to recognize the impact of those structural, thus 'secondary', holes that eventually reside also among an actor's secondary contacts. This matters since '[t]he ultimate threat in negotiating a relationship is withdrawal'. That is, exerting too much of control might invoke the relationship party to turn elsewhere. If she can. This ability, and then threat to Tertius, depends from two things. Does Tertius have an alternative to turn to that is redundant with the relationship party to the extent that this latter can be replaced? And, are there any structural holes surrounding the secondary, indirect, contacts that Tertius is in the position to exploit? If both answers are affirmative then Tertius is not really exposed to too much of a risk. Any attempt by the original primary relationship party to counteract attempts to exert negotiated control could then meet with a firm response by Tertius who has the opportunity of replacing this party with someone else. This, Tertius' freedom to act following the presence of redundant alternatives and secondary structural holes, constitute 'redundancy as substitutability'. This freedom is neither perfectly complete (as in the neoclassical argument that focuses transactions where choice among potential exchange partners is completely free) nor perfectly restrained (as in oversocialized accounts which imply relational monopolies) but, as already said, *negotiated* within actual and potential relationships as the market process works out over time (Burt (1992, p 6)).

In sum, Burt's approach to Tertius Gaudens starts out in the idea that the social structure of markets has got a decisive impact for how competition unfolds. This structure is the network of interpersonal relationships, bonds that provide market resources. When two actors are not united by an interpersonal tie there is a scope for market opportunities once this chasm is bridged. If two such actors furthermore emerge as non-redundant in relation to a third party their empty relation constitutes a structural hole that this last actor can mediate by somehow uniting the two formerly unconnected parties. To have access to such structural holes around one's own contacts while being circumvented by few such white spots is crucial for competitive success. The holes then constitute social capital that pays off by being absent. This opportunity for brokerage is, thus, what invites the third party to act intrusively by the pursuit of entrepreneurship between two others. By mediating such a structural hole between two non-redundant contacts the entrepreneur can reap two forms of market benefit, information (regarding further market opportunities) and negotiated control. It is in this last instance that Tertius appears most explicit as a successful non-partisan that thanks to information possessed manages to control the negotiation of the own relationships while spanning the hole prevailing between two others. The scope for this interference resides, the structural hole apart, from some tension prevailing regarding control uncertainty within the relevant market relationships, present or underway. If there are no structural holes around, Tertius can redesign its immediate surrounding network and create such holes by for instance adding a new contact to the net. When there is already a structural hole an active (as opposed to a passive) Tertius can either go between two actors that aim at the same relation. Or, she can broker between two of its own relationships with different objectives. Both situations are viable in a market setting where Tertius emerges as a successful customer, in the first for a separate transaction, in the second for the maintenance of relationships with suppliers.

Are the arguments of Simmel and Burt viable in light of the model?

It is obvious that the works of Burt and Simmel furnish related ideas that appear insightful when competition is to be understood as a customer-induced market phenomenon. But, to what extent can they be drawn upon in the endeavor of the explanatory model formulation to come forward here? That is, do they correspond to the bricks of the model furnished so far, the core assumptions and the definition of the explanandum?

Consider first the coherence of the two versions of Tertius Gaudens with respect to the model assumptions.[32] That is, would Simmel and Burt agree with these? The least problematic in this regard are probably the second and third one, *assumptions 1b and 1c*. They posit that the triad is unbalanced with the customer in a favorable position and that there are no social ties between the suppliers. Both of these assumptions lie at the heart of the Tertius Gaudens argument. If the triad is not unbalanced *in this particular manner*, and if there are social ties between the suppliers, there is no scope for Tertius' strategies at all. That is, an opposite unbalance prevailing, with the suppliers in more of a powerful position, calls for a mechanism other than that focused by Burt and Simmel. The same holds for the case of collaborating suppliers. These particular situations are briefly commented upon by these authors, but then only as frictions which hamper the pursuit of Tertius' strategies. Simmel (1950 (1908), p 156) for instance observes that 'the buying public at large in an economy with free competition' emerges as Tertius save for the case where there is a 'coalition' between suppliers that would 'at once invert the relationship'. This is the case of collusion. The same holds for labor unionization which thus deprives the employer the original opportunity of being Tertius. Burt's argument in this vein is *as* convincing, however from a different angle. The tracing of 'his' unbalanced argument is endemic to entrepreneurial discovery, or eventual creation, of structural holes via the exploitation of information and control benefits within and between relationships. That is, an opposite triad balance might prevail but then someone else emerges as Tertius. The triad would then be 'turned around' but there would still be one actor with a

[32] As recapitulated in section II:iii in the second chapter. 1a) The parallelism of two interconnected customer-supplier relationships can be framed as a triad momentarily detached from, but in essence embedded in, the surrounding network of exchange relationships. 1b) The customer-supplier triad is unbalanced in the sense that the suppliers are relatively more dependent on the customer than the other way around. 1c) There can be no triad closure as 'horizontal' supplier social ties do not prevail.

superior position relative to two others. And if there is already a tie between the suppliers there would be no structural hole to span. They are redundant by cohesion. Burt is furthermore close to the very idea of balance when he comments on secondary structural holes (see above).

Slightly more complex is *the first assumption, 1a,* which tells about relationship parallelism as a supplier-customer-supplier triad. There are three elements to this assumption. First it is said that the actors are of a 'commercial' nature. Then it is alleged that they unite in a structural triad. Finally this triad is characterized by the parallelism of two relationships. Each of these elements is commented upon here. 1) The 'business' identity of these actors is not a problem since both Simmel and Burt provide a host of economic examples, though from totally different perspectives, mirroring this structural set-up. 2) The notion of a triad does not pose to much of a challenge to conceive of either. It is made most explicit by Simmel whose entire argument revolves around the specific characteristics it possesses. Burt refers to it occasionally, but in a less 'dogmatic' way than Simmel. Instead of using the triad as a fixed point of reference, he typically describes the micro structures at hand as 'being the third between two *or more* players' (Burt (1992, p 31, added italics)). That is, the triad is feasible, but so are also other larger structures involving more than two actors. This follows from the markets-as-networks perspective of his according to which a triad is but one of several plausible structural micro foundations of any larger whole. 3) The third facet of this assumption is the relationship parallelism. This is readily discerned in Burt's (1992, p 31) notion of two alternative 'tertius strategies', according to which actors either aim at the creation of relationships, or are part of such relationships with mutually exclusive objectives already from the outset. For Simmel, the idea of relationship parallelism within the realm of the triad is slightly more ambiguous. *On the one hand*, relationships do not seem to have an impact. This is so for two reasons. Firstly, to be the third, says Simmel, is very much to be intrusive by *suddenly* entering into a context where one did not reside before. Secondly, it is easier to be Tertius when one is emotionally detached from the two others.[33] In both cases Simmel's remarks hardly seem convincing in the realm of two parallel relationships. *On the other*, the prevalence of relationships in Simmel's argument should be obvious on at least three grounds. Firstly, a dyad is a relationship that is 'expanded upon into three' by the coming into being of the triad. Secondly, Simmel (1950 (1908), pp 61, 64) has it that the creation of ties (= a relationship) with the third is a means of getting close to this decisive actor 'from the momentary relation established by a purchase in a store to marriage'. Thirdly, one of the two strategic options available for Tertius is to create a hostility that does not prevail at the outset. But this alternative requires that there are initially two parallel contacts between the third and each of the two others, something holding also very much for the case of *divide et impera*. In sum, there seems to be slightly more that supports the presence of

[33]This is more likely when a relationship does not prevail.

parallel relationships, also according to Simmel, than the other way around. This holds in particular once one considers that Simmel's sociology in general (as seen in the preceding chapter) hardly *singles out* relationships as does, for instance, Weber's.

To conclude, both Simmel and Burt seem to side with the ideas of the three kernel model assumptions. How would they then argue in the light of how competition is framed in the model? That is, would they be willing to accept the explanandum of the model, seeing *competition as perceived freedom of entry into market relationships subject to the discretion of a third party*? As noted earlier Simmel is rather imprecise when it comes to telling what competition actually is. To him it is on the one hand structural, given the preeminence of the triad, but on the other it is akin to a fight between actors, as seen in his notion of 'business competition'. It furthermore stems from some tension, 'hostility' between two parties. Above all it is indirect, thus benefiting a third party. Burt's idea of competition is more distinct than Simmel's. As already touched upon he has it that a) competition is not a matter of attributes, but of relations, b) competition is not explicitly observed, but a relation emergent phenomenon, c) competition is not just a result, but a process, d) imperfect competition is not only a matter of power, but of freedom (Burt (1992, pp 3-6)). In addition he claims that the objective of competition is the benefits that reside with relationships in a network, something also meaning that structure, seen as relative equivalence, still matters for whether two actors compete or not. Their fate is however in the hands of a third intrusive party that hence can exploit the tension between them that originates in uncertainty of relationship control.

This established, in light of the dichotomous choices which are discussed at the outset of this chapter, the following appears. *The first dichotomous choice* (conditioning the others) states that competition is seen as a subjective phenomenon. Although not touched upon in great detail this seems readily acceptable for Simmel given his overall subjective kind of reasoning as discerned in, for instance, his discussion of exchange. Burt is definitely more ambiguous in this regard as his truly structural argument hardly lends itself to a subjective discourse. On the other hand his reasoning is far from 'objectivism' once uncertainty is dealt with. *The second dichotomous choice* claims that competition is essentially imperfect, something explicitly endorsed by Burt and implicitly accepted also by Simmel. The composite character of competition, as *both* actual *and* potential embodies *the third dichotomous choice*. It relates competition as a kind of threat. This aspect is not commented upon by either Simmel or Burt but they hardly see competition as 'actual only' either. Take for instance the way in which Burt underlines the crucial impact of uncertainty of relationship control for Tertius' invoking of competition. *The fourth dichotomous choice* claims that human conduct is endemic to competition. This view inheres very much in Simmel's social analysis but also appears remarkably clear in Burt's discourse on players who pursue strategies. *The succeeding, fifth, dichotomous choice* says that competition occurs for relationships. This position is overtly recognized in Burt's reasoning on social capital. As commented on above Simmel is slightly more opaque, though not directly unsympathetic, in this regard. That price is not in sole reign as a competitive tool, *the sixth dichotomous choice*, is also more obvious in Burt's argument than in Simmel's. It seems however that also Simmel, by relating 'the sociological means of persuasion or conviction ... in short ... psychological connection' subscribes to such a stance. The social character of competition, *the seventh dichotomous choice*, is hardly disputed by either of the two sociologists, the same holding for *the ninth and last dichotomous choice*, the indirect character of competition at the heart of their reasoning on Tertius Gaudens. *The eighth dichotomous choice*, finally, has it that competition is 'a process within a structure'. This is, literally, Burt's argument whereas Simmel does not fully recognize these dynamics. There is good reason to believe, however, that his vivid illustration of the Tertius Gaudens argument reflects the adherence to also more of a dynamic type of reasoning within a structural frame. *To conclude, it seems as if both Simmel and Burt are in the position to 'accept' most of the dichotomous choices undertaken, be it to varying degrees. This, together with their 'tolerance' of the three model assumptions delineated above, renders them eligible as sources of inspiration when the explanans of the model is to be worked out.* That is what follows now as more bricks to the model are provided.

iii. The principles guiding the formulation of explanans

Whereas the first paragraph of this chapter provides the model-to-be-formulated with a workable definition of the explanandum, the above section furnishes the model with the social mechanism that renders it alive. That is, the idea of Tertius Gaudens is the 'soul' of the model, its main 'theoretical fuel' *given its main underlying assumptions*. The paragraphs now to unfold set out to elaborate the model further by supplying its explanans, the 'causal' parameters that somehow are to impact competition and hence explain it. Once this is in place what then remains is the *exact* definition of the model agency to follow at the outset of Chapter VI. That is, whereas the explanans constitute the *general* agency of the model ('what is it that impacts competition?') its *specific* agency to come forward only later in the text is about how this impact works out in detail. The 'identity' of the explaining parameters are learned about in the first instance and *the very way in which they explain by means of causal associations* is discussed thereafter. As opposed to the more abstract social mechanism having been provided above, the explanans to follow below, just like the explanandum, must however be made workable if further model analysis is to be possible.

The explanans, once having been identified and fully supplied with exact definitions, is what is to explain competition in the model according to the definitions thus provided. That is, *by tying the prevalence of certain events, by concatenating them in a defined context, a particular type of a customer-geared competition is understood by the provision of an answer to the question of 'why, and / or how this competition?'. The events are then discerned in the* *explanans as an input, that, through the social mechanism of Tertius Gaudens as conceived of here via a specific model agency, gives rise to the explanandum, customer-geared competition.*

As said, whereas this paragraph supplies the explanans as 'general' agency (they tell that there is in fact a causal connection between them and the explanandum), the specific nature of this agency will appear only in Chapter VI. These explanans are obviously derived from on the one hand the assumptions that underlie the model and on the other the theoretical scaffold erected so far.[34] It furthermore goes without saying that these explanans must be somehow tied to competition. It is also clear that the more the explanans can be seen in light of some of their alternatives, the more 'telling' they will be in the explanatory sense of the word. That is, the more general, and thus flexible, the very *idea* behind the explanans, the more productive they will appear. This is why the present section contains a description of two guiding principles that immediately precedes the very formulation of the explanans themselves.

The two principles chosen follow from the reasoning provided by Weber (and accounted for in Chapter II). Given the nature of man, it is said, he is a product both of the scarcity of means for survival and of his association with like others in this struggle. That is, there is a socio-economic interlinkage which implies that phenomena in general and action in particular are subject to this connection. This means that 'economic' and 'social' forces are at play simultaneously, that they condition each other. This is seen in Weber's idea of economic social action. The two corresponding disciplinary realms are obviously economics and sociology where the former in general tends to emphasize scarcity-induced individualistic issues whereas the latter is more inclined towards the understanding of associations and dependencies. Accordingly, the two principles are to orient the argument towards an understanding of competition pillared by the claim of Weber. These two guiding principles are by no means the only ones feasible, not even within the framework outlined. The choice of them does however claim to be the most relevant given the assumptions of the model.

The first guiding principle, mostly sociological in character, is much inspired by the very emergence of sociology as a social science different from economics. Turner (1991, pp 33-51) insists that a common denominator of the very first sociological contributions is their anti-utilitarianism that eventually renders the system-like biology of Darwin (and others) its main source of inspiration. This is discerned in the organicism of Comte and the functionalisms adhered to by Spencer, Durkheim, and anthropologists like Radcliffe-Brown and Malinowski. The social whole is here assigned primacy over whichever constituent parts. Here to conceive of actors as independent elements of the whole ('atomistically') is not feasible. A core aspect of (early) sociology is then the close relation between the whole and its constituent parts in

[34]As seen in for instance the works of Simmel and Burt above.

terms of mutual dependence. Corresponding arguments are found in the sociological dispute over the eventual legitimacy of various forms of individualism (confer Udéhn (1987)). Staying with but challenging the early sociological agenda, Wrong (1961) sets out to deprive the sociological discourse of its 'oversocialized conception of man'. This way of reasoning is allegedly inherent to sociology in its role of opposing utilitarianism and classical economics. But, argues Wrong (1961, p 190), '[i]t would be ironical if it should turn out that they [the early sociologists] have merely contributed to the creation of yet another reified abstraction in socialized man, the status-seeker of our contemporary sociologists'. To Wrong (1961, pp 191-192), the human being is 'social but not entirely socialized' in the (Freudian) sense. Socialization (here) implies the 'process of being human by interacting with others' without however being 'completely molded by the particular norms and values of [their] culture'.[35] More of a contemporary discourse, emergent within the economic sociology of development, revolves around the same overall theme but now in more of a fine-grained version that impacts the coming into being and termination of social relations. By opposing and then dismantling the dichotomization of purely rational ('independent') agency versus entirely cultural ('dependent') outcomes in this context, Woolcock (1998) furthers a combination of these forces that results in a number of ideal-types for economic development. The core bricks hereof, found at either end of a dependency continuum, are *autonomy* ('total independence') and *embeddedness* ('full dependence').[36] Autonomy is, from its earliest conception in forms of utilitarianism, closely related to the emergent (neoclassical) idea of (perfect) competition. This is also the going concern of the contemporary discourse on competition.[37] Some form of independent agency is always preferable in this regard. That is, the idea of competition is inextricably imbued with the notion of independent striving as *autonomy*. Also *embeddedness*, by way of Weberian appropriation, has got such a clear (though opposite) impact on competition. The combination of the two constitutes the 'sociological' guideline to inspire a more precise agenda of inquiry in this thesis. That is, the first guiding principle to cast light over the relationship parallelism in the ideal-type triad explaining competition is *autonomy-embeddedness*.

The second guiding principle deals with the ability to seize market opportunities. This is at the heart of Austrian economics market theory which centers around heterogeneity of human action. The essence hereof is that some gain a market advantage as they are prone to see what others do not see. This difference propels the entire market process as it constitutes an incentive to gain. The prone ones hence derive an arbitration profit which stems from the fact that others are different in this crucial sense. This idea of entrepreneurial alertness, 'to see

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[35]The opposed view allegedly implies, among other things, that in case someone does *not* internalize norms, that very someone is 'unsocialized', 'a feral or socially isolated child, or a psycopath' (Wrong (1961, p 188)).
[36]This an ideal-type use of 'embeddedness' is obviously closer to the original idea hereof by Polanyi (1944, 1992 (1957)) than to its more contemporary application following Granovetter (1985). Confer Appendix C.
[37]This is seen in Western antitrust legislation.

what others do not see in terms of potential market opportunities', is endemic to the Austrian discourse, in particular as it is formulated by Kirzner (1973). This alertness resides in some actors but not in all, since the scope for *entrepreneurship* performed by some is opened up by others not 'seeing' and hence *being ignorant*. To exert entrepreneurship means to induce competition into, to fuel, the market process as opportunities are discovered and exploited. In a world of ignorance there cannot be any competition as there is no entrepreneurial agency that pushes the market forward. After a few initial entrepreneurial discoveries there is simply nothing more to 'see' in such a stalemate and hence nothing to gain from. In consequence, the second guiding principle, more dynamic in character and assisting the first (autonomy-embeddedness) in illuminating the triadic relationship parallelism thus to explain competition is *entrepreneurship-ignorance*.

In all brevity, autonomy-embeddedness is about the 'tightness' of the market as to how it is in fact structurally manifest whereas entrepreneurship-ignorance relates dynamics / statics as market opportunities are enacted or not. The function of these two principles here is then to guide the manner in which the relationship parallelism in the ideal-type triad can constitute explanans of customer-geared competition. In each of the two ideal-type customer-supplier relationships both autonomy-embeddedness and entrepreneurship-ignorance prevail. They are continuous constructs and each relationship in consequence displays a certain 'position' on each of two continua. That is, the two customer-supplier relationships can conceptually be characterized in two ways. First, as to their respective position on a figurative scale between autonomy and embeddedness. And then on a likewise figurative scale between entrepreneurship and ignorance. *It is the parallelism of these two 'positional set-ups' that constitutes the explanans, that is, how the customer in the ideal-type triad affects competition between the two suppliers, the explanandum.*

Since these two principles are somewhat abstract they must be slightly modified before any articulated agency can come forward. That is, in order to render these guiding principles, entrepreneurship-ignorance and autonomy-embeddedness, sufficiently workable (for the model to be analyzable), they must be refined. They can then be combined in a way that generates new and more distinct notions thus tentatively assisting in the understanding of competition given the assumptions made. If one sees each principle as a continuum it is obvious that entrepreneurship, ignorance, autonomy and embeddedness each represents end points of the respective continua. By combining the guiding principles it is further clear that four alternatives emerge, 'autonomy + entrepreneurship', 'embeddedness + ignorance', 'autonomy + ignorance', and 'embeddedness + entrepreneurship'. Each of these four combinations can tentatively assist in explaining customer-geared competition. That is, *the two customer-supplier relationships can be analyzed, as to their impact on supplier competition, according to the prevalence of each of the combinations of guiding principle* *features*. The combination of autonomy and ignorance then seems to represent a kind of 'atomistic (customer) striving' whereas the putting together of embeddedness and entrepreneurship instead displays signs of some kind of 'socially induced entrepreneurship'. Neither of them will however be subject to an in-depth analysis in this dissertation. Instead they will come forward only in Chapter VI as analytical alternatives thus illuminating the explanans de facto chosen in this text. These are 'autonomy + entrepreneurship' and 'embeddedness + ignorance'. The former of these is inherently dynamic and expresses entrepreneurship. It is called 'customer alertness'. The latter is labeled 'social capital', is rather stable, and articulates the crucial role of social relationships and what goes on therein. In consequence, *these two explanans, as discerned in the parallelism of the two ideal-type customer-supplier relationships, connect to the explanandum (competition between the suppliers) as the general agency of the model by means of Tertius Gaudens. Thus tied to the explanandum they constitute the particular social mechanism of this text, a 'socio-Austrian Tertius Gaudens'.*

iv. The first explanans, customer alertness

Customer alertness, the combination of autonomy and entrepreneurship, is the particular type of discovery that entails the seeing of hitherto unnoticed supply market opportunities. As it derives directly from the Austrian market idea it is inherently dynamic and embodies the entrepreneurial dimension of human action. *The autonomy aspect* of customer alertness is discerned in the Austrian notion of methodological individualism wherein the social context, although influential, in the end will always be second to the role of the individual (see Chapter VIII). In this respect autonomy also epitomizes the purposeful calculating actor within an ever-changing means-ends framework. *The entrepreneurship aspect* of customer alertness, its sine qua non, is elaborated upon below.

What is customer alertness?

The main character behind the idea of customer alertness is Kirzner (1973) according to whom entrepreneurship is the overall lubricant of the market process. Alertness is here the particular feature of entrepreneurship that fuels these dynamics towards market equilibrium as opportunities are being discovered via unorthodox knowledge. This means that market potentials as such are not 'created' but merely 'noticed' as actor plan coordination successively improves. Alertness as such is however a rather vague term reflecting 'to know where to look out in order to know what is not known'. That is, it is a sort of ambiguous propensity that emerges from profit opportunities. 'We [simply] cannot explain how some men discover what is around the corner before others do' (Kirzner (1979, p 8)). If we could, this alertness would no longer constitute a *unique* propensity inhering in some and not in others. That is, just like successful competitive strategies, if fully realized by all, they would no longer constitute a discriminating factor. In the present context alertness is discerned as a property that eventually characterizes a customer that by way thereof discovers opportunities that already reside in the supply market. What is more, this discovery somehow affects the way in which two suppliers, in light of the alertness exerted by their common customer, relate to each other in terms of competition. Customer alertness hence implies the proneness to somehow impact competition between suppliers. It is certainly not about 'creating competition' by interfering in any manner with a particular market order (a scenario more in the spirit of Schumpeter) but merely the potential invoking, or curtailing, thereof.

Following the rather vague character of Kirzner's reasoning in this regard, it is not entirely clear how the propensity of customer alertness can be figured out in more of an elaborated vein thus constituting a workable model explanans. In contrast to both the explanandum (competition) and the other explanans (social capital) customer alertness is a most juvenile concept. As an idea it is (to the extent that it really can be said to prevail prior to the coming into being of this text) hence far less mature and much more subtle than that of social capital. This means that there is a genuine need to 'construct' customer alertness here to render it within reach for the model. To 'construct' here means to erect from beneath with the help of bricks already available that come together in a new fashion.

According to the market assumptions of the model it follows that what will happen in the future cannot ever be known, only imagined. This is readily discerned as the market is perceived as an indeterminate process. The main reason for this indeterminateness is the ubiquitous uncertainty that resides in any context of human action. This uncertainty is 'structural' and in consequence future market conditions cannot ever be related in terms of knowledge that is deliberately *sought for*. Instead some particular insight is *discovered*. Part of the uncertainty is however overcome as actors cling to institutions such as market relationships, something which renders the future somewhat less unimaginable. There will always be *some* uncertainty left that does not lend itself to be reduced. This uncertainty 'hides' and embodies profit opportunities that reside in the market and that actors in general are ignorant about.[38] They do not see how the coordination of market plans could be improved. There will in consequence be scope for an *asymmetric* reduction of uncertainty among individuals. The meaning hereof is that some actors are slightly less ignorant than others. They see slightly more. This, the propensity to see what others do not notice, be it in supply or customer markets, is hence not evenly distributed among individuals at each point in time. Some are, sometimes, more prone to discover what could be accomplished. *In noticing supply market opportunities hitherto not discovered by others, some customers display alertness and in thereby seizing market potentials they exercise entrepreneurship for*

[38]These market opportunities thus stemming from the ignorance of others is made up by 'resources (broadly defined) [that] are under- or overvalued relative to their uses' (Ikeda (1994, p 24)).

which they are gratified by earning a profit. This means that they assist in 'coordinating' the plans of all actors by 'pushing' the market process closer towards an equilibrium.

Maybe an alert customer here manages to find an entirely new source of supply that allows this customer, in its role of supplier, to serve the own customers much better than before. As competition furthermore inheres in the market process it follows that it cannot remain unaffected by this exercise of entrepreneurship. Apart from improving the own competitive stance, and that of its customers, this entrepreneurial undertaking will necessarily also influence how competitors in the supply market relate one to the other. Competition, as defined in this text, will necessarily change as the way in which suppliers perceive that others could accomplish more or less identical 'relationship tasks' as themselves is contingent on how the customer chooses to go about. *Once this competition is realized, it is an outcome of entrepreneurship in general and alertness in particular thus spurring the market process.* To grasp customer alertness in the following this brief sketch will be elaborated in accordance with the ensuing market logic. By starting out in the notion of uncertainty, alertness is identified as a unique prescience of coming to grips herewith within the realm of entrepreneurship that is exercised in the supply market. *This entrepreneurship is a dimension of human action on the verge of true conduct wherein customer alertness is manifest through the notion of choice, an agency then with likely influence on competition in the supply market.*

Uncertainty

A fundamental observation as to the Austrian treatment of uncertainty is its tight interlinkage with the acting human being (confer Prychitko (1994, p 79)). The ever-present uncertainty entails that there is no fixed information framework in place subject to which 'standardized' *re*action can unfold in a stimulus-response sort of manner. The omnipresence of uncertainty instead necessitates (pro-)action by humans that in itself frames the future 'outcome' of uncertainty via creative imagination. Even though implicitly brought up also by the Austrian pioneers, it is the manifest of Mises (1963 (1949), pp 248, 105) that most comes to mind.

> [Human] [a]*ction is to make choices and to cope with an uncertain future. ... The uncertainty of the future is already implied in the very notion of action. That man acts and that the future is uncertain are by no means two independent matters. They are only two different modes of establishing one thing ... If man knew the future, he would not have to choose and would not act. He would be like an automation, reacting to stimuli without any will of his own.*

That is, uncertainty entails human action as choice. Given that it is the future uncertainty that is of interest (that is, not any ex post interpretation of 'what actually *did* happen?') this way of reasoning presupposes a most dynamic conception of time. Some of the contemporary Austrian discourse on the matter (as discerned in the influential contribution of O'Driscoll Jr and Rizzo (1996 (1985), pp 52-62, 64-6, 71-74, 76-79)) owes a debt to the early 20th century philosopher Bergson.[39] The core of the thus derived claim is that to be analyzable within an Austrian frame of thinking, time is 'real time'. This concept is very much opposed to the conventional notion of linear homogeneous 'Newtonian time', that allegedly displays a 'mathematical continuity' that cannot be a part of a processual market view. Real time is then not 'spatialized' as in subjective planning, but rather (in itself) an enacted 'flow of experiences'. The somewhat extreme, but still intriguing, consequence is that if 'nothing happens', this heterogeneous and 'dynamically continuous' time will cease to pass. This view of time is then essential for an Austrian 'genuine', 'completely endogenous', and open-ended conception of uncertainty. In being endogenous in character, uncertainty is also 'ineradicable' in the sense that it can never be fully overcome, but neither is it complete.[40] Future events are then on the one hand imaginable as they are 'typical', meaning that actors can assign some accuracy to their plans. On the other hand the effect thereof is in part offset by the detailed uniqueness of every conceivable event which embodies genuine uncertainty.[41] A central element of Austrian human action is furthermore that the entire means-ends framework, and not only that elaborating a restricted maximization principle, is subject to scrutiny. A consequence hereof is, according to Langlois (1994a, pp 118-120), that Austrians preoccupy themselves with a Knightian *structural uncertainty*. This means that the actor does not possess knowledge as to the 'problem structure' faced. *What is not known is not known.* The claim is of course very much in opposition to a neoclassical setting where the actor knows ex ante what is not known (the problem has got a structure). The thus ensuing ('neoclassical') uncertainty will then necessarily be 'parametrical' in character in that the actor has a good initial understanding of different possible states of affairs but lacks information as to the precise values that variables will have taken on ex post.

Even though uncertainty is not Kirzner's main concern, his more recent writings pay slightly more attention thereto than what does Competition and Entrepreneurship (1973).[42] He (Kirzner (1992a, pp 4-5)) is however keen to claim that he himself does not subscribe to a notion of *radical* uncertainty (close to that of O'Driscoll Jr and Rizzo related above) which renders any economic activity entirely void of equilibrating tendencies through coordination. Kirzner (1994a, pp 108-109) however points out that once entrepreneurship is conceived of as 'intertemporal arbitrage', uncertainty must necessarily be part of the framework. The reason

[39]Kirzner is in fact not that much preoccupied with time, something that makes his analysis of entrepreneurship somewhat weak in this regard (confer Vaughn (1998 (1994), pp 145-150).

[40]Confer the well-known Keynesian beauty contest which implies that 'I guess what you guess that I guess that you guess that I guess that you guess ...' et cetera in a never-ending chain of guesses that embody uncertainty (O'Driscoll Jr and Rizzo (1996 (1985), pp 72-73)).

[41]It should however be noted that Kirzner (1994c, pp 38-44) displays some criticism against the view furthered by O'Driscoll Jr and Rizzo who allegedly hold sort of an ultra-subjectivist view, devoid of market equilibrating tendencies. The difference in opinion lies in that while Kirzner recognizes the presence of equilibration despite uncertainty, the former loses much of its meaning in the view of O'Dricoll Jr and Rizzo.

[42]Vaughn (1998 (1994), p 102) argues that 'Kirzner downplays uncertainty and turns the entrepreneur into a riskless arbitrager'.

for this is that uncertainty opens up future profit opportunities for the uniquely entrepreneurial imagination. If there was no uncertainty, it would not be possible to derive any profits from intertemporal boldness. But in being that bold, the entrepreneur does not really *shoulder uncertainty* (which simply is not done given the ubiquitous nature of its genuineness) but she *shoulders it aside* by recognizing the referred opportunities. That is, uncertainty is not terminated, but 'handled'. By deciding to act, uncertainty is overcome in the seeing 'through the fog of uncertainty' (Kirzner (1992b, pp 89, 97)).

> *Although the essence of the entrepreneurial function does not lie in the bearing of the burden of sleepless nights (occasioned by worry about losses), this function would evaporate entirely in a world unclouded by uncertainty. One can act entrepreneurially only in an uncertain world; conversely, ... to act in an uncertain world must mean to exercise, at least to some degree, one's capacity for entrepreneurship. ... To act in the face of uncertainty is thus to believe -correctly or otherwise- that one has seen a genuine opportunity through the fog that almost obscured it.*

Kirzner (1992a, p 27) also emphasizes that the to-be-imagined future encompasses the outcome of the entrepreneur's own actions. This fact gives rise to some ambiguity since something subject to one's own action should be relatively controllable. But, '[t]he entrepreneur is not so much choosing a course of action that shall be *appropriate to the "realities"* as he is choosing among alternative imaginable realities that his prospective action may be initiating.' And (Kirzner (1992a, p 228)), '[t]he greater the degree of his alertness, the greater the likelihood that the "future reality" which will in fact grab his attention will be that which will in fact turn out to be the case.' Action in the light of uncertainty (or, more precise, in the dimming fog thereof) however presupposes 'a degree of alertness to what is 'around the corner''. This is another way of putting 'the exercise of the human entrepreneurial propensity' that under the claim of this thesis somehow will affect competition. So what is that propensity?

Alertness

There is an air of paradox in Kirzner's idea of alertness. Apart from being the most sophisticated aspect of contemporary Austrian ideas on entrepreneurship, it is not a very well elaborated concept. Its character is fuzzy. Given its alleged central role for market process theory this is somewhat alarming. Be that as it may, the following is accounted for so far in the course of this chapter and the previous one.

1. Alertness is closely tied both to entrepreneurship and to knowledge.
2. The knowledge discerned in alertness is knowledge not known of beforehand and deliberately searched for, it is more the cause of unintended discovery ('surprise').
3. Entrepreneurship entails action in one form or another, something not really being the case for alertness that is the insight regarding new means-ends frameworks which

precedes conduct.

4. Whereas entrepreneurship might also entail error, alertness implies that market opportunities are in fact grasped as actor plans are brought more into coordination.
5. The antithesis of alertness which renders its role unique in a market process context is inexorable ignorance *on the part of others* concerning what is not known.
6. Tentative definitions of alertness do not abound, but those that do point towards 'the propensity to know where to look for information' in a vein akin to imagination (Kirzner (1973, p 68)).
7. It is not entrepreneurship, but opportunities for market profits, that somehow spur the emergence of alertness. How this actually comes about and with whom is however unclear apart from the notion that it is a unique 'market gift' that accrues to some and not to all. Some are simply more alert than others in particular situations.[43]

The most precise identification as to the inner character of alertness is most likely that of Kirzner himself (1992a, pp 26-27). Alertness is interpreted by him as some kind of exclusive prescience, the uniqueness of which implies that the ignorant mistakes committed by some are sources of profit for others and this *realized* opportunity is 'what sparks the entrepreneurial imagination of the more prescient, the more "alert" among human beings.' Hence, it is the profit-within-reach that ignites entrepreneurial alertness (Kirzner (1985, pp 11, 27)). But this prescience also has to be creative in the sense of 'fertile imagination'. That is, there is a certain quality to alertness that matters, inhering in 'the capacity independently to size up a situation and more correctly reach an imagined picture of the relevant (as yet indeterminate) future.' That is, well-developed and meritorious imagination being something more than pure guessing. In fact it is closely connected to *the context* wherein decisions, mirroring imagination imbued with high-quality considerations, emerge.

> *Entrepreneurial alertness is not an ingredient **to be deployed** in decision-making; it is rather something in which **the decision itself is embedded** and without which it would be unthinkable.*[44]

Whereas entrepreneurship in general then is said to be inspired by future imaginations as such, it is alertness that really reaches out for them 'and it is the *prospective gain offered by these realities* which "switches on" entrepreneurial alertness.' So, opportunities are omnipresent due to actors' ignorance, but the realization thereof needs sort of a sparking plug, alertness. In connecting this argument to that of the purposeful Austrian human actor, Kirzner further (1994a, p 107) positions alertness midway between the maximizing economic actor subject to a given framework, and pure luck accruing to anyone concerning the discovery of opportunities. This is an observation that is much tied to the notion of a particular kind of

[43]As to the dubious character of what it entails to 'be alert in an entrepreneurial way', confer Ricketts (1992, pp 81-82), Vaughn (1998 (1994), pp 117-118).

[44]Kirzner (1980, p 11)

spontaneous market order which results from action, but not from design. Purposeful alertness then is 'a generalized intentness upon noticing the useful opportunities that may be present within one's field of vision'. Loasby (1992, p 145) relates alertness in the same vein as 'the ability to make effective use of an interpretative framework and imagination as the ability to create a new framework.' Looking deeper into the alleged spark that ignites alertness that results in opportunity discovery, Kirzner (1992b, pp 86-87) emphasizes the non-windfall character of alertness in noticing that had no alertness been in place 'this opportunity may have remained forever hidden and unexploited ... [and] ... [a]t the moment when this opportunity comes to be noticed, its existence impinges upon its potential beneficiary as a flash of light, as a discovery.' Others' comments touch on alertness as sort of a 'causal power' (Mäki (1992, p 42)), whereas 'pure entrepreneurial profit' must be considered 'return to alertness' according to Ricketts (1992, p 68).

Entrepreneurship

Alertness however cannot exist in isolation but only as the micro-foundation, or the most delicate aspect, of entrepreneurship, the twin dimension of exchange constituting human action. That is, to really grasp this 'alertness necessary for the discovery of opportunities' (Kirzner (1994a, p 107)), entrepreneurship per se (to the extent that it is in fact separable from alertness), must also be looked into. In its Kirznerian guise, entrepreneurship hitherto (in the immediate above and in the Austrian account of competition in the last chapter) appears as follows.

1. Entrepreneurship can only be in a non-determinate market context as equilibrium entails that there is no scope at all for entrepreneurial activity since profit opportunities are absent.
2. Entrepreneurship constitutes the dynamic dimension of human action that spurs the market process and as such it has, on the one hand, got a unique mutual interplay with economizing behavior that it complements and on the other competition that it both embodies and gives rise to.
3. Entrepreneurship is seen both in consideration of actor plan compatibility and in actual conduct adjusting these plans towards improved plan coordination (= equilibration devoid of equilibrium).
4. There are elements of speculation (most deliberate and always entailing purposefulness in the light of acquired experience), arbitrage, and innovation endemic to entrepreneurship, all of which being second to alertness however.
5. Pure entrepreneurship is void of resource ownership but replete with ideas as to how resources can be put to their best use in the light of customer demands, something meaning that anyone could *in principle* act entrepreneurially anytime.
6. Entrepreneurship might at times err in the sense that actor plan coordination in fact

worsens, although this is not a prevailing tendency. This misallocation of resources gives rise to further market opportunities since the mistakes committed constitute a scope for new entrepreneurial action.

The Kirznerian entrepreneur is very much a product of its Misesian predecessor in that entrepreneurship is what propels the market process. The two however differ in at least three ways. *First*, the alertness related above does not slavishly follow Mises' emphasis of pure speculation (Mises (1963 (1949), pp 252, 290). 'Like every acting man, the entrepreneur is always a speculator. He deals with the uncertain conditions of the future. His success or failure depends on the correctness of his anticipation of uncertain events. If he fails in his understanding of things to come, he is doomed.' There is thus more of luck here, something explicitly negated by Kirzner. *In addition*, Mises' entrepreneurship is more universally prevailing in all actors whereas that of Kirzner is framed as more of an exclusive property only of some (Mises (1963 (1949), pp 252-253).[45] 'This function [entrepreneurship] is not the particular feature of a special group or class of men; it is inherent in every action and burdens every actor.' *Finally*, Kirznerian entrepreneurship is much closer connected to competition, the reason why it is so crucial an argument in this text. A kernel idea of entrepreneurship to Kirzner (1973, pp 31, 33-34, 36) is furthermore its inhering in active human behavior that both entirely frames, and acts efficiently within, means-ends frameworks manifest in the market process. As such it embodies some sort of 'arbitraging act'. The entrepreneur appears as a value-creating broker that seizes opportunities and thus 'gets the market rolling' by connecting what was hitherto not connected. This 'tying together' subsequently spurs new opportunities. Admittedly, there is a problem here by delineating properly what is *active* (human action as such) and *reactive* (response to prevailing market opportunities).

Whereas alertness is a truly Austrian term this is certainly not the case with entrepreneurship. If anything, this is the area where Schumpeterian and Austrian economics appear at times mixed up. They are said to mean the same thing. But this is not so. Schumpeter is simply 'too neoclassical' also for Kirzner. The most crucial case in point is the role of *equilibrium* somewhat endorsed by Schumpeter but fully refuted by Kirzner that instead focuses *equilibrating tendencies* towards this state of determinate rest that however never is attained (confer Kirzner (1973, pp 72-73, 80-81, 92, 125-127, 1979, pp 115-118), and Blaug (1998, p 230)).[46] This difference *does* matter as the stance towards determinateness is indeed most decisive for the way in which a market can be grasped. A Schumpeterian entrepreneur then breaks away from an existing order, he is creative and active. His Kirznerian counterpart

[45]Caldwell (1992, p 62) is sceptical of this narrow 'chosen few' view of Kirzner and says that the Austrian argument should be more general in emphasizing that everyone is prone to be alert but that not all 'choose to exercise' this trait.

[46]So, whereas Schumpeter focuses 'creative destruction', it is viable to posit that Kirzner is more into the 'destructive creation' of a market order by way of entrepreneurship (confer Snehota (1990, p 133)).

instead improves market coordination in the direction of such an order merely by reactively noticing what is in fact already present, *but mostly not noted.*

> [I]*n fact these* [Kirznerian and Schumpeterian arguments] *involve strikingly different conceptions of the purpose of a theory of entrepreneurship. Kirzner's formulation, whether in its earlier or later versions, was geared to the explanation of market processes, that is, to the way in which markets actually succeed in reaching a final equilibrium state* [whereas Schumpeter sets out to understand technical change in a growing economy]. ... *The entrepreneur in Kirzner is someone who buys cheap and sells dear in circumstances where others are resting on their laurels. The entrepreneur in Schumpeter is almost but not quite a swashbuckling business tycoon. No wonder these two images cannot be made to jell.*[47]

In the area of customer alertness it is obviously important to find out about the degree to which entrepreneurship also entails *the active creation* of something which mirrors market opportunities. As already noted, whereas alertness per se involves no creative element, the picture is slightly more blurred once entrepreneurship is considered. In this respect it seems beyond doubt that there *does* prevail a difference between the Schumpeterian and the Kirznerian entrepreneur as the former is a creator and the latter someone who fulfils much more of a passive role.[48]

> *Entrepreneurship is seen as the* ***responding*** *agency; the alertness of the entrepreneur to profit possibilities is seen as the social mechanism ensuring that society will capture the possibilities available to it. What the entrepreneurial element in individual decision making is to the individual, the entrepreneur is to the market economy. All this is missing in Schumpeter's scheme.*[49]

Is it still viable to posit that Kirznerian entrepreneurship entails at least *some* creativity, thus somehow resulting from the presence of alertness? Kirzner is well aware of this ambiguity and pays explicit attention to it in his original writing on the subject (Kirzner (1973), p 74). 'I view the entrepreneur not as a source of innovative ideas ex nihilo, but as *alert* to the opportunities that exist *already* and are waiting to be noticed ... as responding to opportunities rather than creating them.' However, as observed by Ricketts (1992, p 74) there seems to be some evidence that Kirzner later on has given the entrepreneur somewhat more of a creative role. This is also distinguished by Loasby (1992, p 143) in that the entrepreneur allegedly creates a future framework within which action is subsequently to unfold. Kirzner himself (1998a, p 21) only later takes on a somewhat more reconciliatory stance towards Schumpeter by saying that his own position is more 'from inside' and Schumpeter's more 'from outside'. Still he argues in favor of less of a genuinely *creative* entrepreneur.

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[47]Blaug (1998, pp 231-232)

[48]'Der er dog samtidigt den nuance af forskellig opfattelse hos Schumpeter og Kirzner, at for Schumpeter består entreprenørfunktionen i højere grad af et element af handlekraft i forbindelse med selve udførelsen. For Kirzner er entreprenørfunktionen en funktion, der er snævert knyttet till *opdagelsen* af ex ante gevinster (Elkjæer (1992, p 52)).

[49]Kirzner (1979, p 117)

> [W]*hile the opportunity to be discovered is often indeed the opportunity to be created, this truth should not obscure the more fundamental insight regarding entrepreneurship ... that for any entrepreneurial discovery creativity is never enough: it is necessary to recognize one's own creativity. In other words, an essential ingredient in each successful creative innovation is it's innovator's vision of what he can creatively accomplish.*[50]

That is, it is the recognition of this potential, more than creativity as such, that embodies entrepreneurship. This holds, says Kirzner (1998a) also in the case where the analysis is extended beyond the one-period case (focused in his 1973 book). What is more, Kirzner takes substantial pains in distinguishing between more of an instrumental and an analytical stance to entrepreneurship.

> *While psychological and personal qualities of boldness, creativity, and self-confidence will doubtless be helpful or even necessary in order for a person to "see" such price-differentials in the open-ended, uncertain world in which we live (with "seeing" defined as necessarily implying the grasping of the opportunity one has seen), the* ***analytical essence*** *of the pure entrepreneurial role is itself independent of these specific qualities. ... Aggressive, creative or other "Schumpeterian" characteristics often or typically displayed by successful real-world entrepreneurs, play no analytical role in the dynamically competitive market process driven by entrepreneurial activity.*[51]

Customer alertness the seeing of hitherto unnoticed supply market opportunities, is not a very much elaborated concept. It is here being clarified by drawing on already available ideas anchored in the Austrian thoughts of Kirzner. The first of these is uncertainty, void of which no human action is conceivable. Austrian uncertainty is here structural in the sense that it pertains to the entire means-ends framework that faces purposeful humans. It is however not radical as future events, apart from the unimaginable details thereof, will consist of 'typifications' that to some extent are subject to anticipation. This renders the articulation of actor plans meaningful. By thus shouldering uncertainty aside an actor handles it without being in the position to dismiss it. This results from the fact than plans made by themselves imply a choice between an array of imaginable realities. To choose to act in a certain manner thus shapes the context wherein the consequence of that choice is to unfold. There is however one distinct quality that renders some market participants at times better equipped than others to take on this uncertainty. They are hence in the position to have an idea about where to look in order to find out what is behind the corner. *They display alertness, a unique prescience of high-quality foresight / fertile imagination that results in improved overall market plan coordination.* Those displaying this propensity are also able to derive a market profit as they gain from others' ignorance regarding improved equilibration of actor plans that stand out in light of their own intentness. Hence, uncertainty causes the rise of market opportunities that in their turn spark customer alertness. Whereas alertness is *the* precise device by means of which

[50]Kirzner (1994a, p 109)
[51]Kirzner (1998a, pp 12, 13)

market profits are in fact realized, the entire market process is propelled by entrepreneurship, the overarching human action framework of alertness. Although entrepreneurship is a responding, and not creative agency, at least in its analytical guise, it is still somewhat more inclined towards pure action than what is alertness. *The creative aspect of entrepreneurship is found in the recognition of a new means-ends framework which by itself is a reaction to the old ditto. That is, future creativity enmeshed with reactivity in light of the past.* While alertness per definition entails the realization of market profit, 'mistaken' exercise of entrepreneurship might in fact invoke market losses that are only recouped later by other 'more correct' acts of entrepreneurship.

Closing in on customer alertness and competition by means of a trivial example

Now that uncertainty, alertness in general, and entrepreneurship are dealt with, the time has come to let the argument close in on customer alertness itself and the way in which it might affect competition. As noted above customer alertness pertains to the supply market. Following the thesis assumption concerning competition it means that both 'actual' and 'potential' suppliers are of interest (that is those already furnishing customers with goods and those that might do so in the future). The uncertainty thus prevailing could furthermore apply to a number of factors. One case in point is the market structure. Which of today's suppliers will be around 'tomorrow' and with whom will they be undertaking commercial exchange? Other more specific issues pertain to which goods will be offered and the tools in terms of pricing, quality, distribution and communication, that will be adopted. Actor plans formulated in all of these respects are of course highly contingent on other actor plans, such as those of sub-suppliers, competitors and customers. The combined effect of these various factors is that a customer looking at a particular supply market is never faced with a fixed menu of alternative courses of action, but only an elastic means-ends framework that in part will be shaped by customer action yet to be undertaken.

Consider for example an actor (the customer of a supplier) whose goal might be to improve the quality of service rendered to its own customers vis-à-vis its competitors by reducing lead times. The actor realizes that existing own operations cannot achieve this, given the present quality of incoming goods from its supplier. However, the actor detects the possibility of achieving an improvement in its incoming goods by adapting own technical specifications for *the type of goods concerned* to conform to the specification standards in common for *other types* of goods supplied by a variety of suppliers. The actor may well have previous experience to fall back on concerning adapting own specifications to suit those of suppliers and of the resulting quality improvements, both own and among such suppliers as a result of the emphasis given to quality. Others are believed not to be aware of this opportunity for improving own customer satisfaction and there is fair reason to anticipate realization of market profit.

In this, the actor displays alertness in seeing what others do not see, thereby being in the position to reap the profit. This gain is earned on the basis that overall plan coordination improves, as suppliers are now able to draw on an established market standard that increases the quality of the actor's incoming goods. This in itself favors the own customers (further down the distribution chain) who are able to make use of final goods earlier than before. *The insight* thus gained, that the adoption of a standardized system for product specifications improves the quality of incoming goods (something increasing the satisfaction of the own customers), then manifests *customer alertness. The actual plan to undertake the change* embodies *entrepreneurship* which then means the responding to an opportunity that already resides in the market that others do not see.

This simple example shows how customer alertness could improve market coordination. The entrepreneurship displayed propels the market process as others will now feel compelled to follow this pattern of conduct. Resources can then be allocated and developed more efficiently and effectively than before. What if this customer alertness then is tied to competition prevailing in the supply market? That is, how is it viable to tie customer alertness to supply market competition in general? As defined earlier, competition is here seen as 'perceived freedom of entry into market relationships subject to the discretion of a third party'. That is, the stance taken by customers in the supply market affects how competition unfolds between suppliers. Competition is furthermore a subjective construct, something meaning that mere structural supply market data does not really matter, at least not directly. What is crucial instead is the manner in which each supplier 'watches' and perceives competition from its own horizon. Finally, the precise character of this perception is that it pertains to the ease of entry into relationships between customers and suppliers thus making up the market. In the simple example just related it is then viable to posit that the particular kind of customer alertness delineated also got implications for how competition is perceived among suppliers. Depending on whether suppliers, in relation to the particular customer in the example , are actual or potential (in terms of prevalent economic exchange), they will interpret things differently. Whereas an actual supplier might perceive competition to have increased (as relationships from a certain perspective become more 'standardized'), a potential supplier could very well feel that competition will have decreased (as the quality system thus introduced might not be known to that particular actor).

Customer alertness affecting competition

Now that both alertness towards the supply market and competition therein prevailing are illuminated by the simple example given they will be connected. As seen it is the uncertainty of the future, endemic to the market process, that entails the scope for alertness regarding profit opportunities. Apart from revealing sources of potential direct gain for the customer, this exercise of entrepreneurship is also presumed to affect competition among suppliers. This follows from the manner in which entrepreneurship spurs the market process and its likewise close interlinkage with competition, a market feature here conceived of as the way in which suppliers perceive the prevalence of unimpeded entry into buyer-seller relationships.

It should be made entirely clear that this 'supplier competition' aspect of entrepreneurship in general and alertness in particular is not at the forefront of Kirzner's own argument. This stems mostly from the fact that the greater part of his claim is illustrated with customer market situations, but also from his slightly opaque way of reasoning. When alluded to in a more applied manner, Kirzner chooses to explore *supplier* alertness in the sense that there is a 'downstream' exercise of entrepreneurship which focuses profit opportunities derived directly from customers, and the eventual propensity to be prescient as to their needs (confer Kirzner (1992a, pp 32-34)). An alert supplier then 'understands' the customer better than others do. As noted in the last chapter there is however at least one explicit exception hereto found towards the end of Kirzner's 1973 argument. In echoing both Menger (on the bidimensional character of markets) and Mises (on consumer sovereignty) Kirzner (1973, pp 44-45, 180-186) manages to reconcile the vertical and horizontal market dimensions while emphasizing in particular the role of the customer. His claim then rests upon the assumed symmetry prevailing between entrepreneurship in the demand and in the supply markets respectively, that is between buying and selling. According to Kirzner, the pure coordination of activities in supply ('buying resources') and demand ('selling products') markets then constitutes an often overlooked entrepreneurial opportunity. And once the conventional customer focus is put in the background, the supply market is readily accessible for analysis. A case in point here noticed by Kirzner (1973, p 45) is that the more external resources are relied upon in the supply market, the more of pure entrepreneurship there is in the sense that the more 'arbitrageian brokerage' is undertaken in relation to this side of the market. That is, the more dependent the customer is on suppliers, the more tangible is the scope residing there for profit opportunities to turn on customers alertness. As a result, an actor with only minor value-added operations (such as a trading house) is more eligible for customer alertness to be switched on then a mining company since there are in general far more supply market profit opportunities present in the former case. Further, if the suppliers themselves are considered as competing entrepreneurs, the bidimensional implication of Kirzner's reasoning becomes even more apparent. As noted earlier, Kirzner (1973, pp 181-183) claims that 'buying efforts' can differentiate one supplier from the other in an entrepreneurial sense. Hence, the supply market process is affected and in consequence so is competition. Thus, *as alertness is switched on 'upstream' in the 'vertical' dimension, the customer displays entrepreneurship.* In this manner the customer is also in a position to influence the way in which suppliers perceive each other. As said above this does not mean, however, that the customer - entrepreneur 'creates' competition by 'playing off one supplier against the other'. It is merely a propensity of the customer-entrepreneur to invoke a certain mode of enactment.

It is a true challenge to come to grips with how this invoking actually comes about. From what is established so far it follows that customer alertness cannot possibly be grasped as explicit conduct that overtly 'creates' competition between suppliers. This would be more in line with a neoclassical argument, maybe framed as a two-step game, à la Schumpeter. That behavior in the conventional sense of the word does not really apply lies at the heart of the idea of alertness as 'reactive' discovery. It is also adjacent to the claim about competition as being subjectively enacted by suppliers. Instead it seems viable to posit that customer alertness, in relation to this interpretation of competition, is made up of the prescience to somehow induce in suppliers the view that entry barriers do, or do not, prevail with respect to the relationships to which the customer under scrutiny is a party. By invoking the perception that entry barriers are high, suppliers will enact competition as rather limited and vice versa. But how does this invoking then actually come about in light of its alleged mediating instrumental power (that is, as agency)? That is, how can the prescience of customer alertness actually be manifest in a market context? It is obvious that the discourse is in need of yet another brick to fully work out in this regard.

This pillar is found by resorting to the very kernel idea of the Austrian argument, that of human action. It is here repeatedly stated that there are two main dimensions to human action, exchange and entrepreneurship. The latter of these, in combination with a particular kind of knowledge, is akin to alertness. If this human action then is looked into somewhat more in detail it is obvious that all action, according to Mises (1963 (1949), p 11) is 'purposeful behavior'[52]. Or more precisely, '[a]ction is will put into operation and transformed into agency, is aiming at ends and goals, is the ego's meaningful response to stimuli and to the conditions of its environment, is a person's conscious adjustment to the state of the universe that determines her life.' So action, be it exchange or entrepreneurship, is the epitome of will, but exactly what sort of action, and how can it relate to customer alertness that by itself allegedly is *re*active? Mises provides further hints in acknowledging the central role of preferences that underlie action. This indicates *that action seems to be related to alternatives that are specified according to preferences prior to the working out of action itself.* Preferences alone are however not enough to induce action as seen in people's wishes that display preferences alienated from action. To prefer sunshine to rain, says Mises, obviously does not imply that a person deliberately sets out to make sunshine come about even though the latter is preferred. As related in the preceding chapter action then indicates that someone must get involved in a more explicit manner in the course of events *even though this does not have to involve labor as such* (Mises (1963 (1949), pp 12-13, 22)).

> [A]*cting man chooses, determines, and tries to reach an end. ...* [O]*f two things both of which he cannot*

[52] Whereas exchange emerges as goal-oriented behavior within a given means-ends framework, entrepreneurship is the goal-oriented conduct that in fact frames this very framework in terms of the articulation of both means and ends.

have together he selects one and gives up the other ...

That is, choice is paramount, and this is a most general term in that someone could choose not to do anything at all. To be idle is then also a choice as one 'chooses not to choose but to abstain therefrom'. Or one chooses to act in a particular manner *but choice per se is not (human) action*. So 'to act is to choose' whereas 'to choose is not necessarily to act' as there is a conceptual asymmetry at hand between acting and choosing. That is, choice does not necessarily have to entail action which renders it a corollary of customer alertness in this sense. Both however induce future, and result from previous, action. But they do not epitomize it. That is, *human action is the broad overarching dictum of life, but within here there are aspects that are more or less directly akin to 'pure' action as 'labor'. To undertake a choice is then certainly an aspect of human action but not necessarily discerned in outright subsequent conduct.* There are, hence, other aspects of human action that are more akin to direct behavior. To be an alert customer is, then, not *primarily* to choose to act, but to choose to be eligible for market opportunities that one, however, could choose to abstain from exploiting. That is to say a choice in the latter 'responsive' sense, but not in the former, 'active', sense. For Mises, to choose is to decide among available opportunities following one's preferences. This means that a choice is not between 'good or bad' as such but merely between what is considered as good or bad in terms of eventual action. Hence, '[a]ction is to make choices and to cope with an uncertain future' (Mises (1963 (1949), p 248), something then connecting it to entrepreneurship (but, as said action is also more than that and to choose does not necessarily have to mean conduct). So, what about alertness? It is akin to, but less close to, choice than what entrepreneurship is. As noted above, Kirzner (1994a, p 109) indicates that whereas the market opportunity as such is mostly salient following others' ignorance, any creativity involved must be recognized by way of a vision of what can be attained. This occurs via alertness which means in the *first* place to choose to be subject to the spark igniting the insight of market opportunities and in the *second* to choose to act in line herewith via the pure exercise of entrepreneurship. This is discerned in plans made that by themselves also impact the 'imaginable realities' where the choice undertaken is to work out.

Provided 'choice', following Mises' identification of human action, is seized in upon as a device rendering customer alertness more within reach, despite its character of reactive agency, the inevitable next question is 'choice as to *which* market opportunity?' This issue is possibly even more ambiguous than others, especially since Mises tells that not to choose is also to choose. To grasp the sort of choice that possibly could connect to competition, it is necessary to relate the particular context wherein customer alertness, by means of choice, is to unfold. This is the supply market. The overall arena is then a market conceived of as a web of interconnected relationships. One type of relationships are those that emerge between customer and suppliers. If a particular customer in need of a particular goods is looked upon it is then viable to posit that this actor faces a specific supply market by means of which this goods can be furnished. The supply market then consists of actual as well as potential relationships between this customer and the suppliers therein. A viable assumption is also that suppliers, in general, strive to establish customer relationships as this is what provides *them* with further market openings. They can then be said to render themselves readily available for customers. That is, *customers are in the position to respond to action undertaken by suppliers*, a reaction that if it is 'affirmative' will lead to further negotiations between the parties.[53] The way in which this response comes about, whether the customer will 'accept' to develop exchange or not can then be interpreted as a choice undertaken. And this choice will then not only impact the particular relationship under scrutiny but also the manner in which this and other suppliers perceive each other. That is, *customer choice will necessarily affect how suppliers in general, be they actual or potential in relation to a particular customer or the entire market, enact competition.* This fact is endemic to the notion of relationship interconnectedness. A customer thus faces four types of choice, all of which also impact competition.

a) An actual supplier can be considered in light of other actual suppliers
b) An actual supplier can be considered in light of potential suppliers
c) A potential supplier can be considered in light of other potential suppliers
d) A potential supplier can be considered in the light of actual suppliers

It seems convenient to label a choice undertaken in relation to an actual supplier (where economic exchange is already underway) as 'internal', and that unfolding in the light of a potential ditto as 'external'. Each of the four types of choices delineated are viable in an array of market situations but, as cases in point, 'a' is found in ongoing purchasing activity, 'b' comes about as an existing supplier is eventually to be dropped and replaced by someone else, 'c' is seen when a goods previously not bought at all is to be acquired for the first time, and 'd' might occur when a particularly promising new source of supply is to be introduced, eventually at the expense of others.

In each of these considerations it is then viable to posit that the choice underway embodies customer alertness, the consequence of which, among other things, is the way in which two suppliers, be they actual and / or potential, enact competition as the presence or absence of relationship entry barriers. But, given the reactive nature of alertness, it is not the choice de

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[53]Customer alertness then entails that the customer has got a discretionary role as to the future of any relationship, be it actual or potential. This is however not to imply that the supplier is entirely passive as it is *this* actor that in the first place declares itself eligible for exchange with a particular customer, something the customer only then reacts to. If exchange *really* will come about in the end will of course be subject to further human interaction wherein both parties have got an equal role subject to the nature of power-dependency et cetera. Hence 'the customer chooses supplier from a menu put in its hands only by the supplier itself' in the first place and only then, when the supplier has declared its readiness to begin or continue exchange, can the customer's choice work out.

facto undertaken, but that pondered upon, that counts. In consequence alertness is the very 'sphere' where choice eventually will unfold, 'it is rather something in which ***the decision itself is embedded*** *and without which it would be unthinkable'*[54].

To summarize, the prevalence of uncertainty is what gives rise to supply market opportunities, the spark which ignites customer alertness that, via reactive choice among actual and potential suppliers, invokes enactment of competition among these suppliers. This reactive choice is autonomous since preferences et cetera cannot be inferred from collective ideas of action. *Customer alertness then implies the rendering of suppliers alive to the presence or absence of relationship entry barriers to the extent that the 'competitive presence' of other suppliers, be they actual or potential, are felt or not.* Whereas all action entails choice the reverse is not necessarily true. This makes customer alertness, reactive and non-creative in character, a viable concomitant of choice. In consequence customer alertness is akin very much to the *context of choice*. More of explicit agency is at hand regarding entrepreneurship in relation to which customer alertness constitutes a micro-foundation more relevant for particular events than for the market as a whole. The latter is manifest in the former that however also embodies responding agency. Entrepreneurship then reacts to a human action (means-ends) framework of the immediate past and in response erects a revised framework. It is not this creative act by itself, but the recognition of its coming into being, that is the kernel meaning of entrepreneurship. *Customer alertness is then the molding context wherein decisions, as choice, are dovetailed by means of plans concerning imaginable future supply market realities.*

v. The second explanans, social capital

Whereas the first of the explanans (customer alertness) is a concept derived from within Austrian economics, the second now to follow, social capital, is found within the sociological discourse. It is about the pattern and content of ties to others and embodies what is relatively stable and dependent in human conduct. In terms of guiding principles social capital is the combination of embeddedness and ignorance. Whereas the preceding argument concerning customer alertness appeared mostly through entrepreneurship ('non-ignorance'), with autonomy only in the background, social capital will be brought forward in the sections to follow by way of its *embeddedness aspect* ('non-autonomy').[55] When ignorance was discussed above and in the preceding chapter it was in the guise of the lack of ability to see what a few others in fact do see. That is, it embodies the common way of institutionalized human acting and thinking which is rather inert and makes things go around without necessarily changing them a lot. In the words of Mises, ignorance is prevalent in an 'evenly rotating' setting as attention is mostly paid to what is, and not to what could eventually be.

[54]Kirzner (1980, p 11)

[55]A discussion of embeddedness, in particular regarding its relation to social capital, is found in Appendix C.

One is ignorant about unique market opportunities, *but one is not knowledgeable about this ignorance*. Humans in general do not know what they do not know.[56] To be ignorant is then not to constitute an exception but to adhere to conventional modes of reflection and stable conduct according to which what is not known is of minor interest. Ignorance reflects the uncertain future. In the model the *ignorance aspect* of social capital will not really have a distinct significant meaning of its own except as a corollary to embeddedness.[57] Seen together, ignorance and embeddedness here thus constitute social capital. Although not on par with competition it is a concept that is significantly more developed than customer alertness.

There is the old saying implying that what really matters is not *what*, but *whom*, you know. This acknowledges the social meaning of life. In addition there is an *as* eternal concept, that of capital, broadly defined as resources apt to generate a pay-off. By relating these two, the former can be said to constitute one sort of the latter. That is, to know someone is in itself a valuable asset that eventually produces further resources. This insight has a mass of applications, among those that of regional planning, something drawn upon by Jacobs (1992 (1961), pp 112-140). The emergence of communities in New York City by means of 'use of neighborhoods' is here better understood by relating the appearance of 'district networks' held together by people's mutual knowledge of each other. This constitutes a true asset for any neighborhood.

> *If self-government in the place is to work, underlying any float of population must be a continuity of people who have forged neighborhood networks. These networks are a city's irreplaceable social capital. Whenever the capital is lost, from whatever cause, the income from it disappears, never to return until and unless new capital is slowly and chancily accumulated.*[58]

As noted by Woolcock (1998, p 184), '[social capital is] the most influential concept to emerge from economic sociology in the last decade'. The ensuing pages will furnish an account thereof that starts out in some general definitions and ends up in more of a precise identification with particular emphasis on how it can contribute to this text as one of the two model explanans.

Reaching out for an initial definition of social capital

Although, (as noted by Portes (1998, p 2)), its idea is very much part of Durkhemian and Marxian thought, the explicit notion of social capital can be traced back to the early twenties

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[56]The antithesis hereof is any argument revolving around the 'imperfect' character of information thus presuming that one knows very well what it is that is not known, sometimes even at an explicit cost.

[57]This alleged interlinkage is however also easily justified as the 'economy' of a relationship is considered in terms of opportunity cost. Being embedded by means of ties to others entails the consumption (but of course also production) of substantial resources that it takes for relationships to live on. It is then but natural to display ignorance towards market opportunities in general as these must necessarily come at the expense of relationships already at hand (of course there are also opportunities within existing relationships).

[58]Jacobs (1992 (1961), p 138)

through the writing of Hanifan on communities in 1920 referred to by Woolcock (1998, p 192)). '[S]ocial capital ... refer[s] to ... those tangible assets [that] count for most in the daily life of people'. This is an interpretation that seemingly focuses the adjective whereas Böhm-Bawerk, writing early on within the Austrian school of economics, emphasizes the (physical) noun in conceiving of *Sozialkapital* as the 'production instruments' of 'general capital' of which it is a sub-construct derived as an aggregate of productive intermediate goods (Böhm-Bawerk referred to by Endres (1997, pp 162-163), confer Mises (1963 (1949), p 521))). More of a contemporary economics 'noun-mode' interpretation of social capital is that of The World Bank (1997, pp 77, 82-89) which comments thereupon from a 'sustainable development' perspective. It is said to be an asset which prevails in parallel to natural, physical / produced and human capital. Like other kinds of capital, social capital is then both an input and an output of economic processes and like human capital it is in parallel investment *and* consumption. The input most often associated herewith is time which means that the (collective) opportunity cost hereof will impact the extent to which an individual actor decides to commit necessary resources to form it together with others. That is, it can only reside with groups of people, something rendering it the character of a public good. In consequence social capital has got positive externalities, and since it only exists at the collective level the individual is likely to underinvest therein. That is, 'like all public goods, it will tend to be underproduced relative to the social optimum unless the group responsible for its production can internalize the externality involved'. A corresponding sociological interpretation is that of Fernández Kelly (1995, pp 218-219) who points out that social capital can never be 'a concrete object appropriated by individuals or networks .... [but is] a process that facilitates access to benefits ... resources available to various social groups'. More of a micro level of analysis that, by seizing in on the commercial profitability and thus viability of the individual economic actor discloses social capital as a leverage tool by which the joint (total) return of financial and human capital can be grasped.[59]

Hence, some initial definitions converge on social capital as sort of an asset seen in the reaching out to others. But, straightforward as the concept may seem at first glance, it is still subject to a plethora of concurrent interpretations. That is, once an elaborate definition is aimed at, its meaning is not at all clear. And, what is more, this implies an inherent risk of both inapt overuse and devastating attenuation no matter how promising a concept it seems to be.[60] Woolcock (1998, pp 155-159) identifies four general ambiguities endemic to the discourse on social capital. 1) The risk of 'trying to explain too much with too little' given its roots in so many sociological traditions. 2) The obscurity which surrounds the issue of whether social capital is the 'infrastructural medium' or the very content of social relations. 3)

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[59]'$R_{TOT} = R_{SOC}(R_{FIN} + R_{HUM})$'

[60]A much telling case in point of this ambiguity is Anthony et al (1998), a discourse held on the ECONSOC web-forum displaying an array of interpretations of a number of issues.

The ideological role of social capital as regards, for instance, the benefits / the harm associated with any state interference. 4) The mostly alleged inherent 'good' character of it, 'the more the better'. Portes (1998, pp 5-6) in a similar vein chooses to highlight the opaqueness concerning the difference between a) those in possession of social capital and hence in the position to pose demands on others b) those who constitute sources of social capital by accepting these claims, and c) the nature of the resources accessed through social capital.

The majority of current writings on social capital (confer Putnam (1993), Coleman (1994), Woolcock (1998)) seems to attribute the coining of the contemporary use of the term to a text that appears in the late 1970s within the field of labor economics (Loury (1977)). Loury's A dynamic theory of racial income differences discusses the extent to which such differences, apart from individuals' skills, are attributable to the social context of those individuals. Another way of putting this is as an inquiry into the extent to which actors' attribute properties are subject to the surrounding social framework. The question posed by Loury is how come that African Americans, quantitative and qualitative human capital differentials apart, earn less than their fellow white countrymen? Unlike most writings within the by then predominant argument (emphasizing discriminatory factors), Loury brings forward a claim where the effects for an individual of *intra*-(racial)group relations are taken into account. That the socio-economic background as such matters is no surprise but what the text discloses is *the very way* in which the social environment has got a role to play. So, 'no one travels that road [the creation of labor skills] entirely alone' (Loury (1977, p 176)). The traditional (neoclassical) anchor of explanation for differences in income, human capital, is put aside. But it is not entirely replaced by social capital, '[this latter representing] the consequences of social position in facilitating acquisition of the standard human capital characteristics' (Loury (1977, p 176)). In consequence, the introduction of social capital into labor economics can be said to epitomize the dismantling of *pure* attribute (human) capital thinking and the taking into account of the social context (confer Granovetter (1992 (1988))). That is, the contribution of Loury constitutes an overt example of a 'social redefinition' of a discourse previously mostly void thereof.

Provided that this rather fundamental insight is taken as given, however, it is necessary to plunge deeper into the pure sociological meaning thereof. Not timely very distant from Loury's contribution, social capital also appears in the writings of Pierre Bourdieu. According to Broady (1991, pp 169-179), social capital as defined by Bourdieu is significantly different from its symbolic counterpart ('[symbolic capital is] the kind of capital that is acknowledged as valuable by social groups', id est cultural capital such as intimate knowledge of classical music and poetry, a refined taste of life et cetera).[61] While the latter constitutes one of his

[61] Given the seminal character of Broady's text it has more than inspired this short passage devoted to Bourdieu

major interests, the former is touched upon only in quite a scattered way, except in one brief text (Bourdieu (1980)).[62] In the interpretation of Broady's (1991, pp 169-179), social capital is here almost a residual of 'other capitals'. To Bourdieu himself (1980, p 2), social capital is closely related to the notion of assets very much in general by way of connections to others, be it family members or classmates (confer Ben-Porath (1980)).

> *Le capital social est l'ensemble des ressources actuelles ou potentielles qui sont liées à la possession d'un réseau durable de relations plus ou moins institutionnalisées d'interconnaissance et d'interreconnaissance; ou, en d'autres termes, à l'appartenance à un groupe, comme ensemble d'agents qui ne sont pas seulement dotés de propriétés communes (susceptibles d'être perçues par l'observateur, par les autres ou par eux-mêmes) mais sont aussi unis par des liaisons permanentes et utiles....*

That is, social capital as all the actual or potential resources inherent to the pattern of someone's relationships following mutual (personal) knowledge. Social capital is then more than relational bonds as such. It seems to reside within the web of affiliations in a social structure but is not equivalent to these connections themselves. Instead it is the aggregated relative positions of actors in the net that makes up the capital which constitutes a common good that is relevant only to those who are part of the social web under scrutiny. Social capital hence appears as 'the constant "mobilizable" [*mobiliserbara*] sum of different kinds of capital residing with each member of the group'.[63] That is, any capital residing with B is accessible to A provided the presence of a relationship uniting them. In this vein social capital is a latent resource that has to be activated in order to prove valuable to an individual and its value is mostly related to the leveraging effect it has when associated to other kinds of capital. In its own static right it is nothing. In consequence social capital is treated in a most integrated way in the sociology of Bourdieu and his disciples who aim at grasping the mediation, accumulation and transformation thereof. An individual caring about her social capital is hence required to mobilize considerable efforts. It is not enough just to sit down and enjoy whatever capital is around. Instead substantial resources in terms of devotion and energy are required to maintain and expand it. An enlightening example related by Broady (1991, pp 169-179) is the habit of *rallyes* among the youths of the Parisian aristocracy, a series of parties where future family affiliations are to be formed. To Bourdieu social capital however also accrues to institutions (confer *les grandes écoles*) through the way in which they are related to each other and to its former students (later on in life, maybe, occupying other prominent institutions such as governmental bodies or major companies). It seems, as Broady (1991, pp 169-179) heavily emphasizes, very important to stress the fact that to Bourdieu social capital exists only to the extent that it can be transformed into something that is readily interpreted in terms of 'real' tangible value. Any measurement of social capital as

[62]The equivalent impression as to the non-emphasis of social capital by Bourdieu is obtained also when his works are compiled in greater depth, confer Accardo and Corcuff (1986).
[63]Broady (1991, pp 169-179, author's translation)

such is irrelevant when standing alone. It needs to be connected to other kinds of capital through the way in which people use and feel about it. To sum up, social capital is sort of a general asset that has to be mobilized in order to be and this mobilization entails the connection of relational and attribute resources, that is, both actor and social assets.

Two examples of social capital in contemporary economic sociology

To Coleman (1988, 1990, 1994), probably the sociologist most often associated recently with social capital, the concept is closely related to rational behavior in a non-atomistic setting of embedded actors (confer Granovetter (1985)). In broad terms social capital is defined as 'any aspect of informal social organization that constitutes a productive resource for one or more actors' (Coleman (1994, p 170)). The argument further goes that 'social capital inheres in the structure of relations between actors and among actors' (Coleman (1988, p 322)) and that 'human capital [is] in nodes and social capital [is] in relations' (Coleman (1990, p 305)). With reference to Loury and Bourdieu there are two distinctive parallelisms. 1) Human and social capital are seen as more of complements than substitutes. 2) Social, in relation to other forms of, capital, is a leverage device in its role of a multiplying catalyzer. The value of social capital is then discerned as resources that could be deployed to further an actor's overall interests (Coleman (1988, p 325)). Since he promotes a rational choice social theory it is far from surprising that Coleman's view on social capital also entails an attempt to make explicit use of certain concepts with some predictive power that could fairly easily be adapted to an empirical setting and thus 'measured' (that is, an attitude most different from that of Bourdieu). Coleman (1988, pp 326-329, 1990, pp 306-311) extricates social capital from its general structural meaning and makes it analytically more accessible by conceiving of it as a) obligations and expectations, b) information channels and, c) social norms that reside in the structure connecting actors.[64] The presence of trust allegedly generates obligations and expectations. As an empirical illustration Coleman (1990, p 309) relates the giving and receipt of gifts among individuals where obligations can be created in a most purposive, rational manner. The same kind of argument is (though from a totally disparate perspective), incidentally, to be found in the writings of both Bourdieu (1980, p 2, *'l'alchimie de l'échange (de paroles, de dons, de femmes* [!] *etc) comme communication supposant et produisant la connaissance et la reconnaissance mutuelles'*) and Ben-Porath (1980, p 7, 'unilateral giving - gifts and favors - ... are given in order to create an obligation.'). The reasoning of both Coleman and Ben-Porath is hence closely related to the classical work of Mauss (1990 (1950), p 13) who claims that '[t]he complete theory of these three obligations [to reciprocate received presents, to give presents, to receive presents], of these three themes relating to the same complex, would yield a satisfactory basic explanation for this form of contract among

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[64]Coleman's argument thus resembles, and is mirrored in, that of Lindenberg's (1997) where the emergence of solidarity ties is brought up in a discourse on social capital. It is here claimed that ties of solidarity are created through a) 'Maussian' investment, b) norms (connected to sanctions in case they are not followed) and c) other activities resulting in solidarity as a by-product.

Polynesian clans.' It is also made very clear by Coleman that capital is always capital *to someone*. This implies that what is a positive asset to one actor could constitute a negative ditto to someone else. This latter actor can then be a character who is not able to enter into a relationship with the first actor because of all the social capital residing in the relationship between this first actor and someone else. Within a truly commercial arena Coleman (1990, p 320) discusses the social capital eventually to be found among suppliers within a certain industry. He claims that cartels and similar (anti-trust) illegal arrangements might constitute a nuisance to the public good as the market mechanism gets hampered.

Whereas all of the above accounts interpret the value of social capital as in some way related to the *presence* of social ties, the argument of Burt's (1992, as discerned in the above discourse on his ideas of competition) draws on *the value of absence* thereof. The main argument draws on 'the strength of weak ties' claim proposed by Granovetter (1973). It says that since social ties constitute information and control resource bridges it is social chasms, structural holes between non-redundant contacts, implying the opportunity for bridging, that carry true value. Social capital is, despite the somewhat unorthodox interpretation concerning the value thereof, then still an organizational asset, 'the final arbiter of competitive success ...[that] transform[s] financial and human capital into profit' (Burt (1992, p 9)). So, once again there is a multiplying mechanism around which implies that social capital *per se* does not carry much value with it (confer Bourdieu). To Burt social capital is the value of interpersonal relationships and on an organizational level this is the aggregate of the concrete connections at hand between a focal organization and others through their members. *The value hereof is however mostly tied to its non-presence.* This social capital is further said to prevail in two guises. First, relationships to others imply that access is obtained to resources that originally are out of reach ('*whom* do you reach?', you reach most often people like yourself!). That is, the social web as a channel. Then relationship patterns could, more in their very own right, also be interpreted as social capital ('*how* do you reach?', you reach through a certain kind of structural frame!). Social capital is allegedly both, 'the resources contacts hold and the structure of contacts in the network' (Burt (1992, p 12)). What the argument comes down to is very much a theory of entrepreneurial opportunity where this resides in so-called structural market holes.

Following the above, and the Loury-Bourdieu-Coleman-Burt way of reasoning, at a most basic level social capital can, then be summarized as embracing the following features.[65]

[65]Of course some additional rudimentary inspiration can be gained by relating to the notions of social capital that have become rather 'popular', the views furthered by Putnam and Fukuyama respectively. If there is any academic to whom the wide spread of the expression 'social capital' is to be attributed, this is without doubt Putnam whose work about Italy (Putnam (1993)) is continuously referred to by so many so often. Given the interest in Putnam, the notion of (a sense of) community is deeply embodied in behavioral norms that make people cooperate such as general reciprocity. The strength of such a norm benefits from close and frequent social exchange. In this way a strong and democratic society is allegedly created in part through people's

- It is a collective good which inheres both in individual actors that make up a social whole and that aggregate as such.
- It resides both in structure by way of relationships and in whichever institutions that unfold within the realms of these relationships such as norms and shared understanding.
- Its presence in any of the preceding two ways is subject to its 'mobilizability'.
- It complements and does not substitute human ('attribute') and other sorts of capital.
- Its particular character means that its value, once conceived of structurally, also is found in its absence, something implying an opportunity for social market brokerage.

Seizing in on more of a precise identification of social capital

So far, social capital is brought forward in a rather general manner with some emphasis on the most salient contemporary interpretations thereof. To be further applicable in this text it is however now necessary to start reaching out for more of a distinct definition that can be further elaborated as one of the explanans which constitutes the model agency. One thread of reasoning that proves particularly viable in this regard, not least concerning the link between social capital and competition, is that distinguished within the economic sociology of immigration. This sphere of research challenges the alleged vagueness of more conventional approaches to social capital by looking into the role of ethnicity in foreign settings. The reason for social capital being brought up so explicitly here is because the context enables a clear-cut analysis where social capital can be focused without having to share the stage with too many other subjects.[66] Portes and Sensenbrenner (1993, p 1326) tie their reasoning to that of (Granovetter's (1985) conception of) embeddedness by broadly defining social capital as

associations with various forms of voluntary organizations such as rotating credit societies or bird-watching associations. The social capital, the social structures that facilitates cooperation, is also embodied in the notion of trust which resides between individuals. In consequence, social capital is a benefit-loaded good that is worth striving for according to Putnam. One of the threats for this to occur is the endemic prevalence of 'collective action' where benefits are only around if everyone agrees to participate and thus to make her own contribution. The prisoners' dilemma and the tragedy of the commons are examples thereof often brought up by economists. Another is the role of governmental intervention which, in Putnam's opinion, could be interpreted as detrimental to social capital as regards its inability both to create and sustain it. The reason thereto is allegedly that trust and cooperation can't be very well founded and maintained in vertical (authority-laden), but only in horizontal (cobweb-like), networks. Why is that? Both information and sanctions will be distributed in an asymmetric way depending on whether it's a bottom-up or top-bottom process (confer the mafia and the catholic church in the Italian case). In sum, creating social capital is far from easy, but it is, in Putnam's view, paramount in making democracy work out. It has further been empirically looked into by Putnam (1995) in the USA where the illustrative case of an increasing number of people bowling alone is interpreted as one of the several signs of a decreased amount of social capital within the American society. A similar argument to that of Putnam's, but more related to the pure business community where actors are organizations, is that put forward by Fukuyama in his likewise much-cited contribution on trust (Fukuyama (1995)). Here social capital is interpreted as more or less equivalent to trust within and between self-organizing entities. That is *the* key factor which explains markets. '[as] social capital has a significant impact on the vitality and scale of economic organizations … [and as] a society's endowment of social capital is critical to understanding its industrial structure, and hence its place in the global capitalist division of labor' (Fukuyama (1995, pp 101, 325)). Societies whose business environment is characterized by plenty of trust (such as Japan) are, says Fukuyama, better off than those (id est France) that lack it.

[66]'[The drawing on immigrations studies in this (economic sociology) context is far from surprising] because foreign-born communities represent one of the clearest examples of the bearing contextual factors can have on individual economic action' (Portes and Sensenbrenner (1993, p 1322)).

'collective expectations affecting individual economic behavior'.[67] This definition discloses *that social capital is subjectively interpreted by an actor relative to others* and that this perception subsequently influences that actor's behavior. *Social capital is then an enacted phenomenon that does not exist outside of this interpretation.* Does this mean that relationships are entirely irrelevant? Certainly not, *but their structural role is downplayed.* Presumably the perceived expectations of others is subject to the ('more objective') prevalence of relationships within the realms of which these expectations can come true. In order to further clarify the true nature of social capital Portes and Sensenbrenner choose to distinguish between the *sources* of social capital and the *consequences* thereof (confer Portes (1998, pp 7-15).

SOURCE OF CAPITAL	REASON FOR 'GIVING OUT'	EFFECT
reciprocal exchange	instrumentalism	norms of reciprocity in face-to-face inter-action [68]
enforceable trust	-"-	rewards and sanctions by group membership[69]
value introjection	(consummatory) altruism	socialization into consensually established beliefs[70]
bounded solidarity	-"-	situational reactive sentiments[71]

Table IVc: The Portes-Sensenbrenner typology of social capital[72]

The fundamental insight is that the source of someone's social capital resides with others from whom one expects something. In consequence these others have different motives to 'give out' that what is expected. There are, then, two broad classes of reasons which motivate someone to give out, 'instrumental' and 'consummatory'. The first of these embodies reciprocity in terms of social obligations. You give out to get back. There are two main sources of social capital here. *Reciprocal exchange* is closely tied to the explicit pursuit of selfishness. An example all sorts of favors granted to business partners with the underlying intention of payback at a suitable point in time. Despite the fact that these favors do not carry an overt market price they nevertheless represent a substantial monetary value. As a donor your source of social capital resides with those that have received, from whom you somehow expect to be repaid. This was the main reason for giving out in the first place. There is no doubt that it is very apt to draw on this particular source of social capital for the model here

[67]A slightly broader definition is that of Portes (1995a, p 12). 'Social capital refers to the capacity of individuals to command scarce resources by virtue of their membership in networks or broader social structures. ... These resources themselves are not social capital; the concept refers instead to the individual's ability to mobilize them on demand' (confer the account provided above of Bourdieu's view of social capital).

[68]'transferring resources to others on the expectation of commensurate returns by beneficiaries' id est the view of transactions in social exchange theory

[69]'transferring resources to others on the expectation of higher community status and commensurate returns by beneficiaries subject to collective sanctions', id est Weberian utilities inhering in group membership

[70]'transferring resources to others because of general moral imperatives', id est the Durkhemian 'non-contractual elements of contracts'

[71]'transferring resources to others because of identification with in-group needs and goals', id est the feeling of 'common strength' by way of a collective self-interest among the working masses à la the Communist Manifesto

[72]Portes and Sensenbrenner (1993, pp 1323-1327), Portes (1995a, p 15, 1998, p 8))

under construction.[73] *Enforceable trust* (akin to Coleman's social closure mechanisms) is similar but more collective in character. It is the compliance of selfish individuals with collective expectations following the benefit of a 'good standing' in a particular group. A case in point is concessionary loans granted to fellow members of the own community. That is, you give out by behaving in a certain manner expected by the group and thanks to this norms-following conduct you deserve to share the benefits of group membership. The second class of reasons, consummatory in character, is different since altruism, and not instrumentalism is what propels conduct. Herein internalized norms adhered to by someone, as discerned when social rules in general are obeyed, constitute social capital for other community members who can draw hereupon by granting loans, walking safely in the street at night et cetera. By *value introjection* is then meant that people's behavior is affected by the prevailing sense of societal morals (pure greed is not alone) as discerned in parents' gifts to their kids. These gifts are 'expected' by the children since they embody how kids 'are' treated within the community. Very Marxian by inspiration, *bounded solidarity* finally encompasses certain emergent collective behavior that follows specific non-universal circumstances. During the Russian revolution it is, for instance, customary for non-fighting peasants to provide food to the revolutionizing *tovarizji*.

The above then provides a first more defined idea of what social capital, as the second of the model explanans, can look like. *It is pillared by norms of reciprocity looming in personal interaction rooted in market exchange. The essence of social capital is further the reciprocal expectations that a market actor subjectively nourishes from others by means of which network resource mobilization emerges.* But, expectations as to what?

A clue is found in the contributions of Coleman (1988, pp 326-329, 1990, pp 306-311) which relate how trust gives rise to obligations by way of norms. This embodies a non-structural facet of social capital. Trust is also the cornerstone of Granovetter's (1985) argument on embeddedness implying that what matters in markets is concrete personal relations since the identity of, and past recognized exchange with, any person is the hallmark of ... trust (confer Uzzi (1996, p 678)). So, expectations regarding trust have got a major role to play for social capital. A parallel concept to that of trust is commitment. This is commented on by Cook and Emerson (1984, p 22) as they note that not only actors, but also relationships, are embedded (subject to other relationships by means of interconnectedness). From a psychological perspective (that should be of some relevance given that subjective expectations are involved) it is then asserted that '[commitment can be understood as] interpersonal attitudes of trust and obligations toward specific others as future exchange partners.' This is very much forward-looking and thus easily conceived of as expectations are to be related hereto. In addition to

[73] What is more, Portes and Sensenbrenner's argument on reciprocity exchanges as a source of social capital is allegedly inspired by the writings of Simmel, the claims of whom also pillar this text.

trust, expectations regarding obligations (together the two allegedly make up commitment) held by exchange parties seems to embody social capital, something also very much in line with the argument of Coleman's.[74]

To sum up, in addition to the more general features of social capital initially accounted for, this passage brings forward the role of reciprocal exchange as discerned through expectations concerning trust and obligations (commitment) whereby resources are mobilized. That is, the initial (structural) skeleton of social capital provided as the pattern of relationships per se has by now got some flesh on its bones via what actually 'occurs' (the emergence of expectations mobilizing resources) in these relationships as far as commitment is concerned. Making this a distinction *between the structural and substantial character of social capital* is to fully recognize one of the obscurities identified by Woolcock (1998, pp 155-159). Together these two facets could be conceived of as the social sphere in terms of width and depth wherein an actor reaches out.[75] There is some reminiscence between this division and that made by Granovetter (see Appendix C) concerning the structural and relational aspects of embeddedness respectively. According to that claim 'relational embeddedness' pertains to an actor's immediate environment (rendering it similar to substantial social capital) whereas the former revolves around relationships seen from an overall network level (confer Nahapiet and Ghosal (1998, pp 244, 251) that posit 'network ties' and 'network configuration' as 'structural social capital' and trust, norms and obligations' as 'relational social capital'). It could then be argued that substantial social capital is only relevant provided there is already structural social capital present. If this is not the case there can be no expectations either since these come out of reciprocity of which there is none without any exchange. Substantial social capital cannot 'hang in the air'. There must be not only a subject but also an object for expectations of commitment. It follows that structural social capital, the *pattern* of relationships as such, is a necessary, though not sufficient, prerequisite for substantial social capital (expectations regarding commitment that mobilize resources) to be around. It is furthermore crucial to note that mobilization serves as the device by means of which structural and substantial social capital integrate. The prevalence of expectations is what actually renders relationships 'alive' as resources and as bridges to further assets. The argument pursued in this text hence identifies social capital as *on the one hand structural, as a pattern of relationships, and on the other hand substantial, as enacted expectations of commitment, something entailing the mobilization of resources which reside in the*

[74]The time element implicit in this notion of expectations is underlined by Roberts (1995, pp 43, 76). He argues that (also) temporal expectations, by means of time planning horizons, can be looked upon as social capital. This is so since they influence the maintenance of social relationships. If someone is known to go far away soon and not to return, it is obvious that the kind of trust that eventually emerges (if at all) in relationships whereto this person is a party differs from that between other permanently residing individuals.

[75]Drawing on Burt's (1992, pp 11-13) distinguishing between The Who and The How of social capital one could, add The What. That is, whom you reach (in terms of the resources they possess) and how you do it (in terms of the infrastructure) also need to be 'fueled' by expectations that mobilize resources.

aforementioned structural aspect. As commented upon at the outset of the chapter this a notion of social capital, apart from relating embeddedness, also encompasses (market) ignorance. This is easily seen as social capital does not stretch out to everyone. It is limited in character. Expectations pertain only to some and others (outside the realm of one's relationship sphere) are ignored.

- Social capital is discerned as structural and substantial respectively, the former constituting a necessary though not sufficient prerequisite for the latter.
- Structural social capital is embodied in patterns of exchange relationships.
- Substantial social capital is made up of enacted expectations of trust and obligations (= commitment) from others that originate in norms of reciprocity distinguished in human interaction.
- The enactment of expectations implies that social capital is mobilized as its structural and substantial facets integrate, that is, resources endemic to social capital are mobilized through the said expectations.

The enabling and constraining character of social capital

Social capital is by now identified in terms of a structural and a substantial facet. This renders it eligible for further analysis as one of the model explanans. Before focusing its likely connection to competition it is necessary however to spend a few words inquiring into its overall role in a market. This is so as social capital is brought up mostly within the discourse of sociology and therein the market and competition are not as intertwined as within Austrian economics (wherein the notion of customer alertness comes forward).

Once markets are thought of as networks, the structural facet of social capital (= the configuration of relationships), plays a major role as the sine qua non of this context. A recurrent theme in the discourse that sets out to understand markets is then that this relationship pattern is both enabling and constraining in character. This is so from the perspective both of an individual actor and of an entire market and means that some undertakings are facilitated and others are impeded following the presence of interconnected relationships. This dual character of networks typically comes forward on the one hand as the relative ease / difficulty of freely choosing with whom to work, and on the other as the kind of tasks that then can be undertaken, mere standardized exchange or also development activities?

> *If a company has no previous relationships it is free to work with anyone but it will have difficulties in mobilizing them. If, on the other hand, it has previous relationships it is less free to select counterparts, but these few will be much easier to mobilize. Thus, total flexibility in one dimension can restrict what can be achieved in another.*[76]

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[76] Håkansson and Snehota (1995, p 325)

Claims regarding *network constraint* mostly center around how this circumscribes the freedom, or autonomy, of an individual actor that in this vein becomes 'oversocialized' and very passive with not a lot of choice left for own discretion.[77] Any action undertaken is then a mere response entirely framed by the surrounding network, something in part distinguished as path and resource dependency. Once *the enabling character of networks* is alluded to these can be seen as 'opportunity structures' by means of which an actor can further its own interests. This is very salient in Burt's (1992) argument on structural holes where information and control benefits are endemic to certain network positions wherefrom an actor can reach out to others. Network ties are also allegedly an efficient way of scrutinizing trustworthiness and reducing someone's risk of being the victim of opportunism (Galaskiewicz (1996, pp 24-26)). That is, 'a relationship creates interdependence as much as it is a way to handle interdependence'. Impediment and opportunity go hand in hand as 'relationships are mutually demanding besides being mutually rewarding' (Håkansson and Snehota (1995, p 25)). More of a macro argument that pertains to an entire geographical region is that of Grabher (1993, pp 23-26). He says that while too little relationship embeddedness might entail the erosion of crucial social institutions, too much of it 'may promote a petrification of this supportive tissue and, hence, may pervert networks into cohesive coalitions against more radical innovations.' That is, a particular local culture also means the prevalence of lock-in mechanisms by way of devastating 'groupthink', 'the strongly embedded regional networks insidiously turned from ties that bind into ties that blind'.[78]

Enabling properties of social capital

Enabling properties of relationships, and thereby of (structural and substantive) social capital, are mostly dealt with from the perspective of cooperation and the benefits generally associated herewith. Cooperation is then seen as a good, the more of which the better, no matter whether the argument pertains to individuals, organizations or geographical regions. Broadly conceived of as the cooperative features of relationships, arguments regarding advantages associated with social capital abound. A case in point is the often referred to 'cooperate until someone else induces a conflict'-argument of Axelrod (1984). As related earlier, this stance is endorsed by many writings from within sociology, contributions that seek to challenge the neoclassical utilitarian-inspired perspective on atomized markets. It has in consequence been but natural to emphasize the societal benefits of social capital which induce and embody virtuous cooperation. To be able to cooperate then entails to be directly or indirectly connected to others.

A firsthand contribution that pertains to the micro level of the individual is that of

[77] 'Autonomy is possible to the extent that there are alternative market sources and destinations for a given producer, whereas constraint comes via the producer's lack of alternatives within the established network of markets' (White (1993, p 163)).

[78] See also Glasmeier (1991) on the cultural ignorance of Swiss watch-making.

Granovetter (1995 (1974)) on the getting-a-job of 282 white-collar male professionals in Massachusetts. In this work the by then predominant ideas on labor markets, mostly revolving around the outright impact of attribute factors such as age and education in 'perfect' settings, are challenged. Instead they are replaced by the idea that what really matters is not what you are but whom you know, also when it comes to finding a new professional position. 'Regardless of competence or merit, those without the right contacts are penalized' (Granovetter 1995 (1974), p 100). He (Granovetter (1995 (1974), pp 11, 85)) asserts that finding out about jobs by means of personal contacts is more than twice as likely than with the help of either advertisements or direct applications. In this vein of reasoning the mobilization aspect of social capital delineated above is very articulated. What is more, there is also sort of a 'cumulative effect' working out as contacts are 'stockpiled' and remobilized over time (confer Granovetter (1992 (1988))).[79]

When it comes to benefits of cooperation that emerge in interorganizational relationships, there are a number of preeminent contributions to be found in the 'informal-governance networks approach' in general and in its industrial networks tradition in particular. A rather recent work representing this approach (confer Hägg amd Johanson (1982), Hammarkvist et al (1982), Håkansson et al (1982), Ford (1990), Axelsson and Easton (1992), Ford (1997)) is that of Håkansson and Snehota (1995). The authors (Håkansson and Snehota (1995, pp 20-21)) assert that a) empirical data teaches that relationships are a fact of business life, b) business relationships are 'thick' in the sense that they embody trust, adaptations et cetera, c) economic efficiency seems to serve both as a driving force behind, and as a consequence of, business relationships. That is, relationships are a characteristic of markets and their prevalence can, at least in part, be attributed to their display of efficiency.

> *On the whole it seems that networks* [of exchange relationships between actors] *allow and cater for, perhaps better than other modes of organization, a continuous and "economically efficient" organizing of resources, activities and actors. Business relationships appear to be the mechanism for the continuous organizing for the purpose of an effective resource utilization given that both the resources as well as the scope and the purpose of their utilization are subject to change.*[80]

A similar stream of writing with essentially the same overall impact (the benefits of cooperation resulting in the presence and desirability of business relationships) is that dealing with Japan. Two cases in point which focus the 'lean' manufacturing of automobiles are Womack et al (1990) and Lamming (1993). Herein, closely working together with just a few

[79]A similar contribution that discusses the labor *hiring* process while subscribing to the notion of social capital (a term that Granovetter himself despises), is that of Fernandez et al (1998). Therein recruitment process by way of employee referrals are looked into. The claim made is that employers, by considering the social capital which resides with current employees in finding new ones, serve as 'social capitalists' in that they deliberately exploit the opportunities thus residing in the workforce's stock of social capital.

[80]Håkansson and Snehota (1995, p 384)

suppliers within the realm of a limited number of long-lasting relationships is seen as one of the reasons for sustainable customer success. More of a balanced macro perspective to the same phenomenon, the organization of Japanese industry, is that of Gerlach (1992, pp 1-3, 35, 36, 38, 247) on 'alliance capitalism'.

There are also a few distinct examples regarding the alleged benefits of cooperation within relationships on the (non-Japanese) macro level. As said the work of Putnam (1993) epitomizes the virtue of social capital. He recognizes that there is more social capital in *Lombardia* than in *Sicilia* and hence more of progress in the North than in the South of Italy.[81] Lazerson (1995) also chooses to focus the Italian case, this time however from the perspective of the knitwear industry in *Emilia-Romagna*. Apart from certain legislation which favors small business, the web of knitwear manufacturers proves successful following its unique ability to be a) efficient in manufacturing, and b) progressive and effective in meeting customer needs. The key glue thus emerging and cementing this highly successful network is allegedly the presence of trust unfolding between actors. A different kind of industrial climate, bearing upon a much diverse sort of industry, is that identified by Saxenian (1996 (1994)) in coming to grips with the striking phenomenon of California's Santa Clara county and its world-leading position in information technology. The success of Silicon Valley remains undisputed, something Saxenian (1996 (1994), p 7) attributes to the constant 'embedding of the regional economy' by means of local institutions and culture, the industrial structure and the corporate organization, all of which are mutually reinforcing and thus tightly interdependent. Following these tight knits, the individual actor as such does not matter much in the traditional meaning, but only insofar as its network role is concerned. That is, cooperation redefines the very role of each individual actor to the extent that someone void of its network context really *is* not.

Constraining properties of social capital

There is hence convincing proof that social capital by means of cooperation is beneficial both to an individual actor and to an entire context. That is, it is enabling for an array of reasons and in a range of cases. It is certainly no exaggeration to posit that this claim is what pillars the predominant manner in which social capital in general is perceived. This challenges most neoclassical reasoning that is not very well equipped in this area. As soon as social capital is not treated as an eternal good anymore it is necessary to ask a few more intricate questions in order to understand it. First it must be acknowledged whether that which is labeled social capital is at all interpretable from a positive / negative perspective. That is, is it really viable

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[81] An array of criticism could however be posit against this explanation as *that* decisive. For instance, what is the role of the state that incessantly tries to draw on the recipe of the North to promote progress in the South? This, among other things, results in *le cathedrale del deserto*, the cathedrals of the desert, as huge state-run industrial projects going against the prevailing culture of small industry inevitably fail. The aftermath hereof is widespread disbelief in the sincere will of the state to promote development in the *Mezzogiorno*.

to draw on the notion of capital once the device 'more is always better' is no longer fully applicable? A second question is whether it is the capital itself or its alleged positive or negative consequences that are to be scrutinized. Finally, to whom is social capital positive and / or negative, to those inside or outside a particular context, be it a relationship or a market? By assuming that there is at times also something constraining ('negative') to social capital, both to incumbents and others, there is the 'downside' of social capital (Portes and Sensenbrenner (1993)). This mode of reasoning claims that social capital is brought up far too much in a one-sided manner (Portes and Landolt (1996, p 18), Portes (1998)).

> *The implicit consensus is that social capital is important because it allows people to work together by resolving dilemmas of collective action. Why this is actually so, however, is obscure. Indeed, the more social capital is celebrated for a growing list of wonderful effects, the less it has any distinct meaning.*

That is, not only are the positive connotations of social capital inadvertently biased as such, but this very fact runs the risk also of attenuating the concept. Social capital is thus often mixed up with its alleged enabling benefits. Given some initial belief in the conceptual power of social capital it is then obvious that the discourse surrounding it is in bad need of more of a multi-faceted interpretation. This is not the aim of this thesis but it is nevertheless important to find out whether there are in fact any negatives to relate.

At the micro level, the Granovetter (1995 (1974)) argument of the value of social contacts in getting a job is in part counterbalanced by the notion of Sassen (1995, p 114) that the relationships which result in jobs for some accomplish this at the expense of others.

> [The] *nexus between a given set of workplaces and a community (or communities) is established, closure is strengthened and outsiders will have difficulty gaining access ... In this sense, a local labor market is a form of social capital ... And here we see some of the negative impacts associated with social capital – how the closure of a local labor market that maximizes job access by the network members also operates as an imposed closure or encasement.*

A particularly intriguing case on the level of a market is that recapitulated by Gerlach[82] who provides an array of arguments concerning the manner in which 'clientilizing' (Geertz (1992 (1978))) relationship closure in fact acts in the negative through the reciprocity and repetition which characterizes Japanese business patterns. 'There are drawbacks to Japan's market capitalist system, among them a lack of transparency and a sense of exclusion experienced by those outside of preferential trading networks. ... The status-quo oriented character of business relationships that continue to mark Japanese markets have had the net effect of making market entry by newcomers, whether Japanese or foreign, more difficult than in structurally more open markets'.

[82](1992, pp 35-36, 38, 62, 138, 144, 147, 158, 247-248, 259, 262-267)

A somewhat more general line of reasoning is that of The World Bank (1997, pp 78-79, 81). Here it is acknowledged that there are also negative (development) consequences inherent to social capital, no matter whether it is defined on the level of the individual, the organization or the societal whole. An interesting observation is that what at one fundamental level is considered as a positive impact of social capital might be reinterpreted in the negative at an aggregated level as seen when networks efficiency is evaluated at the level of society.

Woolcock (1998, pp 158-159) works this out and asserts that social capital appears in different types and that these *combined* give rise to either positive or negative associations. By drawing on integrity ('autonomy') and integration ('embeddedness') in social structures, Woolcock (1998, pp 161-184) further sets out to relate various forms of social capital as to their impact on (regional) development. The red cord is 'that both "too little" and "too much" social capital at any given institutional level can impede economic performance' (Woolcock (1998, p 168), confer Grabher (1993)). By further distinguishing four facets of social capital (micro level integration and linkage and macro level integrity and synergy), and then combining these, Woolcock (1998, p 180) arrives at a taxonomy of dilemmas of development. On the micro 'grassroots' level (development dilemmas that Woolcock (1998, pp 171-172) calls 'bottom-up'), when 'intra-community ties' are high (= high integration) and 'extra-community networks' are low (= low linkage), there is *amoral familism*. This is a situation *where the social capital that resides within an entity is very strong* but where any sort of cost for transaction with the environment is high given *the non-existent ties (= social capital) between the entity and the rest of the world.*[83] This sort of 'disinterested cooperation of many individuals' (Woolcock (1998, p 171) citing Einstein) only reaches out as far as the very small social group, such as the family, is concerned, but not beyond. It is an insulation mechanism which renders internal relations strong at the expense of ties to the environment. This amoral familism is first brought forward in a work by Edward Banfield who scrutinizes a tiny southern Italy village in the mid-1950s. The 'extreme poverty and backwardness' of this place is explained to a substantial degree by 'the inability of the villagers to act together for their common good or, indeed, for any end transcending the immediate, material interest of the nuclear family'.[84] The alleged reason for this is the presence of amoral familism produced by for instance the complete lack of institutions other than the family (Banfield (1958, p 10)). Banfield (1958, p 85) summarizes the implication of the amoral familism (seventeen telling logical consequences of which are recapitulated in Appendix D) in a hypothesized rule of life seemingly adhered to by the villagers. As seen this is strikingly the opposite of Axelrod's

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[83]See however Piore and Sabel (1984, pp 31, 34-35) for the use of 'familialism' as a progressive 'entrepreneurial use of kin relations' embodying loyalty.

[84]Anyone having experienced Italian village life in real, also some 50 years after Banfield's field trip, could testify as to the seemingly eternal prevalence of this social backwardness. A telling example is how the disposal of outdated refrigerators are handled. These are oftentimes merely thrown into the nearest ditch out of sight for where you and your family reside. That this waste is highly damaging to the environment in general and to your neighbors' mental wellbeing in particular is something not paid very much attention to.

(1984) 'always-be-the-first-to-cooperate-until-the-other-party-does-not'-reasoning.

> *Maximize the material, short-run advantage of the nuclear family; assume that all others will do likewise.*

What is striking with the argument is that it points to a sort of collective egoism (embodied in the positive social capital to a group combined with the negative social capital to outsiders) that hurts non-incumbents and community at large. Amoral familism implies the presence of strong social capital within the group to the extent that non-group membership is punished. The meaning hereof is that this social capital is (as regards development tied to economic performance) negative to those not being granted access hereto. Amoral familism is then a facet of the downside of social capital that distinguishes incumbents from outsiders. There obviously prevails a certain relation between cooperation in relationships and the relative insulation of these structures from their surrounding context. 'The more numerous the recollected interactions with the same players and the greater the degree of "closure", that is, the non-permeability of a social structure to outsiders, the more likely is the emergence of norms that promote cooperation. … [And, in consequence, a] universe of freely associating individuals provides the poorest social structure for generating effective norms of cooperation' (Levi et al (1990, p 10)).

> [I]*t is important, however, not to lose sight of the fact that the same social mechanisms that give rise to appropriable resources for individual use can also constrain action or even derail it from its original goals.*[85]

So it is by no means certain that amoral familism represents positive enabling social capital, not even to incumbents. The clue to this argument is that provided social capital is interpreted as collective resources residing in networks of social relationships, it follows that the claiming of these resources by someone (the incumbents of a relationship) must always 'come at the expense of others' (the outsiders). On a more general level Portes and Landolt (1996, pp 19-21) recognize three aspects to the constraining downside of social capital.

1. *Conspiracies against the public* implies the exclusion of outsiders to a group, something discerned in the case of African American contractors not making it into the New York City construction industry. Not to play golf means not to be present when private building contracts are informally awarded. This is an evident case of amoral familism (akin to the closure argument of Coleman's (1990, pp 318-320)). A similar example with more of a labor market focus is the case of New York City where ethnicity-based personal contacts are crucial for individuals concerning their opportunity of finding a job (Granovetter (1995b, pp 173-177).[86]

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[85]Portes and Sensenbrenner (1993, p 1338)

[86]Among the examples related are the dominance of White Caucasians in the New York Fire Department and

2. Being a member in a community further means that one has to conform to the standards there prevailing, a downside aspect labeled *restrictions on individual freedom and business initiative*.[87] This argument is also labeled 'costs of community solidarity' / 'constraints on freedom' and regards the free-riding problem that follow too cozy a group atmosphere. This is seen in the negative impact on economic efficiency of the 'social welfare uncontrolled solidarity' inherent to an organization which is overdependent on non-economic ties of loyalty (confer Granovetter (1995a, pp 135, 137) who relates the work of Geertz).[88] This hence entails suffocating tendencies of certain community norms that imply the cutting-off of the outside world. This is particularly striking in immigrant communities such as the Chinese one in San Francisco and its Korean analogue in New York.

3. Finally, the presence of *downward leveling pressures* implies that sociability is not always a good in itself. This is seen in ghetto-like areas (such as Los Angeles South) where gang membership is salient. This negative 'minority effect' of social capital is different from the preceding one in the sense that it serves to suppress an individual who aims at her own success and thus forces her to stay as unsuccessful as all others (confer Portes (1995b, pp 253-254)). Leaving parts of LA South behind might in consequence simply not be accepted by the group whereto one originally is a party. In this manner group solidarity is maintained, be it at an immensely high price paid by the striving individual (Portes and Sensenbrenner (1993, pp 1338-1344)).

As seen there is overwhelming evidence also for the downside constraining character of social capital. The argument is found mostly within development studies and the sociology of immigration but with equal bearing on the case of markets (confer Nahapiet and Ghoshal (1998, p 245)). The lion's share of negative effects that result from social capital in immigration studies pertains to what goes on *inside* a particular social structure (where the individual runs the risk of suffering from others' exercise of group pressure). An additional intriguing facet of social capital's downside is that prevailing in the interface between incumbents and *outsiders* to a particular group. This amoral familism implies that non-incumbents are deliberately kept out by group members. Entry is completely foreclosed,

African Americans outperforming Hispanic dittos in municipal jobs. Granovetter (1995b, p 176) argues on this facet of the 'downside','[f]rom the perspective of social equity and social policy these considerations raise perplexing problems. Group solidarity at work may be conducive to higher productivity while simultaneously perpetuating systematic inequalities among groups.'.

[87]Confer Uzzi (1996, p 684, 1997, p 59) for a corresponding organizational market downside facet that implies being 'overembedded'. The classical reasoning here commented upon by Coleman (1994, p 176), is however Weber's notion of the causal relation between Protestantism and emergent capitalism. Coleman also comments on the way in which children constitute a kind of social capital to the parents who in their turn run the risk of being a nuisance to the former.

[88]In consequence, those companies that manage to attain a balance between 'coupling' and 'decoupling' in its embedding in the immigrant community are far more likely to succeed than others (Granovetter (1995a, p 145)).

something seen in the *conspiracies against the public*, a phenomenon which entails that commercial contracts are not awarded on an equal and fair basis. Bidders are hence treated in an unequal manner since those suppliers that are already in business, and / or social contact with a particular customer are exclusively turned to while potential new sources of supply are constantly let down. What is (at least in one sense) enabling social capital to incumbents is hence constraining to outsiders.[89]

On a most general level, and social capital apart, the enabling and constraining features of social structures are all, according to Simmel (1950 (1908), pp 121-122) about the 'freedom of social man'. He claims that there is an 'egoism of every sociation [that] threatens the freedom of the individuals engaged in it'. That is, social structures have their own aspirations in light of man, the freedom of whom however does not entail the 'rejection of relations'. This is so as 'man does not only want to be free, but wants to use his freedom for some purpose' in connection with others. Freedom devoid of constraint thus is of no value.[90]

> *The purely negative character of freedom, as a relation of the individual to himself, is thus supplemented in two directions by a very positive character. To a great extent, freedom consists in a process of liberation; it rises above a bond, contrasts with a bond; it finds its meaning, consciousness, and value only as a reaction to it. But it no less consists in a power relation to others, in the possibility of making oneself count within a given relationship, in the obligation or submission of others, in which alone it finds its value and application.*[91]

Social capital and competition

As learned from the above it is obvious that social capital has both enabling and constraining effects, be it from the horizon of the individual or the surrounding social context. Until now social capital is treated with no specific attention paid to market *dimensions*. That is, whether social capital tells about relationships between customers, suppliers or between customers *and* suppliers, or competitors, does not really matter. What is said pertains in any of these cases. This open discourse no longer holds when one reaches out for likely linkages between social capital and various types of competition. Just as the particular type of competition that one alludes to must be specified (is it between buyers, sellers, or other market actors?), so must social capital. Provided the discourse is about a market it is thus possible to distinguish between 'horizontal social capital' emerging between actors at the same 'horizontal' level, and 'vertical social capital' found between actors at different market levels, typically a customer and a supplier. The most explicit reference to direct interlinkages between

[89]Confer Macaulay (1963, p 276) who comments on how non-contractual relations follow from the prevalence of close personal contacts between customers and suppliers. 'They may know each other socially and even belong to the same country club.' Further, confer Powell (1990, p 305). 'By establishing enduring patterns of repeat trading, networks restrict access.'

[90]Confer the reasoning on utility in exchange as in part stemming from what is given up and not only what is had in return.

[91]Simmel (1950 (1908), p 122)

horizontal social capital and competition is that of Coleman (1990, pp 318-320). His argument starts out in the recognition of closure in social systems, a phenomenon that allegedly can contribute both to the strengthening and weakening of social capital. A case wherein closure fuels the formulation of social capital is, says Coleman, an industry wherein ties are established between actors at the same structural level, in addition to those necessarily found within buyer-seller relationships.

> *Relations among supplier firms constitute a potentially valuable form of social capital, sometimes leading to collusion and resulting in price fixing.*[92]

When competition at the same horizontal level (typically between suppliers) is considered, the impact of social capital between competitors should be clear. It invokes collusion. Horizontal social capital, then, risks to deplete a market of competition as collusion, its foremost antithesis, is promoted thereby.

One of the assumptions coming forward that pillar the model says that there are no horizontal social ties between suppliers. In consequence Coleman's insight on closure does not really matter for the explanans social capital to be formulated here. ***Horizontal** social capital between suppliers is then simply not an issue for the explanans. Only **vertical** social capital, existing between the customer and each of the two competing suppliers in the model, is.* This said, how could then this *vertical* social capital (from hereon merely labeled 'social capital') be related to competition?

Social capital differs substantially from customer alertness in this respect. On the one hand it is more within reach, taken separately, as it is firmly rooted in a well-researched subject matter, relationships. On the other its linkage to competition is likely to be more fine-tuned since it misses out on a natural connecting device, something customer alertness has got in entrepreneurship which is a 'twin concept' of competition. What is at stake is then the manner in which structural and substantial social capital between a supplier and a customer affects the way in which this supplier and other suppliers watch each other as competitors in accordance with the model explanandum. As repeatedly said, what is enacted as competition stems from both actual and potential relationships. The manner in which a competitive threat is perceived depends on whether both the 'own' and the 'threatening' relationship is actual and / or potential. Hence, the prevalence of structural social capital, the pattern of exchange relationship that accrues both to a supplier itself and its competitors, must be decisive for the manner in which this social capital affects competition. A *first* insight is that the impact of a certain social capital on competition is highly *contingent* on the social capital that resides with one's competitors. The surrounding social net matters a lot. That is, *whether the two*

[92]Coleman (1990, p 320)

customer-supplier relationships in the model triad are actual and / or potential will be decisive for how the social capital found therein influences competition enactment. Embeddedness matters. This constitutes a striking difference when compared to customer alertness that is much more autonomous in character. A *second* insight, that emanates in the claim of Burt (1992), is that most likely it is *the combination of present and absent social capital* that somehow impacts competition, or the difference at hand in this respect when two parallel relationships are compared. This is seen in the case of an actual and a potential relationship that 'face' each other in the triad where economic exchange is at hand in only one of the relationships. But even where two relationships are actual they will differ as to the prevalence of commitment, that is substantial social capital, therein. *And it is such differences that either hampers or fuel competition.* No differences in social capital between two customer-suppler relationships, no impact on competition. This last situation holds for a triad made up of two potential relationships. Herein there is no social capital.

To sum up, the competitive impact of social capital is likely to be highly contingent since it works out via the manner in which customer-supplier relationships differ in this regard. This means that superficial structural equivalence can only be a first step in the analysis. It is only by means of expectations regarding commitment (= substantial social capital), that competition can be grasped in any depth. This follows from the fact *that these expectations taken together are in fact what mobilizes the resources - relationships - that is the objective of competition in a markets-as-networks context.* That is, it is in essence the manner in which commitment (trust and obligations) is formed in customer-supplier relationships that will be decisive for how competition is perceived in the model. In consequence, in this a context *social capital is the enacted reciprocal expectations of mutual commitment in relationships that via patterns of social ties mobilize network resources.*

vi. The erected model

With the definition of social capital provided immediately above, all the fundamental bricks of the model are now in place. There are now proper definitions around of the explanandum, competition, and of each of the two explanans, customer alertness and social capital, in addition to the assumptions provided in Chapter II. What is still missing is the specific nature of the agency ('do customer alertness and social capital have a positive or negative impact on customer-geared competition?'). This will be dealt with at the outset of Chapter VI.

The model, where it concerns the derivation and definition of its explanandum and the two explanans, is inspired by theoretical insights gained mostly from within Austrian economics and economic sociology, which also holds good for the assumptions concerning man, market and institutions. That is why the social mechanism it embodies is labeled the socio-Austrian Tertius Gaudens.

The explanandum competition, 'perceived freedom of entry into market relationships subject to the discretion of a third party', is then a function of the joint general agency residing with the explanans customer alertness, 'the molding context wherein decisions, as choice, are dovetailed by means of plans concerning imaginable future supply market realities', and social capital, 'the enacted reciprocal supplier expectations of customer commitment in relationships that via patterns of social ties mobilize network resources'.

It is the manner in which competition is affected by customer alertness and social capital, within the realm of two parallel customer-supplier relationships, that renders the model explanatory. The constituent elements of these constructed explanans are then the 'events' to be 'concatenated' by the social mechanism. And this mechanism is what makes the combined impact of the explanans intelligent in the model scrutinized. The explanans hence constitute an input that via a social mechanism Tertius Gaudens transforms into the output, customer-geared competition. The eventual 'intelligence' is traced in the ability of the explanans to provide a feasible answer to the question of why this customer-geared competition prevails, and how it comes into being.

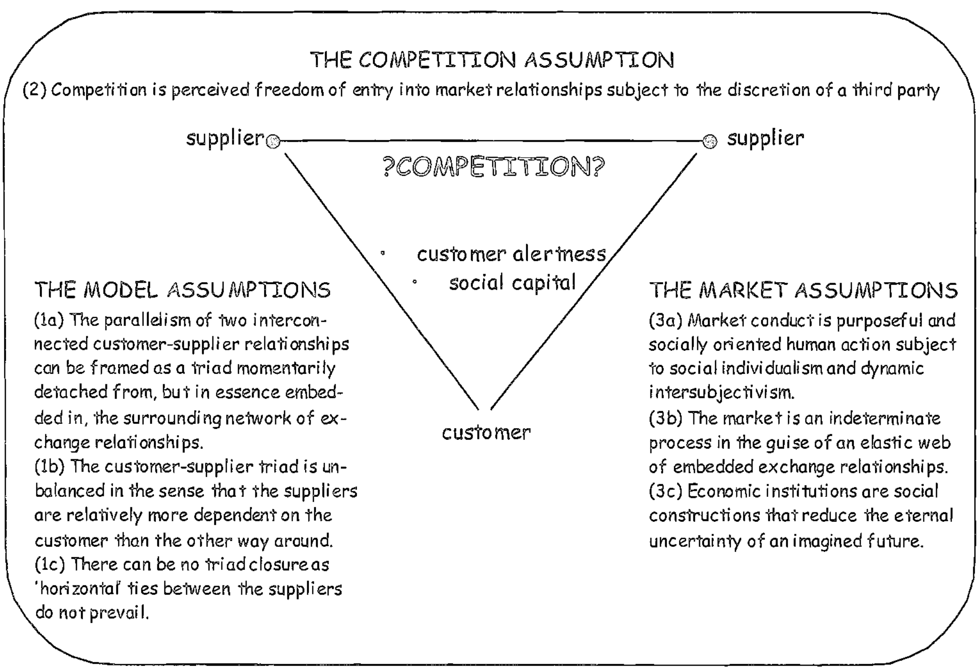

Figure IVb; The socio-Austrian Tertius Gaudens, a model of customer-geared competition

The explanans are derived from the combination of two guiding principles, autonomy-embeddedness and entrepreneurship-ignorance that by virtue of their interlinkage embody the socio-economic dictum of Weber. Commencing with Simmel's fundamental insight of competition as an indirect type of conflict, the particular way in which the explanans appear is also much inspired by Mises and Burt. Whereas Mises has it that human action is made up of two dimensions, entrepreneurship (akin to customer alertness) and social exchange (somewhat akin to social capital), Burt explicitly recognizes how the drawing on social capital in the competitive process is pillared by entrepreneurship.

> *There is a distinct quality of the tertius in Kirzner's successful entrepreneur....* [93]

This second block of the dissertation, Competition, now comes to an end and the chapter concludes with the explicit account of the explanatory model. Whereas the preceding chapter discusses competition in general, this chapter furnishes the particular customer-based view that is to work out in the model under construction. Apart from describing the gradual formulation of the model itself, this chapter provides extensive coverage of how definitions of each of its core constructs are arrived at by means of theoretical scrutiny. Hence, competition, customer alertness and social capital are made workable via these definitions in light of the model. As this text now turns to Chapter V it enters the third block of the dissertation wherein the model, after some further refinement, will undergo a scrutiny as regards its feasibility in light of an analysis of argument. The model will also be used as a means of illuminating aspects of Swedish antitrust legislation.

[93]Burt (1992, p 274)

BLOCK 3, ANALYSIS

V. METHODOLOGY

VI. THE PRO AUT CONTRA DICERE

VII. SOME ASPECTS OF SWEDISH ANTITRUST LAW

V. METHODOLOGY

The explanatory model of the thesis is now almost complete and it is time to subject it to scrutiny. That is the main idea of this third block of the dissertation, Analysis. The model will be drawn upon in two ways. First, after its alleged agency has been made more precise, this agency will be tried out by means of a pro aut contra ('for or against') analysis that examines the particular manner in which the explanans tie to the explanandum. The model is thus analyzed regarding its proofability subject to the agency it promotes. Such are the contents of Chapter VI. Then, in Chapter VII, the main idea of the model will be applied to some aspects of Swedish antitrust legislation. The latter is then scrutinized in all brevity by means of the model as a tool. At the same time this analysis provides an empirical illustration of the model. That is, whereas the model agency is analyzed in the first instance by means of a pro aut contra reasoning, the second step involves the illumination of something else, in this instance the law, following the insights gained in the first place. These steps are however preceded by this Chapter V discussing methodology. It appears tied to the unfolding analysis since it brings forward the necessary methodological pillars that render such an analysis viable at all. That is, the rather unconventional character of this business studies dissertation, the construction of a model devoid of any first-hand empirical data, makes the methodological discussion a most crucial source for the judgement of its shortcomings and eventual merits. This chapter will start out with the penetration of some issues tied to the coming into being of theory itself. This is important since the overall research goal of this thesis is theory refinement. One issue is how empirical and more conceptual approaches relate to each other in this regard. Thereafter the concepts of social mechanisms, ideal-types and agency will be discussed. They are all crucial ingredients of this essay since they constitute the methodological cement upon which the model here explaining competition relies. Once this is in place the pro aut contra analysis of the successive chapter is foreshadowed by a brief introductory discussion thereof. The chapter closes with a few comments concerning some alternatives to the methodological path chosen.

i. The reason behind this chapter

As is posited in the opening chapters of this thesis, its overarching research goal is to provide some refinement of market sociology. This will come about via an explanatory account that casts some light on the research problem, namely the relative absence of 'markets-as-networks' treatments of competition. This endeavor is, then, very much in line with Sutton and Staw (1995) who reason that the formulation of theory stands in a crucial and intimate relationship with explanation, the understanding of the 'how' and 'why' of scrutinized phenomena. That is, *the mere focusing of an explanatory account of competition is here seen as conducive to the furthering of theory.* The particular path chosen in this dissertation is explanation via a formulation that models competition as a customer-based social mechanism. In consequence this thesis differs from most others within its disciplinary habitat of business studies. As a case in point *method*, the procedural discussion of technique, is then less of an issue than *methodology*, the systemic principles adhered to.[1] The methodology of this essay is principally made up of the following.

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[1]von Wright (1971, p 3) labels methodology 'the philosophy of scientific method'. For formal definitions of 'method' and 'methodology', confer Random House (1997, p 825).

1. The a priori formulation of the research problem, the dissertation purpose, the thesis assumptions, the research goal, and the epistemological aspiration (chapters I, II).
2. The theoretical scrutiny of the model components, competition, customer alertness and social capital respectively resulting in workable definitions of each (chapters III, IV).
3. The *pro aut contra* analysis to be undertaken with respect to the proofability of the two issue-expressions F_1 and F_2 furthering an eventual association between each of the explanans, customer alertness and social capital, and the explanandum, competition (chapter VI).
4. The empirical illustration of the model thus erected by means of its own scrutiny of aspects of Swedish antitrust legislation (chapter VII)

These methodological contents are then but a manifestation of this dissertation's purpose that character-wise stands out from the majority of its disciplinary (business studies) siblings. The resulting implication for the analysis to be undertaken is obvious. Instead of looking into conventional empirical (qualitative or quantitative) data via the pursuit of either a case study or a survey, this effort will relate an analysis of argument wherein statements (issue-expressions) are informed by an extensive prior theoretical reasoning. The conclusiveness of each argument in relation to the specific agency of the model (the manner in which each of the explanans tie to the explanandum as seen in the issue-expressions F_1 and F_2) is then tried out by scrutinizing its *tenability* (an argument's level of independent viability safeguarded by empirical proof or similar) on the one hand and its *relevance* (the extent to which an argument ties in close to the analyzed causal association as seen in its inductive or discursive appeal) on the other. This is different from conventional generation and subsequent test of hypotheses. Maybe it is too bold to argue that it lacks any and all empirical data since the manner in which it relies upon theory is in fact akin to the way in which 'real-world events' inspire mainstream business studies.[2] Be this as it may. The idea of the present chapter is to furnish some legitimacy to the way in which this dissertation chooses to approach its subject, competition. Since it appears as a work within the realm of business studies (a discipline more known for its instrumental, than analytical, character) it is but natural for this chapter to comment on the way in which the thesis deviates in this regard. This issue might in fact to some constitute the most controversial aspect of this text. *It will then be argued, following reasoning from within psychology and sociology, that there is a role also for attempts that dwell within the non-empirical sphere, and particularly so as these are in the position to advance arguments that by and large are more well-grounded than some others.* This is a most relevant area to comment upon once an analytical line of scientific inquiry, as this essay, is underway.

[2]Similarly, conventional studies probably implicitly rely on *pro aut contra* reasoning The kind help of Claes-Fredrik Helgesson and Magnus Söderlund for drawing my attention to these issues is hereby gratefully acknowledged.

ii. On theory in general

> [A] *statement is theoretical to the extent that it generalizes beyond the operations that support it.*[3]

The idea of this dissertation is that its 'statements' (conclusions to appear only later) are *'theoretical'* (that is, analytical in the relied upon von Wright (1971) terminology) in character since they are *explanatory*, something enabling their application beyond the immediate context scrutinized. That is, the generation and subsequent analysis of the explanatory model provides knowledge which is valuable also outside the very operations that promote it. So, how is it then possible to argue that explanation is in fact endemic to the furthering of theory as here appearing? According to Sutton and Staw (1995, pp 372, 377) what triggers theory is the logic behind any explanation put forward. That is, there must be some good deductive reasoning regarding a certain causal non-random systemic association between constructs. Works entailing 'strong theory' are furthermore allegedly characterized by just 'one or two conceptual statements' that jointly constitute a logic-wise viable mode of arguing. This is the subject matter of the next chapter where the formulated model is tried out regarding its agency. That is the eventual connection between the explanandum competition and the two explanans customer alertness and social capital. The simplicity and straightforwardness alluded to by Sutton and Staw are meant to be embodied in the two issue-expressions F_1 and F_2. These are tried out regarding their ability to 'prove' the model agency, their proofability thus eventually working out in the pro and contra analysis.

> *A theory must explain why variables or constructs come about or why they are connected. ... Comparative tests of variables should not be confused with comparative tests of theory, however, because a predicted relationship must be explained to provide theory; simply listing a set of antecedents ... does not make a theoretical argument. The key issue is* **why** *a particular set of variables are expected to be strong predictors. ...* [T]*heory is the answer to the queries of why. Theory is about the connections among phenomena, a story about why acts, events, structure, and thoughts occur. Theory emphasizes the nature of causal relationships, identifying what comes first as well as the timing of such events. Strong theory, in our view, delves into underlying processes so as to understand the systematic reasons for a particular occurrence or nonoccurrence. ... As Weick ... put it succinctly, a good theory explains, predicts, and delights.*[4]

Whereas these are the main ingredients of what theory *is*, Sutton and Staw (1995, pp 373-374) also take some pains in delineating what theory *is not*. Of particular relevance for the thesis underway here is then how they (much like the argument of Hedström and Swedberg (1998) on social mechanisms) choose to emphasize how associative measures *per se* do not furnish much in terms of explanation and thus theory progress. That is, whereas the mere initial registration of events propels the analytical process, it is only by a very theory-fueled

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[3]Greenwald et al (1986, p 217)

[4]Sutton and Staw (1995, pp 375, 378), confer von Wright (1971).

concatenation of these events that true causal associations appear within reach.

> *But observed patterns like beta weights, factor loadings, or consistent statements by informants rarely constitute causal explanations. ... Data describe which empirical patterns were observed and theory explains why empirical patterns were observed or are expected to be observed.*[5]

This is however not to say that empirical data is useless in theory development (Sutton and Staw (1995, pp 371, 377, 383)). It may very well stand out in a meritorious illustrative guise. This allegedly holds in particular once the theoretical account reached out for is in any sense especially relevant, even though it is not rendered 'certain' that it is 'true'. If this happens to be the case concerning the present essay, its obvious limitations put aside, it means that there is in fact good reason to undertake the illustrative project to appear in Chapter VII. That scrutiny does not prove the model but merely draws upon it to shed light on something else.[6]

The furthering of arguments of this kind (elaborated upon below) implies that empirical bias, at the expense of logical, theoretically well-grounded reasoning, at times is the rule within business studies. This however does not mean that there are no exceptions. Two cases in point that are similar in their respective emphasis of certain features endemic to this thesis are Söderlund (1993) and Harper (1996), both of which appear as doctoral dissertations.

iii. On conceptual development

Is it always necessary to try out theoretical concepts empirically to render them intelligent? Or could it be that an obsession with empirical proof (by way of for instance the posing and formal testing of hypotheses) in fact overshadows and thus curtails the very ideas that it was meant to promote? As should be clear by now this dissertation is not 'empirical' in the traditional sense as it does not draw on primary real-world data in making its case. This is but a logical consequence of its purpose modeling Tertius Gaudens as a social mechanism, a 'sometimes-true theory' with a theory-refining goal midway between the generation of grand theory and the recapitulation of empirical stories. This choice by itself however does not entail a principal refutation neither of new theory creation, nor of empirically based research efforts. It however argues that there is good reason to believe also in the value of alternative scientific approaches, such as that proposed by the advent of social mechanism arguments. Below follow some claims regarding the viability of this dissertation regarding its more conceptual character. That is, in light of what normally is at hand for business studies theses, justifying this text on the grounds of its thus unconventional character would seem apt.

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[5]Sutton and Staw (1995, pp 373-374)

[6]'When theories are particularly interesting or important, there should be greater leeway in terms of empirical support. A small set of interviews, a demonstration experiment, a pilot survey, a bit of archival data may be all that is needed to show why a particular process *might* be true' (Sutton and Staw (1995, p 383)).

On a most general level the case for non-empirical efforts is acknowledged via adherence to scientific 'apriorism'. The core idea hereof is that since many axioms logic-wise are necessarily true there is no role for an effort empirically to prove them. Their validation can only come about via logical reasoning since empirical proof or refutation can *always* be objected against on the ground of measurement error.[7] One of the most ardent supporters of apriorism is Mises who poses his entire argument from within a number of axioms endemic to the notion of human action. The purposefulness of human conduct is such an axiom. This renders the very idea of discussing rationality meaningless according to Mises as this must, by logical definition, always be. So why then penetrate its being?[8]

> *The fact that man does not have the creative power to imagine categories at variance with the fundamental logical relations and with the principles of causality and teleology enjoins upon us what may be called* ***methodological apriorism****. ... Aprioristic reasoning is purely conceptual and deductive. It cannot produce anything else but tautologies and analytic judgements. All its implications are logically derived from the premises and were already contained in them. ...* [That is,] [t]*he fundamental logical relations are not subject to proof or disproof. Every attempt to prove them must presuppose their validity.*[9]

In Mises' view the role of experience is merely that of a compass that steers attention in a certain direction. No more than that. For the rest, that is the very understanding of the world, there is nothing but 'thinking alone' available (Mises (1963 (1949), p 65)) .

Whereas Mises' argument draws on the thus necessary 'superiority' of logical reasoning, the claim of Sørensen (1998) results in a similar conclusion, but with an entirely different twist to it. He argues from a sociological perspective that recognizes the role of mechanisms and thus furthers the idea that the vast majority of contemporary works in the area suffers from an unhealthy bias towards empirical sophistication at the expense of genuinely theory-inspired concept discussions. The outcome hereof is that there allegedly is a conviction at hand implying that advanced *method* (read: statistics) is sufficient for theoretical progress, a 'belief in an isomorphism between statistical and theoretical models' (Hedström and Swedberg (1998, p 17)). This is taken serious issue with by Sørensen.

> *The reason quantitative sociology has become theoretically poor is that the enormous progress in methodological power has turned quantitative methodology into a branch of statistics. ... The discipline of statistics is a branch of applied mathematics and has no social theory whatsoever. ... When statistics provides the model to be estimated, sociological theory becomes disassociated from evidence. Simple*

[7]Confer Hayek (1984a (1978), p 255). 'The necessary consequence of the reason why we use competition is that, *in those cases in which it is interesting,* the validity of the theory can never be tested empirically'.

[8]As observed by Hakelius (1995, pp 50-58) this strand of Misesian thought is for some the least appetizing given its apparent extreme character that however allegedly is rather close to generally accepted ideas found within neoclassical reasoning.

[9]Mises (1963 (1949), pp 35, 38, 34)

> *cross-tabulations and percentages are, in fact, often better able to express sociologists' simple theoretical ideas than the ad hoc models suggested by statistical techniques. Therefore we see regression rather than progress in the theoretical sophistication of quantitative empirical research.*[10]

That is, following the advanced application of analytical tools themselves, method is seen as conducive to the obscuring manner in which empirical data, although telling by itself, outperforms pure theoretical development. Endemic to the latter is (instead) the specification of concepts itself (and how they relate to each other via mechanisms), and not the method-wise advanced application of under-specified dittos (Sørensen (1998, p 239)). And, says Sørensen, adhering to the idea of social mechanisms is, accordingly, one way of reducing this risk as mechanisms force concepts out in the light.

As critical of the own discipline's 'pseudoempirical' character is Smedslund (1991, 1994, 1995). He vigorously attacks the manner in which psychology (just like Sørensen's sociology) has come to endorse empirical data in an unhealthy manner.[11] In the spirit of Carneades (confer Næss (1966 (1959), p 101)), and opposing the 'explanatory' ideas of Hempel (1962), his deduction-inclined reasoning implies that 'there can be no general and empirical psychological laws, only local historically determined regularities' (Smedslund (1991, p 325)). The main argument of his revolves around three pillars thus endemic to the furthering of generic scientific understanding (Smedslund (1991, p 326)).

- *Definition of concepts* ('[O]nly context-independent terms can be defined' (Smedslund (1995, p 176))[12]
- *Explicit statement of axioms* (as 'conceptual systems usually involve constraints that go beyond the definitions of single terms', axioms constrain the manner in which the concepts at hand can be combined)
- *Formal proof of derived propositions* (thus resulting from the above definitions and explicit statements respectively)

As for the eventual 'true' or 'false' character of the three above notions, *it is only propositions* (thus akin to the issue-expressions analyzed via *pro-* and *contra-*arguments by Næss (1966 (1959*)) that can be logically or empirically validated in the light of the concepts and axioms brought forward* as a proposition is nothing devoid of its conceptual / axiomatic pillars. That

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[10]Sørensen (1998, pp 238, 239)

[11]Confer Hayek (1979 (1952), p 90). 'What a distinguished philosopher recently wrote about psychology is at least equally true of the social sciences, namely, that it is only too easy "to rush off to measure something without considering what it is we are measuring, or what measurement means. In this respect some recent measurements are of the same logical type as Plato's determination that a just ruler is 729 times as happy as an unjust one.'

[12]Confer Osigweh (1989, p 580). 'If any of the concepts that form a proposition are ill-defined, an ambiguous research proposition or an ill-conceived emphasis on certain aspects of an organizational phenomenon may result. Also, imprecise concepts make it difficult to produce knowledge that is cumulative.'

is, 'knowledge must be validated either experientially or logically in order to become scientifically acceptable.' The propositions have further, says Smedslund, both an epistemic[13] (empirical *or* a priori) and modal (contingent *or* noncontingent) status and which type of either can only be learned once their pillars of above are known. Drawing on the Greek philosopher Thales, there is hence, validation-wise, a 'distinction between *empirical truth* ... and *logical truth*' (Smedslund (1994, pp 2, 4)). That is, it is most viable for an argument to be valid, based purely 'on semantical / logical intuition' devoid of any empirical elements. As seen this is a kind of reasoning reminiscent to that of Næss (1966 (1959)) as it appears below. In the *pro aut contra* analysis then unfolding in the next chapter the propositions (the 'issue-expressions') are generated, and subsequently validated (tried out regarding their proofability), via theory-laden concepts (the explanandum and the explanans) and axioms (the alleged causal association between the joint agency of the explanans and the explanandum). Whereas the *relevance* of arguments here is 'more logical' in character, their *tenability* is 'more empirical'. Smedslund (1995, p 174) further chooses to distinguish between on the one hand 'auxiliary' and on the other 'theoretical' hypotheses, the latter of which allegedly have primacy over the former. This is so since auxiliary statements 'only' tell about the circumstances under which a theoretical hypothesis is in fact applicable. That is, '[i]f the theoretical hypothesis is a priori and necessarily true, a negative outcome always means that an auxiliary hypothesis is false.'[14]

> [So,] ... *if the negation of a proposition is senseless, the proposition is necessarily true.*[15]

On these grounds Smedslund (1991, pp 326-327) comes up with an explicit criticism of the discipline of psychology that allegedly 'does not formally define its concepts, does not state its axioms, never proves its propositions, and never formally derives its procedures'. In consequence propositions cannot be judged as to their epistemic and modal status, something in its turn rendering validating efforts non-viable. The result, claims Smedslund, is 'pseudoempirical' scrutiny. 'Research aimed at establishing the truth value of a proposition P is pseudoempirical relative to a set S of axioms and definitions ... [when] it [is taken] for granted that P is empirical and contingent, and given S, P is a priori and noncontingent.' The underlying reason, claims Smedslund[16] (much like Sørensen (1998)) is that analyses are

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[13]How can their eventual truth be recognized?

[14]As a case in point Smedslund (1994, p 175) alludes to '[t]he general proposition [that] "the sum of the internal angles of a triad is equal to 180 degrees" ... [being] *a priori* and necessarily true, given certain axioms and definitions. Hence, it cannot be weakened or strengthened by any outcome. It is precisely because of the necessary truth of this proposition that the observed deviation may be attributed with certainty to failure of at least one auxiliary hypothesis.'

[15]Smedslund (1995, p 176). That is, '[w]hen a proposition is known in advance to be necessarily true, it can neither be strengthened nor weakened by any findings. The findings [then] merely indicate the extent to which the procedures are successful in bringing about the conditions stated in the proposition. In other words, what is tested are only the local auxiliary hypotheses' (Smedslund (1994, p 2)).

[16]'[W]e must cease to accept the mere collection and reporting of reliable data as scientific research' (Smedslund (1991, p 338)).

biased towards within-reach method-wise reliability and 'operationism' (via measureability), these jointly serving 'as a substitute for the lack of [full-fledged] conceptual analysis.'[17] The core of this reasoning (as elaborated upon by Smedslund (1995, p 176, 1991, p 325)) is that 'one cannot infer from high reliability to high validity' as the very value and quality of theory then cannot be ascertained.

Yet an additional argument in the same vein, mirroring Sørensen (1998) and Smedslund's 'psychologic' delineated above, is Gergen (1985) who focuses ontology and not scientific discipline. He adheres to a social constructionist view of the world, an interpretative turn of *Verstehen*. This entails implications for the overall role of empirical observation. That is, given adherence to social constructionism, that there is no 'one' world out there to grasp, empirical data cannot simply be allowed to play the role that it allegedly does in sociology and psychology according to the authors of above. This must necessarily be so since all empirical data is merely 'constructed' data, something curtailing any validity aspirations of a traditional approach. Given the thus crucial role of social interaction over time it hence follows that mere 'empirical validity' of a certain approach is not conducive for how understanding comes about.

> *Traditional empiricism holds experience to be the touchstone of objectivity; hypotheses are said to be confirmed or challenged by virtue of sense data. Yet, from the constructionist viewpoint, both the concepts of experience and sense data are placed in question. ... [T]he success of* [constructionism] *accounts depends primarily on the analyst's capacity to invite, compel, stimulate, or delight the audience, and not on criteria of veracity. Required, then, are alternative criteria for evaluating knowledge chains – criteria that might reasonably take into account existing needs for systems of intelligibility, limitations inherent in existing constructions, along with a range of political, moral, aesthetic, and practical considerations. By the same token, social constructionism offers no "truth through method". In large degree the sciences have been enchanted by the myth that the assiduous application of rigorous method will yield sound fact – as if empirical methodology were some sort of meat grinder from which truth could be turned out like so many sausages.*[18]

As readily seen, Gergen's argument does not lend itself to the same kind of hands-on analysis as Smedslund's. This by and large stems from the fact that theory itself is not such a core issue for him. The implication of the last sentence in the quote above should, if nothing else, however cast commonly prevailing 'empirical methodology' in serious doubt. As noted by Wallach and Wallach (1994, p 233), it should however be clear that Gergen and Smedslund *do* converge concerning their views of the dubious character of empirical scrutiny pertaining to the validity of hypotheses relating human conduct. That is, 'many hypotheses are derivable from propositions that are unfalsifiable because they cannot be tested without relying on

[17]What in fact then often gets scrutinized is not 'general psychological hypotheses' but only 'local instruction-, procedure-, and measurement-related assumptions' (Smedslund (1994, p 13)).
[18]Gergen (1985, pp 272-273)

conceptualizations which imply the propositions themselves' (the Smedslund claim) and / or '*no* psychological hypotheses are falsifiable because ... psychological states and dispositions is always a matter of interpretation, and there is no determinate relation between interpretation and observation' (the Gergen claim). 'Tests are pointless, then, not only of hypotheses that follow from the definitions of their terms or have no determinate relation to observation, but also of hypotheses that are near-tautologies or derivable from near-tautologies' (Wallach and Wallach (1998, pp 183-184, 189)). 'Near-tautological hypotheses are hypotheses that are integral parts of theories (or conceptualizations) implicitly or explicitly accepted by the relevant community of scientists, which theorists must be relied upon to test those hypotheses. ... Empirical demonstrations of relationships that already are embedded in the only conceptualizations available represent a misplaced – and misleading – emphasis on experimental documentation' (Wallach and Wallach (1998, p 192)).

So, where in all of the above does the present account modeling competition as a social mechanism fit in? As already pointed out, the fundamental reason for relating the works of Sørensen (1998) and others is that those contributions strengthen the legitimacy of the, methodology-wise, theoretical bias of this essay. It hence seems viable to posit that, although appearing within business studies, this dissertation takes serious some of the theoretical shortcomings identified within psychology and sociology. Had works in general had more of a genuinely theoretical character this thesis would not stand out. And the 'legitimizing' sections of this chapter would not be as necessary. Given the belief in the accuracy of the above authors' contributions, how would they then choose to evaluate the reasoning of this dissertation? Its shortcomings aside, both Sørensen (1998) and Gergen (1985) would most likely applaud its aims, the former regarding its conceptual bias and the latter concerning its adherence to social constructionism (confer Hedstöm and Swedberg (1998, pp 13-15) who oppose the '*wie es eigentlich gewesen sein*'-naive way of empirical positivism). But what about a slightly more elaborated account, as that of Smedslund (1991, 1994, 1995)? A general sympathy is most likely to evolve considering the social mechanism-character of Tertius Gaudens. That is, the thesis takes on a position closer to theory construction than mainstream contributions (although despising the idea of grand theory construction), by going behind 'mere correlations' and by assigning 'primacy to the analytical' (confer Hedström and Swedberg (1998, pp 13-15)). To recapitulate, Smedslund argues that a) concept definitions, b) axiom statements, and c) formally proved propositions (stemming from concepts and axioms) are endemic to progressive scientific inquiry. The bricks eventually matching these demands, that is the pillars by means of which progressive scientific inquiry hopefully is on the way in this text, are the following.[19]

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[19]It is obvious that the three model assumptions (1a, 1b, 1c) are not included here as they, just like axioms, constrain, but in a non-derived manner. They are just stated as 'model truths' and hence cannot ever take on the role of theoretically generated concepts or axioms.

- the three 'market' assumptions 3a-c concerning man, markets and institutions derived from the particular versions of Austrian economics and economic sociology respectively subscribed to in this text
- the theory-derived definitions of the model constructs competition (inclusive of the nine dichotomies wherein the three working assumptions are found), customer alertness and social capital
- the framing of two jointly working explanans affecting the explanandum thus embodying the idea of Tertius Gaudens
- the articulation of how the three constructs supposedly associate with each other, the specific model agency, via the issue-expressions F_1 and F_2 within the realm of a *pro aut contra* proofability analysis to follow in the succeeding chapter
- the reconciling notions of social individualism, human purposefulness and dynamic intersubjectivism joining forces in Chapter VIII as Austrian economics and economic sociology are rendered partially coherent

Among these five bricks it seems possible to trace what Smedslund is after. *Take concept definitions first.* Concepts are the structural atoms of an erected whole. If these are not properly defined, says Smedslund, the entire structure will suffer immensely in terms of ambiguity. In this dissertation what is closest to this idea of concepts is the framing of the constructs competition, customer alertness and social capital as delineated in chapters III and IV. The necessary definitions seem to be present, although customer alertness definitely is more of a juvenile concept than either social capital or competition.[20] *Then have a look at axioms*, something Smedslund treats in terms of constraints endemic to 'conceptual systems'. In case the latter is interpreted as entities of theory, axioms necessarily constitute the glue that renders theory intelligent in terms of 'logical understandability, cohesion, and non-redundance'. The axioms of this text are then, apparently, the market assumptions embodying the particular versions of Austrian economics and economic sociology clung to, and the idea of Tertius Gaudens. The former are what 'proves' that the concepts-constructs do not emerge within a vacuum but only propelled by genuine theoretical insight in that they frame the overall context (the model aside) wherein competition comes forward. That is, the analysis to be undertaken in the next chapter cannot appear outside the realm of these, *thus constraining*, axioms. They are backed up regarding their pure theoretical legitimacy by the three reconciling notions (social individualism et cetera) to be found in Chapter VIII. The reasoning of Tertius Gaudens is what, in a similar vein' 'proves' the ex ante feasibility of the explanatory model erected. It is not taken out of the blue but originates in solid theoretical scrutiny. *Finally, consider how propositions are 'proved'.* Propositions, here being the two

[20]It goes without saying that there is an obvious risk for infinite regress once concept definitions are reached out for. This is so as each and every concept (such as 'social capital') is pillared by other concepts (such as 'commitment') that is pillared by yet other concepts. And so forth. To reasonably inquire into 'primary' concepts (here the constructs of the model) is however a rudimentary first step. At least according to Smedslund.

issue-expressions F_1 and F_2, are analyzed *concerning their proofability of the model agency* via pursuit of the *pro aut contra* analysis to appear in the next chapter. The arguments in support of, and in opposition to, the two issue-expressions are scrutinized as to their *conclusiveness* in terms of *tenability* and *relevance* that each is nourished by a) the definition of model constructs, and, b) the theoretically-laden axioms.

iv. Three crucial methodological ingredients

The methodology adhered to in this dissertation can be characterized by means of a few distinct concepts that recurrently appear as 'hooks' whereupon the reasoning of this text relies. Apart from the purely theoretical ones that given the inclination of this effort stand out in particular, there are a few others that matter a lot. *Devoid hereof the formulated model does not make sense.* An array of such concepts could be identified. Those most crucial for the core argument of this thesis however relate directly to the formulation of the model. Hence, 'explanation', 'social mechanism' and 'agency' stand out in this regard. A little bit more implicit is the manner in which the model appears as an 'ideal-type'. Whereas 'explanation' is being treated separately in the closing pages of Chapter II, the others have only been subject to scattered comments in passing. What follows below is an account of each. Social mechanisms, ideal-types and agency. The idea is to render the drawing upon them more within reach.

On social mechanisms

Why is it that, when ski-trekking off-route in the mountains on a lovely sunny April afternoon most people, when meeting 'out in the wild', tend to greet each other with a nice 'hi, how are you,' while the same people, when running into one another in one of the crowded ski lodges in the outskirts of the area, hardly pretend to notice, let alone cordially greet, one another?

Assume further that one is interested in understanding people's eventual run on a bank in Moscow or some others' choice of entering or not a New York City restaurant. One fairly accepted option, at least in economics, is to look into the risk aversion profiles and preference set-ups respectively of people in general in order to grasp what happens. Another is to opt for the eventual association between the number of people 'running' and 'entering' respectively and some other phenomena. In the Moscow case this could tentatively be Russian political unrest and concerning the restaurant it might be the geographical proximity between this restaurant and some off-off-Broadway theater performance, or maybe its recent rating in The New York Times. Focusing the mere number of *other* people running on the bank or enjoying the restaurant is an additional way to reach out for a plausible clue. Common sense then says that there is a fair chance of a positive association between the number of other people running / eating and the probability that the individuals under consideration will run on the bank or enter the restaurant. But this claim does not tell about the very *reason* for this being so. Yet another option of coming to terms with what happens at the bank, in the restaurant, or in the mountains, is then instead to pinpoint the *causal* factors residing in the social context as how others are taken into account. That is, in what *particular* way does others' joint behavior impact the individuals about to take action in each of the settings? According to this last question, then attempting to *explain* what happens, thus reaching out for non-random causal associations, all of the situations feature what can be labeled a social (here a belief-formation) mechanism. The first is the self-fulfilling prophecy expressed by Merton (when more and more people run on a bank it will in fact go bankrupt despite the fact that the initial opinion of those starting the running might be false) and the second is the threshold reasoning of collective behavior formulated by Granovetter (Hedström and Swedberg (1996, pp 293-294)). The third does not yet carry a distinctive label (based as it is in the author's own alpine experience) but most likely is understood as varying role expectations or similar.

> *To explain is to provide a mechanism, to open up the black box and show the nuts and bolts, the cogs and wheels of the internal machinery. ... The role of mechanisms is twofold. First, they enable us to go from the larger to the smaller: from molecules to atoms, from societies to individuals. Secondly, and more fundamentally, they reduce the time lag between explanans and explanandum. A mechanism provides a continuous and contiguous chain of causal or intentional links; a black box is a gap in the chain.*[21]

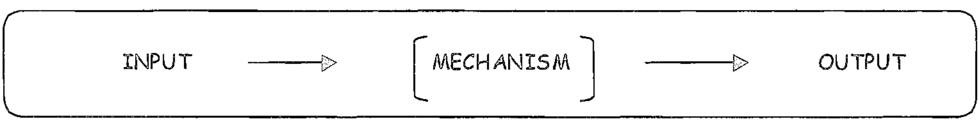

Figure Va; The expression of a social mechanism[22]

A generic way of framing this kind of mechanism is as the link, 'M', between two entities, 'I' (input) and 'O' (output) that appear to have *a non-random systematic association with each other*. It is not uncommon for such a mechanism to be treated as a static 'given' not subject to any further analysis. The lion's share of economic theory for instance often depicts the firm as such a (black-box) mechanism, the lid of which is not opened as raw material is transformed into consumer products.[23] This way of reasoning might very well fit a purely predictive aim relying on a well-defined model with clear-cut assumptions such as that of economic man optimizing interests within a given means-end framework (for a diverging economics perspective treating entrepreneurship as a social mechanism, see Kirzner (1979, p 117) where the responding alert agency of the entrepreneur allegedly is 'the social mechanism ensuring that society will capture the possibilities available to it'). But in such a case, as put forward by Hedström and Swedberg (1996, p 288), *the black box in itself does not furnish any information not already residing in the original data drawn upon*. At the worst it is a mere indication that things are associated in a particular manner but why this must necessarily be so

[21] Elster (1983, p 24)

[22] Hedström and Swedberg (1996, p 288)

[23] This is however what Coase (1937) did back in the thirties by simply asking 'why are there firms?'

is not subject to scrutiny. What if the formation of market prices is looked into? In predictive (neoclassical) models it is not uncommon (some other assumptions such as the character of goods apart) to associate the sheer number of buyers and sellers with a particular market structure that in its turn affects the price level which in consequence can be evaluated from a welfare perspective. If demand is treated as given the going price ('O') will, ceteris paribus, depend from the number of sellers ('I') offering a particular commodity on the market. A plausible presumption is then that the fewer the sellers, the higher the price. And vice versa. In this world the mechanism ('M') might simply appear as the beta-value in a regression analysis where the alpha ditto reflects the costs inherent to the manufacture and marketing of the product. This allows (everything else aside) for a forecast of price ('the dependent variable') once the number of sellers ('the independent variable') is known. But in this manner the association is not *explained.* That is, the mechanism does not tell how, under the influence of which processes, that a particular price comes about. It is a black box merely connecting I with O by way of a numerical coefficient. An explanatory analysis would on the other hand pay less attention to this pure numerical information and instead reach out for an understanding of the underlying reasons for the manner in which the mere actor number affects price. That is, it would scrutinize the true propellants of the beta-value in the regression analysis in terms of 'why?' and /or 'how?'. In this particular case this might entail the looking into the price-taking psychology of the relevant actors. That is, the process that ultimately leads to a certain price will be made up of an infinite number of small steps wherein sellers try to raise their price above this level without succeeding. And the unfolding of this procedure is the mechanism thus eventually grasped in more of an elaborate manner following the parametric character of price. A key characteristic of mechanisms is hence their explanatory character. This entails (as commented upon in Chapter II) the causal concatenation of events.

Once a market discourse is taken beyond that of isolated man into a 'social world' replete with features embodied in the market assumptions of the thesis model, the case for M (the mechanism) as a separate area of inquiry becomes even more compelling. It must necessarily be looked into somewhat deeper once prediction, relying on standardized assumptions of human conduct, is no longer in sole reign over the agenda. What is more, the emphasis of a mechanism in such a context is also endemic to the coming into being of a market sociology, 'markets as concrete social structures ... [where] to figure out the specific sociological mechanisms through which they work' (Swedberg (1987, p 105)).

What is a social mechanism viable for such a context? As has already been related (following Hedstöm and Swedberg (1996, pp 281-282), Schelling (1998, pp 32-33) and Coleman (cited by Hernes (1998, p 75))), a social mechanism (pertaining to the phenomenon of x) can be conceived of as *a plausible hypothesis abstractly reproducing x thus constituting a* *'sometimes-true theory' situated midway between a social law and pure empiricism.* Such a mechanism is, then, not really observable except for in its consequences (Hedström and Swedberg (1996, p 290)). '[It hence] allow[s] us to explain but not to predict' (Elster (1998, p 45)).

> [By way of mechanisms,] [r]*eality presents itself to us, but we have to represent it in order to make sense of it. Mechanisms are the virtual reality of social scientists. But it is the stuff of which the world of the social scientist is made: This artificial, manmade world of mechanisms is real – real virtuality.*[24]

That is, the model here formulated, where competition is seen as a social mechanism, is not truly observable as it only 'represents' reality without literally being a blueprint thereof. This implies the following. There is not *one* overarching theory to relate as general laws cannot possibly be viable here. This should provide some support for the inspiration thus gained from different disciplines, since Austrian economics and economic sociology each supplies elements of the agency here allegedly explaining competition. Further, the socio-Austrian Tertius Gaudens model cannot be learned about via pure empirical observation. *It is instead an analytical construct, an ideal-type, emerging out of an extensive theoretical account.* This however does not mean that it is entirely wasteful to relate isolated empirical examples when these reveal consequences of the social mechanism thus scrutinized. Neither does it entirely rule out the feasibility of eventual primary-data empirical illustration, to follow here in Chapter VII.

There are, in sum, six major reasons for the viability of competition as a social mechanism given the path of inquiry chosen in this essay.

1. A social mechanism is the ideal handrail once some *theory refinement* is reached out for. In fact this is in itself almost identical to the very notion of a social mechanism. That is, on the one hand this text does not set out to bring forward a grand theory of competition. Instead it hopes to make a contribution by occupying a hitherto relatively empty piece of space in the going discourse, that of competition within a markets-as-networks sociology. On the other, this text does not tell a story, it merely logically relates how pieces of reality could be looked into. Ensuing is kind of a Mertonian middle-range theorizing that reaches out for an explanatory account of how the association between certain phenomena generate the object under study, customer-geared competition. The idea of the mechanism looked out for is to furnish an explanation of what is observed, where any association between entities is truly causal, and not merely the outcome of 'coincidental association' (Hedström and Swedberg (1996, pp 281-283)).

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[24] Hernes (1998, p 78)

2. This text ascribes to a Weberian account of *methodological individualism* where a meaningful analysis of a social context necessarily must be anchored in the non-atomistic individual who takes others into account. Any argument carrying a fragment of explanatory pretense needs some kind of a causal force that ties the parts together. And if the argument is sociological this *function of agency* must necessarily be occupied by acting humans (Hedström and Swedberg (1996, p 290)). In consequence, adherence to (some sort of) methodological individualism is as inherent to the idea of social mechanisms as it is to the pillars of this essay. Further, any account of competition which subscribes to this kind of a market micro-foundation must also come to grips with its macro dimension. Drawing on the initial reasoning by Coleman (1986) and Hedström and Swedberg (1996, pp 296, 299, 303-304), Tertius Gaudens can be conceived of as a transformational micro-macro mechanism. That is, the workings of this very mechanism has got implications for the overriding market structure, which, following methodological individualism, cannot ever be conceived of by a mere macro-macro mechanism sort of fictional reasoning. This is not to say that macro accounts as such have nothing to add to this kind of undertaking. They have, but only subject to the relative primacy of human action.[25]

3. As noted by Schelling (1998, p 32), the idea of methodological individualism is related to that of the agent as 'a rational, or at least a purposive individual'. That is, adhering to some kind of methodological individualism inevitably entails the presence of rationality, however conceived of. The idea of this thesis is however a rationality that is far from the conventional wisdom in the area. It instead relates *purposeful human action* pertaining to an actor's entire means-ends set-up. Interpreted in this manner it is one of the pillars of the argument pursued. And, incidentally, the very same way of reasoning seems to be at hand also for the majority of interpretations relating the logic of social mechanisms (confer Gambetta (1998, p 103), Cowen (1998, p 125)).[26]

4. This essay conceives of the market as *a causal-genetic process*. The dynamics endemic to this perspective also pillar the discourse on social mechanisms where the presence of the mechanism itself implies a non-static cause-and-effect explanatory context. That is, *a dynamic view of the market has got particular explanatory implications*. As a case in point this feature is not found in a traditional market equilibrium framework or in a mere association of variables such as an analysis of correlation. It is however very much the epitome of the Austrian economics discourse. This means that only taking the strength and form of association between entities into account is not enough. A causal-genetic approach revolves around 'how?' the associative process comes about (confer Hedström

[25]Methodological individualism is one of the subject matters in Chapter VIII.
[26]Rationality is one of the subject matters in Chapter VIII.

and Swedberg (1998, p 10)).

5. Concerning methodology per se Hedström and Swedberg (1998, pp 13-15) explicitly relate *the Weberian ideal-type construct* as endemic to the reasoning making up a social mechanism. Just like a mechanism, an ideal-type is heavily analysis-centered in the sense that the latter is the first step in framing the former. Supposedly it constitutes a distillate of relevance for the question probed into. In consequence it is the ideal-construct itself, the model, that is targeted by way of analysis, *and not the reality that it sets out to explain*. By necessity only a few empirical aspects are then touched upon. As a result social mechanisms are only discernible as the procedure of analytical abstraction unfolds. This is very much the case in this thesis that delineates a particular model of a triad wherein the socio-Austrian Tertius Gaudens, a social mechanism, is anchored. That is, there 'are' no triads to be seen out in hands-on markets. But the drawing hereupon as a structural ideal-type makes the social mechanism scrutinized within reach. The crucial role of the abstract *once explanation is opted for* is openly recognized by Weber (1949 (1904), pp 78, 107).

> *Even with the widest imaginable knowledge of 'laws', we are helpless in the face of the question: how is the* ***causal explanation*** *of an* ***individual*** *fact possible – since a* ***description*** *of even the smallest slice of reality can never be exhaustive? ... Every type of purely direct concrete description bear the mark of* ***artistic*** *portrayal. "Each sees what is in his own heart". Valid* ***judgements*** *always presuppose the* ***logical*** *analysis of what is concretely and immediately perceived, ie the use of* ***concepts****.*

6. Competition is the subject matter of this thesis. Apart from all of the above competition seems, in its own right, simply very apt to be discerned through the lens of social mechanisms. This follows naturally from its role as one of the foremost market phenomena with likely immediate impact upon an array of measures within, for instance, the area of market performance. An example regarding price formation is provided above and below two related studies are briefly recapitulated. So instead of treating the market as the mechanism wherein competition makes up part of the agency this text 'takes a step down' and handles competition as a mechanism coming about via yet other explanans.[27] Last, but not least, in drawing on the works of Simmel (also very much inspiring this dissertation), Hedström and Swedberg (1998, p 5) explicitly relate Tertius Gaudens as a social mechanism.

The most overt treatment of competition as a social mechanism seems to be that of Stinchcombe (1998, pp 267, 269). He then relies on mechanisms as causal models with 'some actual or possible support'. The explanans (Stinchcombe labels also them mechanisms) status-

[27]For an example of the former use of social mechanisms, confer White (1993, p 223). 'Any market of significance operates itself and reproduces itself without external planning or auctioneer. It is a social mechanism, which is to say it is an institution and cannot be installed to order, by decree, at least also because it is sustained in part by competing attempts at control.'

derived monopoly power and competitive environments respectively here allegedly, via their joint agency, explain monopolistic competition as a social mechanism.[28] These two explanans are thus 'true often enough to be widely useful' even though they by no means apply generally. Stinchcombe ascertains that the advantage that accrues to those holding a certain status in a specific environment follows from the interplay between market opportunities 'out there' to be monopolized, and the actor's own ability to carry this through, be they companies, universities or countries. Hence 'monopolistic competition as a mechanism', 'a relation among the opportunities of different organizations' (Stinchcombe (1998, pp 281, 294)). Market opportunities are monopolized as the organization's competence 'fits' the demands imposed by the competitive environment. The position of an individual organization is equivalent to the competitive exposure from organizations going after the same competence / environment fit. Competition as such is then the relation prevailing in the market between the 'fit opportunities' inhering in the organizations (Stinchcombe (1998, pp 267, 269, 270, 194)). Another type of mechanism with some affinity to competition accounted for by Hernes (1998, pp 89-90) is the shake-out mechanism of competition. This allegedly drives the least profitable organization out of the market and hence increases actor concentration by also putting those remaining under cost containment pressure.

On ideal-types

This dissertation formulates and analyzes an explanatory model of customer-geared competition that is discerned as a social mechanism, the socio-Austrian Tertius Gaudens. That is, this social principle is made within reach via the model, framed as a supplier-customer-supplier triad and supported by a set of given assumptions. The model renders the social mechanism looked into manifest on an intermediate rack of abstraction allowing both for theoretical depth and empirical applicability.[29] It is a conceptual device that envisages the middle-range theorizing underway since it constitutes a distinct frame to which the reasoning can be attached and subject to which the analysis can be undertaken and appreciated. The triadic model is then the abstract structure where 'the third who benefits from the disunion of the two', can be envisaged. As asserted by Levine (1971, p lxiv), this mode of reasoning is familiar also to Simmel when he analyzes 'social types' by way of positional characteristics and human world orientation. The process of competition can then, says Simmel, be understood from the structural position of the 'competitor' and love can be grasped via the orientation found in 'erotic man'. The model here representing Tertius Gaudens is an ideal-type. This is why.

To Weber (1949 (1904), pp 86-95), the adherence to deductive, partially utopian, constructs

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[28]Confer Podolny (1991) for an account of competitive implications of perceived status.

[29]This last aspect is of particular importance when the eventual application of this text's claim is considered in light of the business studies realm wherein it appears.

of economic theory serves as a crucial pillar in rendering part of the social sciences 'scientific'[30] On the other hand, says Weber, the social sciences can never hope to attain the close affinity between theory and empirical data discerned in the natural sciences. And the former should thus not even try to copy the latter in this respect. That is, the search for natural laws, yes, but in a manner where the empirical reality of society can be related to in a meaningful way. A construct that results from this kind of search can never itself be an end but only a means. This follows naturally when the presence of objective facts are denied in favor of a subjective *Verstehen* view of the world as adhered to by Weber. This reasoning is indeed reminiscent of that pursued concerning the case for social mechanisms as such (Hedström and Swedberg (1996, 1998)). This is also most salient in the words of Hernes (1998, p 78), who argues in favor of mechanisms as constructs that make up 'a phantom world which may mimic real life'.[31] Weber himself says that theoretical constructs are 'arrived at by the analytical accentuation of certain elements of reality.' And once these constructs, such as market relationships, are found, or can be expected to be found, in any piece of reality looked into (Weber 1949 (1904, p 90), 1968 (1922), p 21),

> *...the* ***characteristic*** *features of this relationship* [can be made] *pragmatically clear and* ***understandable*** *by reference to an* ***ideal-type****. ... The ideal typical concept will help to develop our skill in imputation in research: it is no 'hypothesis' but it offers guidance to the construction of hypotheses. It is not a description of reality but it aims to give unambiguous means of expression to such a description.' ...* [The ideal-type is not to be conceived of as an average derived from reality, but as an accentuation of certain related concrete elements] *which are arranged according to those one-sidedly emphasized viewpoints into a unified* ***analytical*** *construct ... this mental construct (****Gedankenbild****) cannot be found empirically anywhere in reality. It is a* ***utopia****... The more sharply and precisely the ideal-type has been constructed, thus the more abstract and unrealistic in this sense it is, the better it is able to perform its functions in formulating terminology, classifications, and hypotheses.*

Weber (1949 (1904), pp 93, 104) goes on to assert that the ideal-type ('a harbor until one has learned to navigate safely in the vast sea of empirical facts') is in no way apt as a hands-on device by means of which an empirical setting can be grasped in its entirety. Instead, it is a 'construct' serving as an object of comparison in relation to which any real-world event can be judged, not in full, but as to 'the explication of certain of its significant components'. The corresponding argument of this dissertation should stand out clearly. The ideal-type reasoning is the only feasible way, claims Weber (1949 (1904), p 111), through which a *particular* empirical aspect under scrutiny can be grasped as the ideal-type 'confronts' reality. As a case in point he (Weber (1968 (1922), p 6) relates how rational action, an ideal-type, can assist in

[30]This is obviously not the case for the empiricism-laden value-imbued account of theory pursued by some of his contemporary historians.

[31]One could of course say that the ideal-type argument applies to virtually all serious scientific undertakings in the social sciences. Be as it may, in that case it is all the more stunning how such a key aspect can be adhered to only implicitly. The social mechanism discourse as such definitely necessitates at least a brief separate glance hereupon.

providing an understanding of truly irrational conduct. For instance 'a panic on the stock exchange' (something irrational) is then seen as reflected in something 'which has the merit of clear understandability and lack of ambiguity' (rational stock exchange behavior). What is more, Weber (1949 (1904), pp 100-101) also takes some pains in distinguishing 'the [uniquely individual] quasigeneric *ideal-type*' from simple generic [average-like] concepts (*Gattungsbegriffe*) which are mere categories summarizing 'the common features of certain empirical phenomena'. The difference is readily seen as Weber exemplifies with the ideal-type of 'economic exchange'. This is a construct 'remove[d] from its empirical reality', that is derived from the everyday (devoid of meaning) use of 'exchange', a generic concept, which is associated with another ditto, 'marginal utility'. The ideal-type of 'economic exchange' then results as a particular 'typical' aspect of 'exchange' is highlighted.

There is no doubt that much of the unjustified criticism posed against neoclassical economics, such as that pertaining to its alleged 'unrealistic' character, simply does not understand the very idea of ideal-types as appearing above. This is at least the argument of Friedman (1953, pp 34-36, added boldface).

> *The confusion between descriptive accuracy and analytical relevance has led not only to criticisms of economic theory on largely irrelevant grounds but also to misunderstanding of economic theory and misdirection of efforts to repair supposed defects. "Ideal-types"* [such as 'atomistically competitive firms, grouped into industries, and monopolistic firms'] *in the abstract model developed by economic theorists have been regarded as strictly descriptive categories intended to correspond directly and fully to entities in the real world independently of the purpose for which the model is being used. The obvious discrepancies have led to necessarily unsuccessful attempts to construct theories on the basis of categories intended to be fully descriptive. ...* ***The ideal-types are not intended to be descriptive; they are designed to isolate the features that are crucial for a particular problem.***

On agency

Is it anyhow possible to relate the idea of agency without explicitly tying it to humans? Most would definitely say 'no' and dismiss such attempts as at the best naive and at the worst uninformed or even outright obtrusive. The fundamental reason behind this claim is akin to what will come forward in Chapter VIII that penetrates individualism, rationality, and subjectivism. In brief these (the first of them in particular) revolve around the issue of whether the acting individual is subject to the surrounding context or whether it might in fact be the other way around (confer Coleman (1986)). That is, what in a most brief manner is said in this section on agency shall be seen in light of a more elaborated account telling about methodological individualism later on in the thesis.

According to Giddens (1994 (1979), pp 49, 53) agency can be seen in light of 'action' on the one hand and on the other 'structure', something corresponding to the 'individualistic' and the 'holistic'. This entails, suggests Giddens further, that most contributions treat them as 'antinomies' at the same time as they necessarily 'presuppose one another'. That is, although embodying opposed meanings, the one cannot be without the other.

> *"Action" or agency, as I use it, thus does not refer to a series of discrete acts combined together but to a* ***continuous flow of conduct****. We may define action ... as involving a "stream of actual or contemplated causal interventions of corporeal beings in the ongoing process of events-in-the-world". ... The concept of agency as I advocate it here, involving "intervention" in a potentially malleable object-world, relates directly to the more generalised notion of* ***Praxis****.*

That is, agency is more than concatenated pieces of action. And despite being tied to concrete 'beings' it displays an air of an almost separate function by itself. This holds in particular when it is linked to more of an overarching systemic level, such as a market. This is further evident as Turner (1991, pp 530-532), interpreting Giddens, emphasizes a 'dehumanized' facet of agency according to which it is 'more action than intention'. That is, in case intentions and purposes would be part of agency itself it is almost synonymous to humans 'being' as, like Mises tells, human existence is in fact about human action. But once unfolding and reproducing chains of pieces of action are identified, agency becomes (despite its genuinely human character) a bit more like a kind of function endemic to a particular context. This manner of interpreting agency in function-like terms, according to which the strict dichotomy traditionally prevailing between agency and structure is brushed aside, is in fact what spurs the claim of Callon (1998, pp 7-12) on agent-networks as single entities devoid of *internally partitioned structure*. Herein what is action and 'action resources' (as structure) then becomes one and the same. This is also allegedly the reasoning behind 'agents as actor worlds' as discerned in the idea of embeddedness (Granovetter (1985)).

> *This means that the agent is neither immersed in the network nor framed by it; in other words, the network does not serve as a context. Both agent and network are, in a sense, two sides of the same coin.* [So, this idea is] *replacing the two traditionally separate notions of agent and network by the single one of agent-network...* [32]

How does then the agency of the Tertius Gaudens model here suggested appear in light of the above? To repeat, the agency alluded to in the model is then the *joint* impact of customer alertness and social capital on competition. That is, customer alertness is one part of the agency that works out *intertwined* with that of social capital. There are then two ways of coming to grips with this idea given the brief outline of agency provided above. *Assume first* that one takes on a 'traditional' perspective (closer to what Giddens is inspired by) according to which action (and thus agency) and structure are relatively separate features that stand in a sort of either/or-opposition to each other. As noted agency is then much tied to the de facto

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[32]Callon (1998, pp 8-9). In this argument he also explicitly ties the reasoning to Simmel's framing of the 'triangular relationship' as the setting where tertius gaudens works out (Callon (1998, pp 9-10)).

action of humans also on the verge of encompassing intentions et cetera. Such an agency is at first sight hardly reconcilable with Tertius' agency, the latter being customer alertness and social capital. Or? What if customer alertness and social capital are in fact seen as the de facto outcome of human action? That is, once the two explanans are interpreted explicitly embracing also the market assumptions put forward, one of which says that human action is endemic to the market process, things appear differently. Since then, customer alertness and social capital, conceptually abstract as they might seem at first sight, necessarily embody aggregated action, that is, market agency. In consequence, what seems like detached and anonymous agency is in fact expressing human action, then also in fact entailing intentions etceteras (so there is, it should be admitted, the risk for some circular reasoning here). *Then consider* agency as devoid of strict actor/structure division (closer to what Callon is after). It then is akin to a function as seen in the notion of actor-network. That is, a market arena is then understood as an actor-network body wherein certain functions, reproducing the actor-network over time, are discerned. Agency then becomes what motivates / propels and results from an actor-network, something easily attributed to customer alertness and social capital once they are seen as embodying the integration of customer and supplier action in a triadic structure.

To summarize, it seems viable to denote customer alertness and social capital as agency. This holds both in the case of a more traditional adherence to 'action versus structure'-reasoning (where agency then consists of aggregated human action within a particular structure), and in the case of agency as intertwined with the structure where it unfolds. In the latter case it is the truly functional properties of agency for an overarching setting where it evolves that really count.

v. To argue *pro aut contra*

As foreshadowed above, the explanatory model generated will undergo a *pro aut contra* analysis in the succeeding chapter. The suggested joint impact of customer alertness and social capital on the subject matter of this thesis, customer-geared competition, will then be tried out by means of *statements* concerning how this causal interlinkage eventually comes about. These statements, subsequently emerging as 'issue-expressions', will then be tried out regarding their ability to provide 'proof' of the said agency. The 'proofability' of these statements thus also embodies the 'proofability' of the agency itself. The model will hence be tried out concerning its ability to explain competition once its agency will have been made *specific* following the formulation of precise agency statements (= issue-expressions). *Customer-geared competition will then tentatively be established as a social mechanism, the socio-Austrian Tertius Gaudens, through the manner in which the joint agency of the two explanans causally connects to the explanandum.*

There is an array of options available concerning how to pursue this endeavor, but this text sides with the probably most rudimentary alternative, that framed by the philosopher Arne Næss (1966 (1959)). His reasoning is very much in line with the nature of a social mechanism as a 'sometimes-true theory', that neither is to embody the articulation of grand theory, nor is to prove any eventual associations empirically. The mechanism is simply to be scrutinized as a 'plausible' hypothesis (Hedström and Swedberg (1998, p 7)) by means of statements made regarding its specific agency. According to the reasoning of Næss any conclusion to be drawn in this manner then presupposes the posing of a number of arguments that in their turn emerge from an initial precise statement, the 'issue-expression'. *The arguments are then evaluated as to their 'conclusiveness' in relation to the issue-expression that in its turn is deemed 'proofable' or not, something then also applying to the agency that it sets out to grasp.* Issue-expressions are then what disclose the precise nature of a scrutinized agency. There are two immediate and related consequences hereof for the current text. *The first* is that any tentative explanation needs a stringent issue-expression that renders itself eligible for further analysis. That is, devoid of issue-expressions an explanatory model cannot be analyzed in this vein. Such statements must hence be formulated. *The second consequence* follows from this and implies that the 'joint' agency of customer alertness and social capital must be reconsidered once an exact definition of the agency (via issue-expressions) is called for. That is, the agency must necessarily be subdivided into two parts, and any eventual interlinkage of these can only be dealt with separately. In consequence there will be two issue-expressions, 'F_1' pertaining to customer alertness, and 'F_2' relating social capital, that only subsequently will be somewhat scrutinized as to their eventual mutual dependence. This specific reasoning, regarding the actual analysis to come forward, will continue at the outset of the next chapter whereas the remainder of this section will be devoted to a more general discussion of Næss' ideas.

The well-known reasoning of Næss (1966 (1959), pp 97-119) starts out by acknowledging the crucial distinction that must be made between reason (*ratio*) and motivation (*causa*) of a position taken on a particular issue. The *reason* is what actually points in support of a statement whereas its *motivation* is various causal factors that render it understandable. Whereas the former might very well be cognitively viable this does not necessarily entail that the latter is. That is, there might be good reason for an opinion ('it is nice to go to San Francisco in the summertime'...) that cannot be causally understood via the motivation provided (... 'as it by then is replete with heat and sunshine').[33] The essence is that one should be cautious about starting out by a conclusion, and only then look out for-arguments in support hereof. In a scientific context the risk of not being aware hereof is particularly alarming. The key to reduce it, says Næss, is by adhering to a methodology of thought

[33]There might indeed be very good reason to go to San Francisco in the summertime since it *is* a nice place, but the cause hereof is hardly its sunny climate.

labeled *pro et / aut contra dicere* ('to argue in favor of and/or against').[34]

> *The habit of looking at a question from all possible angles and of reviewing all relevant pro and con arguments obviously plays a most important role in intelligent behavior.*[35]

To claim a priori the 'correct' nature of an opinion / a statement / an issue-expression could entail the hiding of unjustified causes for a cognitively reasonable position. That is, just like it first might seem reasonable to go to San Francisco in the summertime, this seems as a less viable position to take when it is learned that the motive for doing so is the alleged heat and sun there prevailing during that time of the year. So if the motivation justifying a reasonable statement is not overtly declared, it is not really possible to fully justify such a stance from a logical point of view. A statement can hence never be analyzed unless some clues are provided as to the factors that pillar it. This position, derived from the ancient Greek philosopher Carneades, implies that no position on any issue cannot ever be neither fully 'certain' nor entirely 'false' as there will always be *something* that supports or opposes it. Accordingly, an opinion held cannot be justified by only empirical 'proof' as this 'truth' cannot ever be fully established, but some positions are instead more 'likely' than others. To know something 'for sure' will then be both 'unattainable and unnecessary'. A preeminent manner of ascribing to this a way of reasoning is, following Næss (1966 (1959), pp 98-102), via adherence to *pro et / aut contra dicere*. The basic idea hereof is to delineate arguments in support of and / or in opposition to a stated issue-expression, and it is the ability of the arguments to support and / or oppose that lies at the heart of the ensuing analysis. The 'conclusiveness' of an argument is the 'accuracy' by means of which it supports or opposes the 'proofability' of the issue-expression.

This analysis of argument is then made up of two interconnected steps, description and evaluation. *The initial pro et contra*-phase delineates the arguments that there are in favor of and in opposition to a given issue-expression. This is then a 'pure' survey of argument prevalence wherein no conclusion is drawn regarding the conclusiveness of the arguments in light of the issue-expression at hand. The arguments are then only recapitulated without ever

[34]Definitely more prevalent than the pro and / or contra-argumentation in this field of analysis of argument is the pure deductive logic that builds upon the triptych 'data=>warrant=>conclusion', alternatively 'premise 1 => premise 2 => conclusion' (confer Toulmin (1964 (1958))). This logic, though implicitly embracing the reasoning of Næss', is different in that mostly backing '*pro*-' arguments are analyzed regarding their internal logical cohesiveness. The 'balancing act' found in a *pro*- and / or *contra*-discourse is replaced by several consequential arguments at different levels supporting the warrant. More important is however that whereas a *pro*- and / or *contra*- analysis looks into both the relevance and tenability of an argument (see further below), pure deductive logic focuses the former via 'logical validity'. That is, if a logically valid *pro*-argument is 'true', the thesis (the issue-expression) it refers to, must *necessarily* also be true and the *pro*-argument in consequence carries 'maximum relevance' (confer Björnsson et al (1994, pp 62-63)). So whereas a conclusion in this case is reached via the overall logical feasibility of a chain of backing arguments, a *pro*- and / or *contra*- conclusion comes about via more of a thorough analysis of each argument, something however occurring at the expense of a logically coherent reasoning in each and every part.

[35]Naess (1966 (1959), p 100)

being balanced against one another. The *successive pro aut contra* ('for *or* against')-phase is very different. Herein the *pro* and *contra-arguments* are put in juxtaposition and thus balanced against each other in light of the original statement. This eventually invokes a conclusion subjectively drawn by the analyzer regarding the 'proofability' of the statement at hand. Both phases, the selection of arguments, and their ensuing evaluation, are highly subjective in character. This stems both from the context wherein the statement is found and from the subject who performs the analysis. It is thus possible, and at times likely, that two persons come to completely different conclusions regarding the 'proofability' of an issue-expression since they evaluate the conclusiveness of its arguments in entirely different ways (confer Björnsson et al (1994, pp 14-18, 49-50)).[36] The core demand of such an analysis is furthermore that it cannot ever contain contradictions. In the reasoning it is hence crucial to observe a) that arguments do not appear both as *pro* and *contra*, and b) that all arguments, for or against, are logically cohesive when jointly presented so that no statement cannot ever be simultaneously both accepted and rejected.[37] Some also claim that it is preferable for arguments to appear in order of estimated logical weight. The *pro aut contra* conclusion thus arrived at does not, according to Næss, have to be very elaborated on its own. This is what should reside in the posing and evaluation of arguments as such (Næss ((1966 (1959), pp 102-108))).

The scrutiny of arguments in light of a given issue-expression is thus what makes up a *pro aut contra* analysis. This is what ties the arguments to the initial statement, be they supportive or opposing in character. This connection lies at the heart of Næss' reasoning since devoid of motivation (conclusive arguments) the 'proofability' of a thesis cannot be judged in a proper and intelligent manner. *To be 'proofable' here means to appear logically acceptable in a particular context.* The conclusiveness of an argument in relation to a given issue-expression is grasped by means of two concepts characterizing it, its 'tenability' and its 'relevance'.

> *The conclusiveness of an argument in relation to an issue-expression F_i is a function of two factors: its* ***relevance*** *in relation to F_i, and its tenability. ... The* ***tenability*** *of a statement ... stems from how reasonable it is to accept this statement. ... The more* ***relevance*** *P_i has got in relation to F_i, the less reasonable it is to reject F_i provided P_i is accepted. ... The more* ***relevance*** *C_i has got in relation to F_i, the less reasonable it is to accept F_i provided C_i is accepted.*[38]

Tenability and relevance are as seen two distinct properties of an argument. The tenability is about 'how sure we can be that the argument is a tenable assertion regarded in itself' whereas relevance is 'how strongly the argument will speak for or against F_o' (Næss (1966 (1959), pp

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[36]And it is of course also most likely that these two subjects, had they been given the opportunity of articulating the arguments themselves would have come up with different ones.

[37]This prerequisite is what turns an initial *pro*-argument into a *contra*-argument in case the issue-expression is turned 180 degrees so as to embrace its own antithesis.

[38]Björnsson et al (1994, pp 52, 55, 62, author's translation, the notation is slightly changed to fit the context)

108-109). The tenability of an argument is furthermore 'independent in relation to *whichever* argumentation where it occurs', something not prevailing for relevance (Björnsson et al (1994, p 53)). That is, tenability has got more of an 'absolute' and independent character to it whereas relevance is tightly connected to the specific context (read: the issue-expression) in relation to which it appears. It is more 'relative'. This means that tenability in principle can be tried out in isolation whereas relevance only is ascertained by contextually inclined reasoning. Even though both tenability and relevance matter they are to a certain extent compensatory. That is, a low level of one can be made up for by a high level of the other and in this manner an argument can still carry some weight (conclusiveness) in the analysis. Still, to be truly conclusive an argument has to be characterized by both since the 'truth' of an argument (its tenability) does not matter in any depth if it is unrelated to the issue-expression that it sets out to back up. Similarly, the relevance of an argument (if it ties in closely to the issue-expression) counts less if this argument by itself is explicitly false (it misses out on tenability). So, whereas the tenability or not of an argument can be judged following whether it has been in fact scrutinized (as to its 'truth') or not, its relevance is more a matter of intuition or eventually discursion concerning the extent to which it confirms (in the case of a *pro*-argument P_i) or weakens (in the case of a *contra*-argument C_i) the issue-expression under scrutiny. The conclusiveness of an argument is thus established by comparing what is known about the issue-expression before and after this argument is being brought forward (Næss (1966 (1959), pp 106-110), Føllesdal et al (1993 (1990), pp 175-177)). In which way is its proofability improved or worsened?

To judge whether an argument is relevant / tenable or not will furthermore be subject to what kind of scientific inquiry (confer von Wright (1971)) that the statement pertains to. In the case where F_o (an issue-expression) is *descriptive* an argument is more *relevant* 'the greater the certainty that the truth of … [this argument] implies the truth of F_o'. That is, '[h]ow likely is it that if [the pro-argument] P_i is true then F_o is true, and how probable is it that [the counter-argument) C_i is true then not-F_o is true (F_o false)?' Individual *pro-* and *contra*-arguments are of course more *tenable* the more 'probable' each of them are *per se*. If F_o happens to be normative an argument is more *relevant* 'the greater the value of *pro*-argument P_i, or the more beneficial it is that P_i be realized'. That is, 'how good or advantageous is it that P_i is the case and how bad (disadvantageous) is it that C_i is the case?'[39] (Næss 1966 (1959), pp 108-110). So provided a statement is tenable, what matters is its ability to prove or disprove the issue-expression. As said, if an argument is *very* relevant, it can however matter in the analysis despite the fact that one cannot be very certain that it is tenable. In parallel, a not particularly relevant argument can carry analytical weight given its extraordinary tenability. What counts is that neither tenability nor relevance matters if the other, beyond reasonable

[39]'When F_o is normative the greater the negative value of *contra*-argument C, or the more unfortunate it would be if C were to be realized, the greater the relevance of C' (Næss (1966 (1959), p 110).

doubt, is deemed as virtually non-existent.

As will be seen below, the methodological essence of this a survey of *pro aut contra* is that each issue-expression, say F_1, is supported or opposed by '*pro-* and *contra-*arguments of the first order'. These are labeled P_{11}, P_{21}, ..., P_{n1} and C_{11}, C_{21}, ..., C_{n1} respectively. Subsequent arguments that speak in favor of, or in opposition to, first-order arguments are labeled '*pro-* and *contra-* arguments of the second order with respect to F_1'. A second-order argument supporting a first-order *pro*-argument is a *pro-pro*-argument whereas a second-order argument that goes against a first-order *pro*-argument is a *contra-pro*-argument. In a similar vein first-order *contra*-arguments are supported and opposed by *pro-contra*-arguments and *contra-contra*-arguments et cetera. Arguments, other than first-order dittos then *only indirectly* strengthen or weaken an issue-expression (confer Björnsson et al (1994, p 21)).[40] *Arguments of the same order are seen as equally important.* Schematically, the first third-order *pro*-argument supporting the second second-order *pro*-argument supporting the first first-order *contra*-argument with respect to F_1 will appear as $P_1P_2C_{11}$. This notation is read from right to left and might also be expanded upon by symbolizing 'support' or 'opposition' via the use of '+' or '-'. The notation $P_1P_2C_{11}$ can thus also be read as '++-'.[41] Such a 'hierarchy of arguments' then goes on within the analysis until there is fair reason to believe that 'the survey give[s] a clear and complete account of the crucial arguments relevant to the given discussion' (Næss 1966 (1959, pp 106-108)). When to stop is a purely subjective decision subject to the analyzer as principally the posing of arguments could go on indefinitely. It goes without saying that pedagogical considerations must reasonably also be made to safeguard that the message one wishes to convey actually reaches out. Practically what one does is however to analyze only first-order arguments in-depth, a scrutiny then backed by extra-order arguments (Björnsson et al (1994, p 89)).

One additional thing with particular impact on the conclusiveness of arguments merits attention. The relevance of an argument can be increased by enclosing a 'premise' to it. A premise is a statement that overtly declares what is tacitly implied by the argument. It matters in particular as it discloses the manner in which arguments of the same order tie in to, and hence strengthen, each other. This might considerably affect the conclusiveness of an argument. The first premise of P_{11} reads '$\varphi_1 P_{11}$' and thus entails what is assumed by the posing of the argument. That is, P_{11} is not relevant for F_1 unless the premise is 'read into' the argument (confer Björnsson et al (1994, pp 30-38)).

A brief example of a *pro aut contra dicere*, on the issue of death penalty follows below.

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[40]These arguments will here at times be summarized under the label of 'extra-order' arguments.

[41]These symbols are not found in the original reasoning by Næss.

ARGUMENTS	UNDERPININGS
F_1	Death penalty should be abolished.
==========	
P_{11} (+)	Death penalty is not generally preventive.
$\varphi_1 P_{11}$	Penalties not considered preventive are not desirable.
$P_1 P_{11}$ (++)	This is shown by unequivocal sociological inquiries.
$\varphi_1 P_1 P_{11}$	Sociological studies are in general trustworthy and have something to say on this issue.[42]
P_{21} (+)	Death penalty is inhuman.
$P_1 P_{21}$ (++)	Death penalty violates man's most fundamental right.
$P_1 P_1 P_{21}$ (+++)	The autonomy of those sentenced to death is violated in an absolute way.
C_{11} (-)	The criminal should atone for his penalty by being exposed to the same treatment that he has bestowed upon others.
$C_1 C_{11}$ (--)	Lex Talionis [the above C_{11}-argument] is barbarous.

Table Va; *Pro et contra*-arguments pertaining to the issue of death penalty[43]

To evaluate the conclusiveness of P_{11} one could then start to look into its *tenability*. That is, is there anything that speaks in favor of the argument following the probability of its occurrence? Has it, for instance been scrutinized or tried out before? A clue is found in the second-order argument $P_1 P_{11}$ backing P_{11}. Here it is learned that there are in fact inquiries undertaken that confirms what P_{11} asserts. This points towards the tenability of the argument. What about its *relevance*? Does the argument really 'tie in' to the issue-expression? How strongly does it speak in favor of it? It is obvious that P_{11} entails the same subject matter as F_1, death penalty, and that it alleges a characteristic of this phenomenon's consequences. There seems initially to be fair reason to believe in its relevance. But what does it really say? P_{11} has it that death penalty 'is not generally preventive' and F_1 stipulates that death penalty should be abolished. Is there really anything apart from the subject matter itself that tie the two statements together? *That* could be questioned and so the relevance of the argument. If, on the other hand, the evaluation of the argument is rendered more complete by adding a premise, $\varphi_1 P_1 P_{11}$, the quality of P_{11} seems to change. That is, the premise strengthens the relevance of the argument in relation to F_1. This tendency is more explicit once an additional premise, $\varphi_1 P_{11}$, is considered.

vi. Two alternatives for the study of social mechanisms

In case the present road of inquiry into competition as a social mechanism is not accepted there are two main alternatives around provided the 'sometimes-true theory' dictum of mechanisms is to be kept. *Either* the text could be inclined towards what is purely theoretical,

[42]This premise is added and not found in the original analysis brought forward by Björnsson et al.

[43]Björnsson et al (1994, pp 27-28, author's translation). The brief argument evaluation does not appear in the original text.

that is a movement in the direction of grand theory construction. *Or* the argument could be more empirical in character. There are already distinct signs of both of these potential paths in the text, something thus foreshadowing the design of alternative approaches.

More of an effort devoted exclusively towards theory is discerned in Chapter VIII as the theoretical cohesiveness of Austrian economics and economic sociology is looked into. While this a scrutiny is rather superficial in character (after all it focuses *only* individualism, rationality and subjectivism), an encompassing study would point towards more of an overall reconciliation of these two schools. Their areas of similarity and unbridgeable gaps could thus become illuminated. That there are already steps taken in this direction is readily discerned once the roots of each strand of thought is investigated. There are, hence, a number of instances (outside this essay) where ties are knit between Weber (who occupies a preeminent position in the field of economic sociology) and some of the Austrians such as Wieser and Mises. That is, the economic aspect of sociology, and the sociological element of (Austrian) economics are progressively put to contrast each other. Of particular interest would then be to scrutinize how the abolishment of the mid-range position of each school adhered to in this text would affect such a more genuine reconciliatory attempt. What are for instance the effects when Austrians are allowed to occupy also an ultra-subjectivist position where *any* equilibrating tendencies are denied in parallel to sociologists that vehemently deny the feasibility of any form of individualism, a position thus akin to extreme holism? However rewarding and appetizing such an effort might seem to be it goes without saying that it is hardly realized in the guise of a doctoral dissertation.

The other, overtly empirical alternative is definitively more within reach. Whereas the present text in Chapter VII features a partial analysis of Swedish antitrust legislation by means of the model generated a more conventional option would be to turn the argument 180 degrees. That is, to analyze the model by means of empirical data via testable hypotheses. This is in fact, without doubt, the alternative adhered to by most presenting doctoral theses within the area of business studies. These endeavors typically start out with an empirical phenomenon that is studied, be it by means of a qualitative case, or a quantitative survey. The applied theoretical and methodological framework is then relatively 'given' and only seldom subject to analysis on its own. The technical sophistication can (but must not) be outstanding, be it as the application of statistical techniques or as an impressive mass of primary data gathering. But theoretical sophistication is hardly an issue. Anyway, provided that the present effort is to be made more empirical in character it, hopefully, would face somewhat less of the problem identified by Smedslund above. That is, since its concepts are relatively well-defined it would not run the risk of being trapped in too superficial a discourse. Instead it might very well be the case that the empirical study, following the ground work already performed while defining its bricks, tells no more than what is known a priori. *This is in fact what 'should' occur if the* *reasoning pursued in this essay is stuck to. There would hence be no reason to empirically look out for what has and what has not been found in the present analysis.*[44] Be as it may, more of an empirical scrutiny of the causal associations suggested by the model would most likely start out in the generation of items. By means thereof the three main constructs (customer alertness, social capital and competition) are made empirically accessible. By adhering to, for instance, the multi-item method (confer Churchill (1979)), reliable constructs could be arrived at (validity would be considered as ascertained following the thorough process of theoretically formulating the constructs in the first place). The items 'making up' competition would then most likely revolve around the issue of 'subjective barriers to entry' whereas those pertaining to customer alertness and social capital probably would be found in the area of 'supplier choice' and 'interpersonal connections between buyers and salesmen' respectively. Once finally transformed, valid and reliable constructs then being in place, the data could be analyzed statistically. Apart from purely descriptive measures, thus reaching out for the 'absolute prevalence' of the constructs in the material ('how much competition, customer alertness, and social capital can be traced in the empirical data?'), there would most likely be attempts of trying to ascertain how the constructs are associated. That is 'competition as a function of customer alertness and social capital' grasped by means of a regression analysis where the former is the dependent, and the two others the independent, variable(s). Herein the alfa-intercept and the residual (the error term) would represent the amount of competition that does not lend itself to be understood by means of the model whereas the beta-values of the two independent variables would tell about the explanatory power of customer alertness and social capital respectively in the framing of competition.

This chapter comments upon the methodology of the dissertation. Apart from some initial insights provided regarding the coming into being of theory, where it is argued that explanatory accounts have a special mandate in this regard, the chapter focuses three major issues. First, the case is made for theoretically inclined efforts in general. By drawing on the works of Smedslund it is argued that the erection of the model by means of a) market assumptions, b) the definition of the explanans and the explanandum, c) the social mechanism Tertius Gaudens, d) issue-expressions to follow in the next chapter, and e) the partial reconciliation of Austrian economics and economic sociology to follow in Chapter VIII, furnishes this thesis with the 'concept definitions', the 'explicit statement of axioms', and the 'formal proof of derived propositions' that are considered essential for the attainment of generic scientific understanding. Then, social mechanisms, ideal-types and agency, each of which is a crucial methodological pillar of the explanatory model, are touched upon regarding their general features and their application in this text. Finally, the essence behind the pursuit of a pro aut contra scrutiny of arguments is presented. This foreshadows the analysis of the model agency to be brought forward in the next chapter. Hence, that is what follows now.

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[44] More of an appetizing alternative would instead be to pursue yet another, more advanced, logical analysis.

VI. THE PRO AUT CONTRA DICERE

The preceding chapter comments on the explanatory model of customer-geared competition as a social mechanism erected in the first part of the dissertation. The same chapter furnishes the precise methodological pillars of the model, concerning how the definition of concepts, axiom statements and proof of propositions tie up. This account of methodology is the last major preparatory phase of the text prior to the analysis now to follow in the form of a pro aut contra analysis. So far it is established that customer-geared competition is an explanandum that can be understood by means of the joint agency of customer alertness and social capital emerging within two interconnected customer-supplier relationships. The social mechanism working out here is Tertius Gaudens implying that a third intrusive party benefits from the disunion of two others. And following the nature of the agency the mechanism is here the 'socio-Austrian' Tertius Gaudens. Within the realm of the two relationships the customer, following its assumed discretionary role, somehow affects competition between the two suppliers via the relevant agency. As seen in the definitions provided (confer how Kirzner takes pains in outlining alertness as reactive agency and the way in which Simmel claims that there could also be a 'passive Tertius') this does not assume a customer that is truly 'physically active'. What is crucial is that the two-faceted agency of the explanans is not scrutinized until now in any detail in the sense that it is not clear in which 'direction' competition is affected via customer alertness and social capital. Only the general agency is commented upon while nothing is said regarding its specific character. That is, does more or less of each of the explanans in fact invoke competition or is it curtailed by means thereof? Until now nothing is known thereof. In consequence the subject matter of this chapter is to scrutinize how this impact, if any, comes about. As outlined in the last chapter two 'issue-expressions', F1 and F2, each pertaining to how the two explanans in separate impacts competition, will first of all be analyzed via a pro aut contra reasoning. That is the first part of the chapter and the main analytical brick of the entire dissertation. Thereafter the eventual interlinkage of these two issue-expressions (that is, do the explanans in any way affect each other directly?) will be dealt with prior to a section discussing whether the statuses of the two relationships in the ideal-type triad (are they actual, and / or potential?) have got an influence on the conclusions drawn. The argument then takes two steps back and reformulates the combination of guiding principles in order to come up with two alternative explanans that undergo a summary, and more conceptual, pro or contra analysis. The idea thereof is to illuminate the results previously arrived at. The chapter closes by furnishing some additional theoretical support for the main conclusion drawn, that there is a negative causal association between social capital and competition, in addition to a most likely, but less valid, positive impact of customer alertness.

i. The *specific* model agency

As argued in the closing section of the last chapter when the explanatory model under construction is 'summarized' it is not yet eligible for analysis by then. This is so as the model still misses out on the details of the agency to be scrutinized, an agency that explains customer-geared competition as a social mechanism, the 'socio-Austrian' Tertius Gaudens. There is obviously some *general* agency at hand in that a) the explanans have been defined , and b) it has been suggested that there is a causal association at hand between them and competition. This alleged association says that there is a causal interdependence in that the explanans impacts the explanandum, but *the very nature* of this causation is hitherto not made clear. The details of the agency remain darkened. That is, customer alertness and social capital somehow affects competition, but it is not known *how*. And since 'how?' is not answered, 'why?' cannot be understood either, something at the core of explanatory / social mechanism accounts. Furthermore, it is already established that in the ensuing analysis each of the explanans will appear as a statement, an 'issue-expression', customer alertness as F_1 and social capital as F_2. *Each of these issue-expressions will then constitute a causal statement wherein the exact nature of the two-faceted agency will be found.* These statements taken together, the issue-expressions F_1 and F_2, are then what will undergo the aforementioned *pro aut contra* analysis to follow. In sum, *customer-geared competition will be established as a social mechanism, the socio-Austrian Tertius Gaudens, through the manner in which the joint agency of the two explanans causally connects to the explanandum via the issue-expressions F_1 and F_2.*

It follows from the analytical methodology adhered to that the competition agency proposed in this manner cannot ever be declared as 'true'. Its overall proofability can however be established in case there is some conclusiveness in the arguments backing F_1 and F_2. In addition it can be ascertained that the two sets of arguments are cohesive. That is, for overall agency proofability to prevail, it must be logically possible to consider F_1 and F_2, in case each of them seems conclusive, in parallel. If this is not the case, that is if F_1 and / or F_2 cannot be deemed conclusive following lack of support for the issue-expressions, or if they cannot be considered together, it does not mean that the reasoning underlying the model as such carries no value. It however implies that this very model, embodying this very agency, does not hold in terms of proofability. This is important *as it means two things.*

First, that in principle there are other explanans that could be tried out as issue-expressions, still of course in accordance with the thesis assumptions. Consider the discourse in Chapter IV concerning the two guiding principles, autonomy-embeddedness and entrepreneurship-ignorance generated in the spirit of Weber's reasoning on the socioeconomic dictum. Here it is said that due to their abstract character the guiding principles have to be refined to be workable. The way of doing this is to combine them. By selecting the combinations autonomy plus entrepreneurship, and embeddedness plus ignorance, the two explanans customer alertness and social capital are arrived at, something subsequently elaborated upon by means of their respective definitions. It is also recognized here that two other combinations of guiding principles are possible. Hence autonomy plus ignorance, tentatively labeled 'atomistic striving', and embeddedness plus entrepreneurship, 'social entrepreneurship', could in principle be scrutinized as issue-expressions then embodying a different model agency. This provided that they are interpreted / defined in accordance with the thesis assumptions. If not there will be an entirely new model. Whereas the association between competition and customer alertness / social capital is the main subject here, towards the end of the chapter the other combinations 'atomistic striving' / 'social entrepreneurship' will also be touched upon regarding their eventual association with competition.

GUIDING PRINCIPLES	+AUTONOMY	+EMBEDDEDNESS
ENTREPRENEURSHIP+	customer alertness	'social entrepreneurship'
IGNORANCE+	'atomistic striving'	social capital

Table VIa; Combinations of Weberian guiding principles

Then, since the two issue-expressions are to embody the agency of the model, each will represent a *particular* causal association between an explanans and competition. The reasoning however also subsumes that other alternative associations in principle *could* be feasible. It is then obvious that a causal association can take on either of two forms. On the one hand the prevalence of a certain phenomenon can *invoke* the presence of something else that it hence explains. That is a suggested *positive association*. Or there could be its antithesis, a suggested *negative association* by means of the *curtailing* of the same phenomenon following the identical presence of something. In an explanatory *pro aut contra* analysis the manner in which an issue-expression is stated discloses the kind of association analyzed. Given the very nature of the analysis, where the conclusiveness of 'for' and 'against' arguments is at stake, it follows that what is a *pro*-argument regarding a stated association found in the issue-expression, be it positive or negative, becomes a *contra*- argument once this issue-expression is turned 180 degrees. Ceteris paribus. That is, if the issue-expression states a positive causal association between two events, its *pro*-arguments turn into *contra*-dittos in case the stated causal association changes into a negative one instead. The consequence thereof is that no matter how an issue-expression is stated, the ensuing analysis also implicitly embodies its counter-thesis in so far as the *pro*- and *contra*-arguments can be reinterpreted.

That is, both the choice of explanans as such, and the manner in which the causal model agency is framed via the issue-expressions, are easily conceived of in alternative manners. *In the first place*, different combinations of the guiding principles *are* viable, something to be foreshadowed towards the end of this chapter. *Also*, any stated issue-expression could be stated with a reversed alleged causal direction, something that is seen once original *pro-arguments* are turned into *contra*-dittos and vice versa. It goes without saying, however, that when a reasoning, as the one now appearing in this dissertation, is to come forward in the form of an explanatory model *not each and every viable alternative can be scrutinized.* That is per definition impossible. Instead the job in hand is to analyze causal associations that have something to tell on their own, this not meaning that all of their alternatives are non-feasible. That is what follows now.

ii. The articulation of F_1, on customer alertness and competition

Consider first the way in which customer alertness and competition can be associated. Whereas competition in this text is identified as *perceived freedom of entry into market relationships*, customer alertness is seen as a *molding context of choice*. Then imagine the ideal-type triad characterized by these two concepts and that customer alertness somehow is to impact competition. As competition then is what eventually prevails between two suppliers S_1 and S_2 it follows that what matters is the perceived freedom of entry into relationships X_j (S_1 and the customer) and Y_j (S_2 and the customer), subject to the discretion of the customer.[1] In the eyes of S_1 and S_2 this means that competition is constituted by the perceived permeability both of X_j and Y_j. And the lower the interpreted barriers of entry into both of these relationships, the more competition there is. Perceived competition is then a function of, firstly, the threat felt as emerging from the 'other' supplier to the 'own' relationship and, secondly, the threat posed by oneself to the other supplier's relationship with the customer. It is then further viable to posit that most of competition will be enacted in the case where both types of threat are seen as imminent by both suppliers. One could also imagine the situation wherein the perceived threats are not symmetric in the sense that barriers of entry into one of the relationships are seen as lower than those into the other. In practice it is probable that organizations in general perceive themselves as being exposed to more competition than what they themselves expose their competitors to. That is, the perceived barriers of entry into their 'own' relationships are lower than those of their competitors' relationships. It is here crucial to observe that as a relationship in this context can be both actual or potential (in terms of prevailing economic exchange), 'entry' does not necessarily imply a step from 'outside' to 'inside', even though this is the most telling case. It could also very well entail an increased amount of business at the expense of the other supplier's missing out on some extra trade. In consequence the above reasoning holds irrespective of whether the two parallel triad relationships scrutinized are actual and / or potential.

This said, what about 'the context of choice' thus endemic to customer alertness? As the customer here by assumption has got a discretionary role it follows that this choice context somehow is to affect how the possibility of relationship entry is perceived by suppliers. Alluding to the original reasoning by Mises it can then be posited that since 'to act is to choose' (nota bene however that 'to choose is not necessarily to act' as there is an asymmetry between acting and choosing), the more overt the context of choice (without necessarily entailing physical labor) is interpreted as being, the more likely it is for others to take it into account. That is, *the more subjectively transparent the context of choice, in fact the more it is perceived as prevailing by all actors of some relevance for a particular context.* Transparency then implies being easily subject to observation by others. In the setting here looked into, it is

[1] As pointed out earlier 'entry into a relationship' means establishing a tie, creating a new relationship, with someone that could already be a party to a prevailing relationship.

then the customer's 'sphere of choice' that somehow is 'taken in' by suppliers. Or, to put it more succinctly, *the suppliers will enact competition subject to the way in which they perceive that there in fact exists a context subsequently entailing a choice to unfold between X_j and Y_j.* As 'choice' is not identical to action as such the enacting hereof by suppliers is seen as coming about following the general manner in which the customer appears in the role of a potential 'chooser' between X_j and Y_j, the details of which of course depend on whether these relationships are actual and / or potential. This context of choice can then either be perceived as *transparent*, if there seems in fact to be a choice underway, or as *non-transparent* if this is not the case. As discussed in Chapter IV, when an actual supplier is considered by the customer, this is an 'internal' choice whereas choice is 'external' in the case where a potential source of supply is pondered upon. Whether this choice 'between' X_j and Y_j (when undertaken) in fact invokes or curtails the perception of ease of relationship entry is not the subject matter of the earlier discourse. In theory both options are available. A reasonable assumption is however that the more transparent the context of choice, the more enacted it will be by suppliers. *In the case of perceived choice transparency, relationship permeability, and thus competition, is here seen as considerable whereas the opposite holds for the other situation where choice seems not to be underway.* That is, when suppliers enact that there is in fact a choice to be undertaken they enact competition. as barriers of entry then are interpreted as relatively low. When no such choice seems to be around, that is when there is no indication of a future consideration of supply alternatives in parallel at all, barriers are seen as imminent and competition as negligible.

This established, and recognizing that other alternatives are in principle conceivable, one statement, the issue-expression F_1 is formulated here. Given the Austrian reasoning of this thesis where customer alertness is seen as the device by means of which the market process is fueled, and backed by the close alleged interlinkage between underlying entrepreneurship and competition, the first issue-expression reads as follows.

F_1: *There is a positive causal association between customer alertness and competition.*

The meaning hereof is that the more the suppliers perceive that the customer in fact *is* about to choose between two available supplier relationships, following the felt presence of a transparent context of choice, the lower are the enacted barriers of entry, and hence the more competition there is.

iii. The articulation of F_2, on social capital and competition

If the discourse now turns to the way in which competition is impacted by the other explanans, the perceived ease of relationship entry is somehow to be associated with 'the enacted reciprocal expectations of mutual commitment in relationships that via patterns of social ties mobilize network resources', that is social capital. It is obviously then the supplier's enactment of mutual relationship commitment that counts, something however not implying that the customer is of measure zero. Instead, following the model assumptions it is most viable to posit that whatever is showed by the customer in terms of commitment is what really matters in the eyes of the supplier.[2] As seen, social capital is 'structural' in character. This renders it different from customer alertness that, as a concept, has got similar impact irrespective of whether a relationship is actual or potential. This is certainly not the case with social capital. The ideal-type triad will then appear in different guises depending on what are the statuses of the two relationships in terms of prevailing economic exchange. And this will impact the role of social capital a lot. There can then be three alternative relationship 'parallelisms' within the triad, the symmetric alternatives of two actual or two parallel relationships and the asymmetric ditto of one actual and one potential relationship. Since a relationship here is defined as 'actual' or 'potential' with regard to whether there is economic exchange or not, the presence or absence of this type of repeated transactions will also be decisive for if social capital is at all relevant to refer to. This is most relevant in the case of two actual relationships and hence very much applicable whereas, on the contrary, this does not have any real meaning once two potential relationships 'face' each other. The reason is obvious. As neither of the relationships then entails economic exchange there is no relationship pattern where commitment can be manifest and in consequence it cannot stand out as an aspect of the agency sought for. The most intriguing case in this regard is obviously the asymmetric one wherein the presence of social capital in one of the relationships is mirrored in the absence thereof in the other. Assuming that there is *some* economic exchange around in one of the relationships, the issue then necessarily will revolve around how the commitment eventually residing in this actual relationship could impact how the suppliers perceive ease of entry into *this* relationship.[3]

It is then viable to posit that the more trust and obligations (that is, commitment) that are (perceived by a supplier to be) mutually expected in the 'own' customer relationship, the more protected one feels from outside competitive threat. That is, the higher are the barriers of entry into this relationship. Accordingly, the more commitment is perceived to prevail in the 'other' customer-supplier relationship, the more difficult it will be to 'enter' here (to take some of its business away). The competitive threat that could be posed by oneself to this

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[2]As mutual commitment however is a concept embodying an obvious infinite regress there is no use of dissecting this particular issue in any further depth.

[3]You can hardly imagine entering a potential relationship where there is no economic exchange.

'other' relationship is then likely to be of minor importance. Whether relationship parallelism is symmetric or not, the impact of social capital as mutual expectations concerning commitment (= trust and obligations) within an actual relationship can reasonably be seen as something detaching this tie from competitive parts of the environment. *Perceived mutual expectations of commitment then constitute a distinct entry barrier.* The implication for how competition, as 'relationship permeability', is enacted by suppliers should be obvious.

Whereas the immediate above is rather straightforward once two actual relationships 'meet' its impact differs in the two other types of triads. In the case of two potential relationships it follows that social capital is not really an issue regarding how relationship entry barriers are perceived by the suppliers. Hence, in the third asymmetric case wherein the parallelism of one actual and one potential relationship is to be considered, there is social capital in one, but not in the other, relationship. Here the commitment eventually perceived to prevail in the actual relationship (by both of the suppliers) will 'protect' the actual supplier at the expense of the potential ditto.

As with customer alertness above it is possible to conceive of alternative interpretations, but subject to the analysis yet to unfold just one statement, the issue-expression F_2, will be brought forward here. Given the plausibility of the monopolistic tendencies of relational closure endemic to Weber's reasoning of relationship appropriation, social capital is interpreted as an insulating device concerning its impact on competition, something making the second issue-expression appear in the below manner.

F_2: *There is a negative causal association between social capital and competition*

The essence hereof is that the larger the extent to which suppliers perceive trust and obligations to prevail within the two customer-supplier relationships, the higher are the enacted barriers of entry thus curtailing competition.

iv. The joint agency of F_1 and F_2

To repeat, *customer-geared competition, the perceived freedom of entry into customer-supplier relationships, is here a social mechanism, the socio-Austrian Tertius Gaudens. This mechanism is grasped by an explanatory model that is made up of two parallel customer-supplier relationships, wherein the explanans is the joint agency of customer alertness and social capital. The specific nature of this agency is that customer alertness has got a positive, and social capital a negative, causal impact on competition.* That is, the more the suppliers perceive that the context of customer choice is transparent, and the less they perceive expectations of commitment to prevail within customer relationships, the more competition they enact following low subjective barriers to relationship entry (= high barrier permeability). These two facets of the alleged agency are to be analyzed by means of a *pro aut contra* analysis of the two corresponding issue-expressions. F1 here denotes customer alertness agency and F2 represents social capital agency. Agency is impact on customer-geared competition. The two issue-expressions can be illustrated in the below manner.

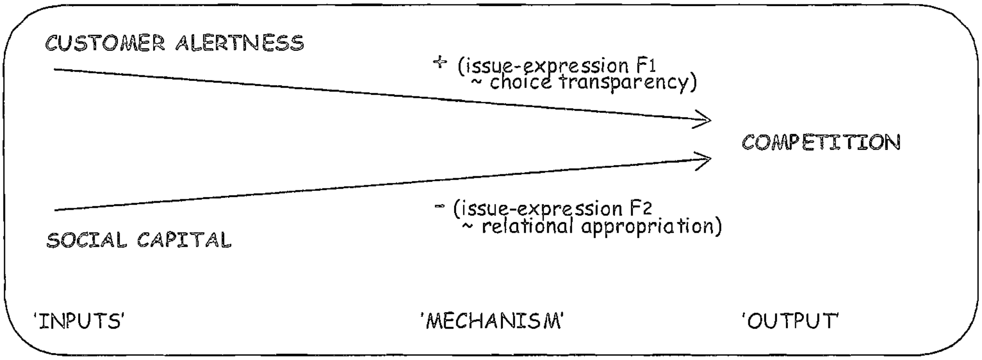

Figure VIa; The two issue-expressions embodying the explanatory model agency

The alleged meaning of the socio-Austrian Tertius Gaudens is then that two types of inputs result in an aggregate output in terms of competition where their joint (and thus 'balanced') agency works out. What matters is then the net impact on competition of on the one hand 'transparency of choice' and on the other 'relational appropriation'. That is, *the invoking of competition endemic to this particular mechanism is propelled by customer alertness and hampered by social capital.* Or, *the socio-Austrian Tertius Gaudens is more composite than either that of Simmel or of Burt as also the impeding facets of customer-supplier ties are openly recognized in the thus resulting balancing agency.*

The framework for the eventual drawing of conclusions is now in place since the two formulated issue-expressions can be readily disputed in an analysis. As argued above these issue-expressions could have been formulated differently, for instance with opposite assumptions regarding the alleged impact of customer alertness and social capital on competition. *But that is another story. That is another story.* This is so as the kernel of the most rudimentary attempt to pursue any reasoning, at least on the verge of semantic logic, necessarily demands the scrutiny of *one statement at a time*. That is, if a causal association is presented that one instinctively opposes, it is utmost primitive to argue against it merely by presenting another one without taking notice of that initially brought forward and scrutinizing its motives. First the initial statement must be rendered non-feasible by resorting to its motivations, and only thereafter is it viable to present one's own alternative view as eligible for a similar kind of analysis. The essence of this reasoning, very much in line with the overall aspiration of this dissertation, is that the discussion of one particular kind of explanatory agency does not by definition rule out alternative dittos. In the present case, the formulation of two issue-expressions is pillared by extensive *theoretical search*, mostly within two distinct schools. A glimpse of actual business practice might have produced entirely different statements to be disputed. The viability of F_1 and F_2 cannot however really be analytically accepted or intimated unless they are somehow tried out, something here to follow via the *pro aut contra* analysis of the arguments supporting and opposing them.

In contrast to the examples provided so far F_1 and F_2 are neither descriptive, nor normative, but explanatory in character. That is, following the reasoning of this text inspired by von Wright (1971), they represent an analytical, and not an instrumental, line of scientific inquiry. Bold as this may seem at first sight, what are then the consequences thereof for the tenability and relevance of arguments respectively? It goes without saying that tenability, the 'independent establishment of an argument's reasonable truth' is not affected by the type of scientific inquiry pursued. It stands out on its own. Concerning both F_1 and F_2, it is obvious that a pro-argument P_1 / P_2 is *relevant* to the extent that the agency expressed therein is likely to point in *the same causal direction* as F_1 / F_2. Accordingly a counter-argument C_1 / C_2 is more relevant the more probable it is that its agency points in *the opposite causal direction* as F_1 / F_2. To further find out about the tenability and relevance of arguments one could extend the reasoning of Næss'. As said, he argues that tenability can be estimated following eventual prior 'tests' thereof whereas argument relevance is more a matter of either intuitive or eventually discursive reasoning. Since this is a scientific text one could thus posit *that earlier studies regarding the* ***phenomenon*** *looked into can assist in establishing argument tenability* whereas *argument relevance is more subject to the overarching* ***theory*** *relied upon*. Hence, roughly, the phenomenon tied to tenability and theory tied to relevance as theory is what is used to understand the phenomenon. That is, each argument, be it *pro* or *contra*, can be judged regarding its intuitive, but mostly discursive, appeal (its relevance) in light of accessible theory with bearing on either competition and / or customer alertness / social capital. Whether the argument is tried out or not and 'confirmed' by others (its tenability) can accordingly be established with reference to studies undertaken in either of the three (the two explanans and the explanandum) areas. To render this analysis as exhaustive as possible, each *first-order* argument, be it in support of or in opposition to, the issue-expression, will then be evaluated as to its tenability and relevance by being labeled 'hardly' 'moderately' or 'convincingly' conclusive in relation to the issue-expression. This evaluation also depends on the way in which second-, third, and n-order ('extra-order') pro- and contra-arguments unfold in relation to the first-order argument supporting or opposing the issue-expression. In this manner extra-order arguments could either strengthen or weaken the conclusion initially drawn as to tenability and relevance of the first-order argument (confer Björnsson et al (1994, p 89)). The first-order arguments then take on a special role in relation to others since too many arguments related in too many manners are simply too difficult to keep track of (confer Næss 1966 (1959), p 108). What is more, as the ideal-type triad comes forward in three guises depending on the status of the parallel relationships, it is necessary to pay some attention thereto as the analysis goes along. In consequence, the general *pro aut contra dicere*, in principle applicable irrespective of whether the two relationships are actual and / or potential, will precede some reasoning that explicitly takes into account the particular relationship statuses making the triad appear in three different manners.

v. The *pro aut contra dicere* of the socio-Austrian Tertius Gaudens

This section epitomizes the eventual contribution of this dissertation as it encompasses an analysis of the specific agency that constitutes the sine qua non of the explanatory model here formulated. That is, *this is the particular way in which customer-geared competition can be grasped as a social mechanism according to the model erected.* The analysis occurs in relation to the issue-expressions F_1 and F_2 that have been generated following extensive theoretical scrutiny, mostly from within Austrian economics and economic sociology. The arguments to follow will draw a lot on these theoretical insights but will also reach out to areas beyond. In principle, since the said theoretical scaffold is conducive in generating the issue-expressions themselves, it will also fuel the formulation of ***pro***-arguments with respect to F_1 and F_2. The ***counter***-arguments will *mostly* stem from other sources of inspiration. Had the theoretical scrutiny brought forward an entirely different story it is then very plausible that the arguments to follow, the issue-expressions apart, would have come forward in an entirely different manner.

It is, *once again*, crucial to emphasize that this posing of arguments is tied to the model under scrutiny and the assumptions endemic thereto. That is, to discuss the assumptions of the model by means of *pro*- and *contra*-arguments in any depth does not lead very far as these are already seen as 'true' in the world of the model. Instead what follows will *mostly* revolve around the scope that there still is for an overt discourse in light of the posited model. To argue for instance in support of, or in opposition to, the indirect character of competition is not really an issue since this is already assumed to prevail following the model as such. It is instead the two issue-expressions applied to the model, no more and no less, that are subject to scrutiny. It is hence obvious that there is a trade-off here. If arguments are posed with no initial attention paid to the thesis assumptions at all, these assumptions can be used to tear the argument into pieces. Hardly a very constructive analysis. If on the other hand too much initial attention is paid to the thesis assumptions no arguments opposing its ideas can be brought forward either. What is there to dispute if everything is already established beforehand? There is, furthermore, an obvious risk here of circular reasoning. That is, since the issue-expressions have been arrived at by drawing on certain theory, it would be futile to analyze these statements by means of this theory *only*. All that would result would be the analysis of x by means of the tools originally used to come up with x. Instead other kinds of theoretical inspiration, as well as what there is of empirical knowledge, constitute *complementary* fuel for the arguments. As pointed out above this naturally holds good, in particular concerning the posing of *contra*-arguments. In consequence neither Austrian economics nor economic sociology will be absent in the analytical discourse to follow. They will of course be lurking in the wings where it concerns some of the arguments but most notably they will appear as underpinnings once the conclusiveness of each argument is scrutinized. Arguments will hence be raised irrespective of the model as such, but care will be taken to ensure that arguments cannot be dispensed with only by reference to the assumptions of the model. The model however counts, as it constitutes the main realm of the arguments. That is, they apply first and foremost to the ideal-type triad implied by the model but also reach out to 'whole markets' as these are the macro units wherein triads, the ideal-type model structures, are located. Each of the issue-expressions will first be considered by means of a *pro et contra* reasoning, a recapitulation of 'for' *and* 'against' where the arguments, supporting and opposing each, with no real order of importance, will be delineated. Only thereafter, once the 'analytical infrastructure' is in place, will the true scrutiny of arguments appear as each and every one of them will be evaluated as to their conclusiveness with regard to the relevant issue-expression. That is the *pro aut contra dicere*, the analysis of for *or* against an issue-expression.

The recapitulation of arguments pro et contra F_1

The structure of the arguments pertaining to F_1 to come forward below appears as follows.

F1

P11	P21	P31	C11	C21
P1P11	P1P21	P1P31	P1C11	C1C21
C1P1P11	C1P1P21	C1P1P31	C1P1C11	C1C1C21
C1C1P1P11	C1P21	C1C1P1P31	C2P1C11	C2C21
P2P11	P1C1P21	C2P1P31	P2C11	C1C2C21
P3P11	C1C1P21	C1P31	C1C11	C3C21
C1P11	C2C1P21	C1C1P31	C1C1C11	C4C21
C1C1P11	C2P21	C2P31		C1C4C21
	C1C2P21	C1C2P31		
		C2C2P31		
		C3P31		
		C1C3P31		

Table VIb: The structure of arguments pertaining to the issue-expression F_1[4]

[4]Confer Björk (1988, p 48)

P1l, on choice and openness to alternatives

ARGUMENTS	UNDERPINNINGS
F1	There is a positive causal association between customer alertness and competition.
Specification	The more two suppliers, parties to two interconnected customer relationships, perceive that the customer's context of supplier choice is transparent, the more competition they enact between themselves since they interpret the barriers to relationship entry as low.
==========	
P11 (+)	The foreshadowing of a choice to be undertaken by itself entails unprejudiced openness to alternative solutions, something also pertaining to new 'relationship options'.
φP11	A customer's openness to alternatives is something that can be 'felt' by suppliers.
P1P11 (++)	The crucial role of openness for competition is a recurrent theme of neoclassical economics in its emphasis of (perfect or not) market information.
φP1P11	Neoclassical economics has got a valuable impact for the understanding of competition.
C1P1P11 (-++)	To relate neoclassical economics does not make any sense as its general stance on competition is denied by the assumptions of the explanatory model.
C1C1P1P11 (--++)	The thesis assumptions do not in any way rule out the feasibility of neoclassical thought *per se.*
P2P11 (++)	The interlinkage of openness and competition is a theme readily discerned in the reasoning on market freedom entailing social benefits among classical philosophers-economists when competition is coined as an idea in the 18th century.
φP2P11	What is at the heart of the inception of a concept matters for its understanding over time.
P3P11 (++)	A market cannot ever be conceived of as a process unless there are some openness thus entailing market opportunities.
φP3P11	The market is a process
C1P11 (-+)	Not to choose is also to choose.
C1C1P11 (--+)	Such a 'no-choice' choice however has no meaning in this a context since it is not conceived of by suppliers.

Table VIc; *Pro*-argument P11 pertaining to the issue-expression F1[5]

The *tenability* of the first first-order pro-argument pertaining to F1 can be looked into via two studies undertaken in economic sociology. The first (Podolny (1991, 1993)) scrutinizes the market for investment banking whereas the other (Uzzi (1996, 1997)) looks into the apparel market in New York City. Podolny analyzes how the relative status position of suppliers is framed by how customers conceive thereof. That is, suppliers carry the status that they are perceived to have, in part irrespective of the underlying qualitative facts. The consequence is that the prevailing view of supplier status among customers, something indirectly akin to the context of choice, shapes how competition unfolds between suppliers. Supplier discrimination is here discerned via 'cardinal weights' thus assigned by customers. This perspective is then overtly bidimensional as horizontal competition is subject to vertical status interpretations, 'buyers are in fact able to discriminate between producers' (Podolny (1993, p 836)). The other study of Uzzi is less explicitly bidimensional in character but more inclined to how actors actually connect to each other. Following his findings from within the New York City garment industry Uzzi (1997, p 51) proposes that the kind of partner search procedure (= the context of choice) adapted depends on the logic of (vertical) exchange adhered to by actors. That is, an 'embeddedness logic of exchange' implies a narrow and deep search (among fewer alternatives) whereas more of superficial width (among several alternatives) is discerned once

[5]The layout of this and subsequent tables is inspired by Björnsson et al (1994).

an 'arm's length logic of exchange' prevails. A large share of respondents seems to be adhering a lot to the embeddedness logic. This is discerned as one of the interviewees says, 'I'd rather [for] business go to a friend, not an enemy. My theory is not competition.' In that case what (s)he implicitly claims is that not to choose ('vertically') among all feasible alternatives is a heuristic adhered to that does not care a lot about ('horizontal') competition. The opposite implication thereof should be clear. Provided that bazaars are seen as displaying reasonable levels of competition among traders, there is also some support for the findings of above in the anthropological works of Geertz (1992 (1978), p 230). Here it is learned that in the bazaar context there is a difference between to bargain to test the waters and bargaining to conclude an exchange and these two types of bargaining are carried out in different places. This foreshadows a central position for the context of choice as traders most likely are aware thereof, something that in turn is likely to impact competition. If the findings of these studies, that are directly inclined to the issue of this argument, are deemed trustworthy, there is definitely some *tenability* at hand as regards this pro-argument P_{11}.

As for the *relevance* of P_{11}, whether it is in the position to 'prove' F_1 or not, there is some strong overall discursive support for the reasoning, in Kirzner's Competition and Entrepreneurship (1973). Therein market freedom, the indefinite presence and relevance of an array of exchange alternatives, is endemic to competition thus spurred by way of entrepreneurship, in part coming true as contexts of choice (confer Kirzner (1973, pp 181-183)). What is more intriguing perhaps is the fact that there is also some discursive appeal in the argument, once Burt's (1992) most elaborate work in economic sociology on competition is looked into. This is so, as his claim of structural holes is based in the conviction of the feasibility of a 'third' party entering between two others previously not related. Although not overtly brought up there is a clear thread of context of choice in the claim of Burt's as he alleges that '[t]here is a distinct quality of ... ['Burt's own'] *tertius* [spanning structural holes] in Kirzner's successful entrepreneur' (Burt (1992, p 274). More of an elaborated reasoning in this vein with particular emphasis on organizational markets is that dealing with industrial networks. Although hardly discussing analytical competition more than in passing there is here a straightforward recognition of how the customer occupies a central role for how one supplier is distinguished from the other, a process wherein the context of choice is an implicit, but yet crucial, aspect. The most preeminent example thereof, as already accounted for, is the work of Araujo and Mouzas (1996, 1997) arguing as to how relations between competitors are 'mediated' from within customer-supplier relationships. A similar vein of reasoning wherein the context of choice is possibly even more explicit is that of Galbraith (1993 (1952)) on countervailing power. Yet an additional discursive reasoning why P_{11} would be relevant for F_1 is the classical claim by Coase (1937) concerning why firms emerge. Whereas the choice scrutinized by Coase applies to whether an organization should perform certain tasks on its own or acquire them in the marketplace, it is a necessary prerequisite for how choice then eventually unfolds between the alternative solutions at hand in this market. Leaving the theoretical strand slightly behind it is obvious that P_{11}, whether accepted or not, via its emphasis of openness, has a distinct role for F_1. That is, given the assumptions at hand it does not seem possible both to accept P_{11} and then to reject F_1. As seen there is extensive discursive support for the *relevance* of P_{11} in relation to F_1.

As for the second-, third-, and fourth- ('extra-') order arguments drawn upon, those supporting P_{11} definitively seem more vigorous. They find support both outside of the model realm, by resorting to classical and neoclassical economics, and inside, via the key market process dictum. Hence, in combination with the tenability and relevance identified above, these extra-order arguments tell that there seems to be compelling evidence for P_{11} as 'convincingly conclusive' in relation to F_1.

P_{21}, on mutual awareness of being a competitor

ARGUMENTS	UNDERPINNINGS
F_1	There is a positive causal association between customer alertness and competition.
Specification	The more two suppliers, parties to two interconnected customer relationships, perceive that the customer's context of supplier choice is transparent, the more competition they enact between themselves since they interpret the barriers to relationship entry as low.
==========	
P_{21} (+)	If two organizations, following choice transparency, are aware of one another they are more likely to perceive each other as competitors than if this is not the case.
φP_{21}	There is reason to believe that mutual knowledge and perceived competitor-identity are tied to each other.
P_1P_{21} (++)	The perception of competitors is a necessary prerequisite for the pursuit of any competitive strategy that would have nothing to cling to, devoid of the 'seeing' of competitors.
$C_1P_1P_{21}$ (-++)	This only holds in the case you believe in a structural emphasis of competitive strategy, a firm-resource based view would argue in an opposite manner
C_1P_{21} (-+)	Even if they do not know of each other they can be competitors given the discretionary role occupied by customers.
$P_1C_1P_{21}$ (+-+)	This also holds very much on a general level when this model assumption is relinquished.
$\varphi P_1C_1P_{21}$	Otherwise it would be impossible to grasp competition in markets with a myriad of suppliers.
$C_1C_1P_{21}$ (--+)	True, but they are less *likely* to do so.
$\varphi C_1C_1P_{21}$	That is, the impact on competition from being aware of each other is so decisive so as to merit own attention.
$C_2C_1P_{21}$ (--+)	If this reasoning is elaborated it follows that everyone is always, irrespective of how actors perceive each other, in competition with everyone else.
$\varphi C_2C_1P_{21}$	This is hardly a viable standpoint once competition is in any sense imperfect.
C_2P_{21} (-+)	Why only as competitors, they could thus perceive each other as 'anything'
$C_1C_2P_{21}$ (--+)	True, but that does not matter in this particular context.

Table VId; *Pro*-argument P_{21} pertaining to the issue-expression F_1

The foremost source of 'theoretical' *tenability* for P_{21} is that of Baker (1990) who studies competition among banks from a markets-as-networks perspective. That is, the relationships prevailing between banks and their customers are at the forefront of his understanding of how banks as suppliers relate to each other in this regard. Baker (1990, p 597) notices how the use by customers of several banks, and not just one, entails an 'implicit threat of loss of business' for the banks. He thus endorses the view that this supply strategy on the part of a customer forces suppliers to 'act more competitively' than what would otherwise have been the case. Since this 'implicit threat' only can come about as banks are aware of each other the reasoning provides a reasonable good support for P_{21}. This appears overtly in the words of one of the interviewees (a chief financial officer in one of the customer companies). 'I've always believed that competition breeds better solutions. [Our second bank] is there to keep the primary banker honest.' This 'pressure' will not be effective if the customer here does not somehow invoke the role of other suppliers, that is if the presence of others is not 'felt'. Baker (1990, p 619) also sees competition among suppliers as a direct outcome of customer conduct in the sense that it 'create[s] competition among banks'. This type of reasoning then furnishes P_{21} with some support regarding its *tenability*.

Is it then possible to accept P_{21} and still reject F_1? The most appetizing reasoning pillaring the eventual *relevance* of P_{21} is without doubt that belonging to threads of thought wherein competition is conceived of as a cognitive phenomenon. As elaborated upon in Appendix A where business studies of competition are dealt with, these works (for instance Porac et al (1989), Clark and Montgomery (1999)) argue that environmental interpretation is an active process wherein mental maps of competitors are paramount. By thus enacting competition actors learn how to behave in markets. That is, once other market participants are 'taken in' mentally in this vein they can also be perceived as competitors. The essence hereof is then that being aware of one another is the fundamental prerequisite for two organizations that perceive each other as competitors. These works then prove a distinct *relevance* for P_{21} in support of F_1.

The second-order *contra*-argument C_1P_{21} however renders the position of P_{21} somewhat problematic despite its alleged tenability and relevance with regard to F_1. This is so as it raises an issue of almost philosophical character that stands out in favorable light despite the third-order arguments opposing it. It claims that once the customer is assigned a discretionary role, as it is in this text, competition among suppliers is feasible even though there is no mutual awareness at hand. The intuitive appeal thereof is obvious, especially once large empirical markets, despite the presence of ideal-type triads, are considered. This means that the entire framework underlying P_{21} is challenged as to its base, something thus weakening this argument. The fact that the study, allegedly providing some tenability, does so from the position of a customer deliberately 'creating' competition between suppliers works in the same direction, something then going against the rather passive character of customer alertness supported by P_{21}. Still it seems viable to assign P_{21} 'moderate conclusiveness' in the light of F_1.

P_{31}, on the notion of choice and competition in Swedish procurement law

ARGUMENTS	UNDERPINNINGS
F_1	There is a positive causal association between customer alertness and competition.
Specification	The more two suppliers, parties to two interconnected customer relationships, perceive that the customer's context of supplier choice is transparent, the more competition they enact between themselves since they interpret the barriers to relationship entry as low.
==========	
P_{31} (+)	The presence of a (Swedish) legal framework for public procurement, its contents demanding the use of several bidders, proves how choice affects competition.
φP_{31}	The legal framework is a viable frame of reference as it embodies both extensive theoretical insight and practical applicability.
P_1P_{31} (++)	This is also seen practically as to 'play suppliers off against one another' is a common purchasing strategy.
$C_1P_1P_{31}$ (-++)	That is a strategy long overdue since 'supply management' now mostly adhered to is about partnership building.
$C_1C_1P_1P_{31}$ (--++)	Still, real-world evidence shows that this practice still abounds.
$C_2P_1P_{31}$ (-++)	The 'playing-off strategy' is not really about the context choice.
C_1P_{31} (-+)	Legal frameworks are only social constructions that work exclusively out of political legitimacy with no practical application whatsoever.
$C_1C_1P_{31}$ (--+)	There are several legal cases wherein acts of no-choice on the part of a public buyer are in fact punished as it allegedly harms competition among suppliers.
C_2P_{31} (-+)	The legal framework lacks accuracy as it does not reach out far enough to have an impact.
$C_1C_2P_{31}$ (--+)	The *idea* of the law cannot ever be disproved just because it does not succeed in all of its aspirations.
$C_2C_2P_{31}$ (--+)	There is always a difference between the letter of the law and the manner it is applied in the courts.
C_3P_{31} (-+)	The argument is only about a very special section of a Swedish-only law and is then too specific to merit any real attention.
$C_1C_3P_{31}$ (--+)	This part of the law has not emerged in a vacuum, neither in Swedish legislation, nor in international studies of public procurement or competition in general.

Table VIe; *Pro*-argument P_{31} pertaining to the issue-expression F_1

There is some evident scope for both the *tenability* and *relevance* of P_{31} following the de facto presence of a legal framework applying directly to this realm. That is, law itself both ascertains the 'independent (theoretical) truth' of P_{31} and its discursive, thus 'relevance', appeal in the light of F_1. This is seen in those sections of law that pertain to public procurement (in the case of Sweden, see SFS (1992:1528, 1993:924, 1993:1468, 1994:614, 1994:615, and 1993:20) as well as in the application hereof (in the case of Sweden, see Nämnden för offentlig upphandling (1996)).[6] The main reasoning therein is that all potential suppliers shall be treated in a fair and equal manner with respect to which criteria are relied upon once a supplier *is chosen* at the expense of another. In this vein acts of law, embodying the reasoning propelling them in the first place and their working out in the courts, constitute a strong case for why P_{31} must be considered both *tenable* and *relevant*. As seen in the posing of extra-order arguments there is however reason to be somewhat cautious in this regard. This

[6]In terms of scientific inquiry it can then be argued that an Act of Law represents both relevance, in the guise of the analytical reasoning pillaring the legal framework as such, and tenability as it works out in practical legal cases.

holds good both concerning the very nature of a legal framework, the activity presumed by the argument, and the market practice adhered to by companies. In particular the counter-argument C_3P_{31} casts some major doubt regarding how far it is in fact viable to rely upon P_{31} at all. That is, both tenability and relevance are curtailed by means thereof. Still there is no doubt that P_{31} constitutes some support for F_1. It displays 'moderate conclusiveness'.

C_{11}, on the isolating impact of a unilateral character of choice

ARGUMENTS	UNDERPINNINGS
F1	There is a positive causal association between customer alertness and competition.
Specification	The more two suppliers, parties to two interconnected customer relationships, perceive that the customer's context of supplier choice is transparent, the more competition they enact between themselves since they interpret the barriers to relationship entry as low.
==========	
C11 (-)	Choice is unilateral which here means that to foreshadow the choice of someone does not necessarily entail the dropping of someone else.
P1C11 (+-)	Customers, in the spirit of supply management, tend towards fewer-source strategies and in consequence they are not much concerned about competition between suppliers. They mostly mind their own business and are 'alert' only with those suppliers that are already at hand thus impacting no others
φP1C11	Few-source supply strategy is in fact what characterizes markets.
C1P1C11 (-+-)	This does not mean that potential suppliers are not relied upon as back-up sources.
C2P1C11 (-+-)	You do not really have to 'be concerned with' competition to invoke it indirectly.
P2C11 (+-)	Market heterogeneity entails the unilateral character of choice as resources are so unique.
C1C11 (--)	Choice is never unilateral in markets seen as networks.
φC1C11	Markets (-as-networks) in general imply bidimensional interaction.
C1C1C11 (---)	Once relationships are highlighted, so must uniqueness, following adaptations, be.

Table VIf: *Contra*-argument C11 pertaining to the issue-expression F1

As for both the *tenability* and *relevance* of C_{11} it is but necessary to recur to the discipline that in particularly is concerned with how and why a seller is actually chosen at the expense of someone else. That is the area of business studies wherein works within supply management are mostly preoccupied with purely descriptive or normative issues pertaining to the choice of suppliers. Some of these contributions (confer Webster (1965), Webster and Wind (1972) and Sheth (1973)) bring forward models of organizational buying behavior whereas others (confer Lehmann & O'Shaughnessy (1974), Dempsey (1978), Farmer (1985), Leenders, Fearon and England (1989), Wagner, Ettenson and Parrish (1989), Thompson (1990), Thompson (1991), Nydick and Hill (1992), Handfield (1993), Willis, Huston and Pohlkamp (1993), Chandrashekar (1994), Donaldson (1994), Lambert, Adams and Emmelhainz (1997)) are more overtly inclined towards the criteria that customers actually use, or should use, when selecting suppliers.[7] These contributions then converge on the scrutiny of choice *per se, but*

[7] A very representative contribution implying a review of earlier works is that by Wilson being most traditional in its emphasizing 'price, quality, delivery and service' as criteria to be highlighted (Wilson (1994)). A summary

they provide hardly any insight whatsoever as to how these contexts of choice affect the manner in which suppliers relate to each other. Choice is then an entirely vertical unilaterally 'isolated' market phenomenon with few or no horizontal applications whatsoever. As the referred works represent a reasonably well developed stream of thought which does not extend the role of supplier choice beyond the mere unilateral region, they provide plenty of proof for the *relevance* of C_{11}. That is, in the light hereof to accept C_{11} also means to reject F_1. The *tenability* thereof is however put more in doubt since it is not really subject to analysis in the said studies. That is, whether there *is* in fact any horizontal competitive impact of supplier selection procedures is not looked into. However there are also a few works that go against this tendency and weaken the *relevance* of C_{11} by considering how supply management *has* a role to play when it comes to the way in which suppliers relate to each other. These works (confer Gadde and Håkansson (1993, pp 9-10, 40-46), Lamming (1993, pp 146-148)) typically argue that customer conduct (choice) impacts the supply market structure, something thus akin to a general conception of competition.

The extra-order arguments in part balance each other even though the de facto tendency towards adherence to fewer-source strategies via 'supplier tiering' (confer Gadde and Håkansson (1993, pp 40-46)) Lamming (1993, pp 179-192)) also furnishes some proof as to the tenability of C_{11}. Of particular importance for a network view of markets here is how P_2C_{11} and C_1C_{11} discuss the implications of market heterogeneity, though from different angles. Whereas the former argument claims that heterogeneity in fact works in the same direction as a unilateral character of choice, the latter opposes this view by resorting to the very character of network markets. There thus seems to be a trade-off concerning the net impact of heterogeneity. Does it mostly 'isolate' choices *from* one another, or does it instead 'link' (complementary) choices *to* each other? In sum, despite the *relevance* of C_{11} it can, following *tenability* and extra-order arguments, only be deemed 'moderately conclusive' as regards its ability to weaken the case for F_1.

C_{21}, on the independent nature of actors within social structures

ARGUMENTS	UNDERPINNINGS
F_1	There is a positive causal association between customer alertness and competition.
Specification	The more two suppliers, parties to two interconnected customer relationships, perceive that the customer's context of supplier choice is transparent, the more competition they enact between themselves since they interpret the barriers to relationship entry as low.
==========	
C_{21} (-)	When markets are seen as social structures of individual relationships, suppliers, though interconnected, are relatively independent when considered in relation to each other.
φC_{21}	And once suppliers are independent they are hardly subject to competitive influence.

Table VIg; *Contra*-argument C_{21} pertaining to the issue-expression F_1 (continued overleaf)

of research on organizational buying behavior is that of Johnston and Lewin (1996).

C_1C_{21} (--)	Interconnectedness does always entail some dependency, although of an indirect character.
$C_1C_1C_{21}$ (---)	But the magnitude thereof could be hardly discernible.
C_2C_{21} (--)	Such alleged actor independence only holds in case markets are seen as zero-sum games wherein relationship structures are of measure zero.
φC_2C_{21}	Markets are not zero-sum games.
$C_1C_2C_{21}$ (---)	If transactions are focused one can in fact argue the other way around, as seen in oligopoly theory.
C_3C_{21} (--)	Once there is reason to believe in the economic social action of market actors, others will constantly be taken into account and, hence, there will be dependence.
φC_3C_{21}	Market actors do display economic social action.
C_4C_{21} (--)	Competition is composite stemming as a threat from both actual and potential relationships, something embodying market actor interdependence.
$C_1C_4C_{21}$ (---)	Empirical works within contestability theory hardly manages to prove this alleged composite character of competition.

Table VIg: *Contra*-argument C_{21} pertaining to the issue-expression F_1 (continued)

The argument has it that despite the prevalence of social structures actors are relatively independent outside of the relationships to which they are parties. There is dependence within, but not between, relationships. That is, the prevalence of interconnectedness and indirect relationships are not really recognized. As with the previous argument, C_{11}, it here suffices to recur to works within supply management theory to find out about both *tenability* and *relevance*. As said, these are mostly preoccupied with the scrutiny of vertical, rather isolated customer-supplier relationships. This perspective, most notably found within studies inspired by transaction costs analysis, then has it that what matters most is the actor dyad and what happens therein, something only then subject to the surrounding net. It is most characteristic for early contributions within the industrial networks tradition applying a so-called 'interaction' perspective to the study of markets (confer Håkansson et al (1982)), something subsequently to be abandoned (confer Laage-Hellman (1989) for a crucial step in this direction). It is then obvious that despite some discursive *relevance* of the argument (accepting it for sure entails the rejection of F_1) there is not much of *tenability* to it as this cannot be shown by the studies. They have a different sphere of interest.

This impression persists once extra-order arguments are looked into. This holds in particular with respect to arguments C_3C_{21} and C_4C_{21}, both of which recognize the impact of market interdependence. Whereas the latter stems from the way in which competition is assumed to unfold (confer Baumol et al (1988) on the contestable character of markets), the former is about Weber's socioeconomic discourse wherein both action and phenomena can be considered as both social and economic, given the nature of man. The independence implied by C_{21} then cannot be. This holds even more once the embedded character of markets (confer Granovetter (1985)) is considered. Therein actors are subject to their immediate surrounding context, something not implying that they are oversocialized either. In sum, given these extra-order arguments, the weak *tenability* and the tangible *relevance*, the argument C_{21} can only be considered as 'moderately conclusive' in weakening the issue-expression F_1.

Summarizing the pro aut contra dicere of F_1

As seen there are three *pro-* and two *contra*-arguments pertaining to F_1. This issue-expression states that customer alertness (as the context of choice) favors competition, the perceived relationship permeability in a model context. Starting first out with the two contra-arguments C_{11} and C_{21}, both of them are characterized as 'moderately conclusive'. They also converge in discussing how 'isolated' the context of choice can be considered as being. There is, with reference to the undisputed relevance of each argument, support for the negation of F_1, something however not working out in full since not too much tenability seems to be around. The reason for this is not that there exists a lot of proof explicitly going against the arguments, but simply that it has not been the subject of any scrutiny. When vertical customer-supplier relationships are analyzed the horizontal market dimension then does not seem to occupy a very preeminent role. So, given that these arguments entail some distinct opposition, is there anything that can counterbalance them in favor of F_1, the alleged association between customer alertness and competition? As seen there are three arguments posing claims in this direction. The pro-argument P_{21}, claiming that mutual awareness is crucial for competition, seems as strong as the two former contra-arguments. It is moderately conclusive following, on the one hand, some tenability and somewhat more relevance, and on the other a very convincing second-order contra-argument C_1P_{21}. That is, this opposing argument, claiming that actors can be competitors without recognizing each other as such, together with the very 'creative' character of the cited source of tenability (something then not really corresponding to the rather reactive character of customer alertness' context of choice) weakens P_{21} in a substantial manner. *As* ('moderately') conclusive with regard to F_1 is the pro-argument P_{31} which relates some Swedish public procurement legislation. At first sight this argument is very strong both as regards its tenability and relevance. That is, there is some 'independent truth' to it at the same time as it seems appealing from a discursive angle. Still, this impact is curtailed by some rather convincing extra-order arguments putting it in doubt. So far, all the four recapitulated arguments, the 'pros' P_{21} and P_{31}, and the 'cons' C_{11} and C_{21} seem to balance each other. Then there is however the pro-argument P_{11} that seems stronger than any of the aforementioned. This argument is a little bit philosophic in character as it in part relies upon old 'truths' to be found within the development of economics. The argument is further very much nourished by the notion of the market as a process, an idea that requires the kind of openness foreshadowed in the argument. It is in addition very much backed up by findings from within sociology and Austrian economics that reach conclusions in line with the argument itself. It is then no wonder that P_{11} is deemed 'convincingly conclusive' with regard to F_1. In sum, whereas the four former arguments seem to balance each other, the presence of P_{11} is what renders F_1 more probable than improbable. It is obvious that there is not a very strong backing of the issue-expression, but still enough for it to appear as moderately acceptable. *In consequence, there seems to be some reason to believe in the proofability of F_1 even though this is by no means an undisputed claim.* As furthered by Snehota (1990, p 169), '[c]ompetition is but a consequence of entrepreneurial action and is not the aim of business activity', something then foreshadowing the utmost indirect manner in which competition can result from customer alertness.

> [C]*ompetition does not arise spontaneously in imperfectly competitive markets – it can only be induced by the purposive use of* [customer] *power.*[8]

The recapitulation of arguments pro et contra F2

The structure of the arguments pertaining to F2 to come forward below appears as follows.

F2

P12	P22		C12	C22
P1P12	P1P22		P1C12	P1C22
P1P1P12	P1P1P22		C1P1C12	C1P1C22
C1P1P12	C1P1P22		C1C1P1C12	P2C22
C1C1P1P12	C1C1P1P22		C1C1C1P1C12	C1P2C22
P2P12	P2P22		C2C1C1P1C12	C1C1P2C22
C1P2P12	C1P2P22		C2P1C12	C1C1C1P2C22
C1C1P2P12	C1C1P2P22		P2C12	P3C22
P3P12	P3P22		C1P2C12	C1P3C22
C1P3P12	C1P3P22		P3C12	P4C22
P4P12	C1C1P3P22		C1P3C12	C1P4C22
C1P4P12	C1P22		C1C12	C1C22
C2P4P12	C1C1P22		P1C1C12	P1C1C22
P5P12	C1C1C1P22		C1P1C1C12	C2C22
C1P5P12	C2P22		C1C1C12	
P6P12	C1C2P22		C1C1C1C12	
C1P6P12	C2C2P22		C2C1C12	
C2P6P12	C3P22		C2C12	
C1C2P6P12	C1C3P22		C1C2C12	
C1C1C2P6P12	C4P22		C1C1C2C12	
P7P12	C1C4P22		C3C12	
C1P7P12	C2C4P22		C4C12	
C1C1P7P12			C1C4C12	
C1P12				
C1C1P12				
C1C1C1P12				
C2C1C1P12				
C3C1C1P12				

Tabell VIh: The structure of arguments pertaining to the issue-expression F2[9]

[8]Baker (1990, p 619)
[9]Confer Björk (1988, p 48)

P12, on the opportunity cost of a relationship in light of potential others

ARGUMENTS	UNDERPINNINGS
F2	There is a negative causal association between social capital and competition.
Specification	The more two suppliers, parties to two interconnected customer relationships, perceive that expectations of commitment prevail within these relationships, the less competition they enact between themselves since they interpret the barriers to relationship entry as high.
============	
P12 (+)	There will always be an opportunity cost to an existing relationship in that it occurs at the expense of other alternative relationships.
φ1P12	This opportunity cost makes relationships most interdependent as they draw on the same pool of resources.
φ2P12	To take on new relationships could weaken those already at hand.
P1P12 (++)	It is undesirable to leave someone well known for someone not known.
P1P1P12 (+++)	This holds in particular as regards the use of scarce resources, to share them with a totally new contact might prove wasteful.
C1P1P12 (-++)	But that depends which activities one ponders, if these are new there is no real reason why it should be better to stay on with an old contact.
C1C1P1P12 (--++)	To take on new activities within an existing relationship will still be less of a disturbing new element than to do it with someone previously unheard of.
P2P12 (++)	Once joint development activities matter, as they mostly do, it is always too much of a risk to undertake them with new acquaintances – the prevalence of asset specificity should be taken advantage of, and not be dispensed with.
C1P2P12 (-++)	But it might be that existing contacts are not knowledgeable about development activities.
C1C1P2P12 (--++)	In general, given the nature of relationships, they should be as an exchange party tends to serve as an impetus for new ideas.
P3P12 (++)	The only way of finding out how capable a partner is, is to try out collaboration in practice, this is then an investment that must not be thrown away by changing to alternatives.
C1P3P12 (-++)	But not all investments are good ones and could be reconsidered.
P4P12 (++)	To 'jump around' and change exchange partners is an outdated strategy that does not belong in network markets.
C1P4P12 (-++)	That such markets are stable when it comes to the identity of exchange parties however does not mean that they are static.
C2P4P12 (-++)	Besides, not all markets display significant network characteristics.
P5P12 (++)	Humans are inert by nature, to handle uncertainty they are simply forced to cling to what they have got.
C1P5P12 (-++)	But humans also are in need of inspiration from sources previously not known of as they are curious.
P6P12 (++)	Since relationships are delicate matters there is, in most relationships, an inextricable tendency towards closing off the environment and to concentrate on the collaboration underway with only a few contacts.
C1P6P12 (-++)	As an actor normally has several relationships this tendency does not really prevail.
C2P6P12 (-++)	Once you get to know new contacts you realize how much there is to learn by connecting to others and hence feel compelled to do so even more.
C1C2P6P12 (--++)	But this only holds when contacts are non-redundant.
C1C1C2P6P12 (---++)	That might be true concerning the outcome, but it cannot be known on beforehand.

Table VIi; *Pro*-argument P12 pertaining to the issue-expression F2 (continued overleaf)

P7P12 (++)	As suppliers engage in relationship activities creating trust and obligations they become very customer-focused and really do not care about competition from others.
C1P7P12 (-++)	To be customer-focused does not necessarily entail a narrow mind with respect to competitors.
C1C1P7P12 (--++)	To be customer-focused however means that resources are spent 'vertically' and not 'horizontally'.
C1P12 (-+)	There is no reason why being close to someone should come at the expense of connecting to someone else.
C1C1P12 (--+)	As to 'be close' entails the deployment of considerable resources it is obvious that one cannot be close to everyone as resources in general are scarce.
C1C1C1P12 (---+)	This type of social resources are continuously recreated.
C2C1C1P12 (---+)	If resources had this static character all markets would be entirely static.
C3C1C1P12 (---+)	To form relationships means to create new resources as what is at the outset is combined in ways not known of before.
φC3C1C1P12	Relationship partnering entails the production, and not the consumption, of resources.

Table VIi; *Pro*-argument P12 pertaining to the issue-expression F2 (continued)

The foremost pillar of P12 *tenability* is found within the sociology of immigration studies referred to by Portes and Sensenbrenner (1993) wherein several 'downside' aspects of social capital are identified. Out of these it is the 'conspiracies against the public' that epitomizes the particular kind of amoral familism (confer Woolcock (1998, pp 171-175)) subject to which potential new entrants are kept out of a particular social (relationship) realm by incumbents, be it social groups or business ventures. Parties stay on with each other without opening up for alternative sources of exchange. As a case in point African American contractors in New York City are allegedly excluded from private construction projects as they are not part of the appropriate social web. Not playing golf means lacking the relational infrastructure that is necessary to be awarded a contract. And not having been awarded such a contract in the past means not being considered in the future either. A corollary reasoning is that of Granovetter (1993, pp 35-36) who claims that '[a]ttachments between clientilized buyers and sellers make them less responsive to changes in market conditions than they would otherwise be. In some cases this means that prices are held below their competitive level, if an increase would otherwise have occurred'. The general essence of this 'clientalization', as posited also by Portes and Sensenbrenner (1993), is that this entails a cost of monopoly for society. This form of market impediment is also the epitome of Geertz (1992 (1978), pp 228-229) inquiry into the workings of a Moroccan bazaar. 'Clientelization is the tendency, marked in Sefrou, for repetitive purchasers of particular goods and services to establishing continuing relationships with particular purveyors of them rather than search widely through the market at each occasion of need'.[10] Additional proof in this direction is provided by Baker (1990, p 597) who recognizes that prevailing ties between banks and their corporate customers might foreclose

[10]The argument of Geertz is however somewhat dubious as it is drawn upon also in argument P11 having it that prior to bazaar exchange unfolding it is common to 'test the waters' among several bidders. Maybe the two thus seemingly irreconcilable stances residing with Geertz can be displayed by resorting to a Weberian sort of reasoning. First, there is competition among the many invoked by customer alertness and only then there is clientelization embodying social capital. Competition is then also very much a function of the temporal factor of exchange.

alternative relationships. The *tenability* of P_{12}, thus vindicated by several similar empirical examples, is in consequence very strong.

The case for P_{12} *relevance* is at least as compelling, gaining general inspiration from within both classical sociology and contemporary economic sociology of immigration and development. The foremost discursive appeal for this argument in support of F_2 is found within Weber's reasoning on appropriation that inspires both Portes and Sensenbrenner (1993) and Woolcock (1998). Given the crucial impact of relationships in general, Weber (1968 (1922), pp 43-46) hence asserts that they could be either open or closed.

> *A social relationship ... will be spoken of as 'open' to outsiders if and insofar as its system of order does not deny participation to anyone who wishes to join and is actually in a position to do so. A relationship will, on the other hand, be called 'closed' against outsiders so far as, according to its subjective meaning and its binding rules, participation of certain persons is excluded, limited, or subjected to conditions. ... It is especially likely to be closed, for rational reasons, in the following type of situation: a social relationship may provide the parties to it with opportunities for the satisfaction of spiritual or material interests, whether absolutely or instrumentally, or whether it is achieved through co-operative action or by a compromise of interests. If ... their* [the parties' to the relationship] *expectations are of improving their position by monopolistic tactics, their interest is in a closed relationship.*[11]

Weber then goes on to claim that the advantages for the parties within a closed relationship relative to foreclosed outsiders are maintained by way of *appropriation*. This implies a certain permanence rendering the appropriated advantages a sort of 'right' residing with the actor herself in her exclusive tie-up to another relationship party.[12] As commented on by Swedberg (1998, pp 35, 39), parties to a closed relationship 'monopolize economic opportunities by excluding others from them'. This is the same as saying that they foreclose the entering into a(n) (new) exchange relationship since the latter implies the opportunity to exchange of valued resources (Cook and Emerson (1984, p 4)). Hence, incumbents have access to certain objects in parallel to excluding others therefrom (Swedberg (1998, p 39)). An additional way of grasping this is to recur to the idea of asset specificity (confer Williamson (1987)). This argument has it that the value of assets deployed (for instance human endeavor and technology) in a particular relationship runs the risk of losing in value in case they are transferred to another tie. All of this reasoning hence subscribes to the perspective that there is in fact an opportunity cost endemic to actual relationships with respect to alternative dittos, something thus attributing considerable *relevance* to P_{12}.

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[11]The rediscovery of social closure in contemporary sociology is attributed to Parkin who deals therewith from the perspective of interclass power distribution (Abercrombie et al (1994, p 383)). For an appraising view of closure theory as such, see Murphy (1986).

[12]Confer Weber (1968 (1922), pp 125-137, 144-150) for an account of various sorts of appropriation of labor service utilization rights, material means of production, and managerial functions. He however seems to endorse the view that '[m]arket relationships are in most, or at least in many, cases essentially open'. This a stance could tentatively be explained by Weber's strong holding on to the conviction that with no competition (high market closure) there are in fact no markets.

As seen there is further an array of extra-order arguments that support and oppose the pro-argument P_{12} and hence counterbalance each other in a manner leaving the identified tenability and relevance of above intact. Of particular interest is here P_7P_{12} and subsequent arguments inquiring into whether customer focus on the part of suppliers (then mirroring that one stays close to the customer) does in fact contradict parallel attention paid to one's competitors. A discursive appeal (thus pillaring the relevance of P_7P_{12}) is the reasoning of Oxenfeldt and Moore (1978) and Day and Wensley (1988) wherein a balanced approach between both foci is suggested. Although normative in nature, this reasoning echoes the probability that when a customer focus is predominant this might appear at the expense of paying attention to one's competitors, thus an implicit outcome of the reasoning pillaring P_{12}. In sum, despite the overall balancing character of the assemblage of extra-order arguments, there is no doubt that the joint prevalence of strong *tenability* and strong *relevance* bestows upon the pro-argument P_{12} the character of being 'convincingly conclusive'.

P_{22}, on relationship myopia subject to self-reinforcing commitment

ARGUMENTS	UNDERPINNINGS
F2	There is a negative causal association between social capital and competition.
Specification	The more two suppliers, parties to two interconnected customer relationships, perceive that expectations of commitment prevail within these relationships, the less competition they enact between themselves since they interpret the barriers to relationship entry as high.
==========	
P22 (+)	The presence of relationship commitment ties actors tightly together and renders them myopic in the sense that this commitment becomes self-reinforcing.
φP22	To be myopic in the relationship sense of the word means to focus what one has got and not one might have instead.
P_1P22 (++)	Relationships are in general characterized by commitment as a key ingredient.
P_1P_1P22 (+++)	Other common relationship features, such as longevity and adaptation, all support the forming of commitment.
C_1P_1P22 (-++)	Not all relationships display this closeness.
$C_1C_1P_1$P22 (--++)	No, but those that are discernible as they live on thanks to their stability are likely to do so.
P_2P22 (++)	The more you experience commitment in a relationship the more inclined you are to stay on with that relationship.
C_1P_2P22 (-++)	But commitment could be asymmetric, something eroding it, and hence the relationship, over time.
$C_1C_1P_2$P22 (--++)	As commitment however does not emerge in a vacuum it also tends to embody self-regulating qualities.
$\varphi C_1C_1P_2$P22	This means that there is less of a risk for self-destruction tendencies.
P_3P22 (++)	Commitment is generally considered as a positive social feature the downside of which is not very overtly recognized.
φP_3P22	In consequence people take every chance they can to display and to expect it.
C_1P_3P22 (-++)	This might be true for people in general but not in their professional positions as employees within organizations.
$C_1C_1P_3$P22 (--++)	People are people also when at work.

Table VIj; *Pro*-argument P22 pertaining to the issue-expression F2 (continued overleaf)

C1P22 (-+)	Relationship commitment meaning true closeness could however imply a major vulnerability to disturbances.
φC1P22	You always hurt the one you love - staying close together entails a major risk of hurting each other so such a liaison is very fragile following its exposure to small but devastating events.
C1C1P22 (--+)	But this means that the parties are all the more observant not to cause damage to commitment.
C1C1C1P22 (---+)	Some things cannot be 'socially engineered', commitment between two parties is probably the epitome hereof.
φC1C1C1P22	No matter how intensively two parties are after commitment it cannot be ordered but must be personally experienced.
C2P22 (-+)	The bond keeping two organizations close together is most vulnerable as it is subject to the discretion of individuals that might display irrational behavior.
C1C2P22 (--+)	However, individuals are mostly however not irrational in this manner, instead they are likely to be inert and stay with what they have got.
C2C2P22 (--+)	An organization is generally not *that* dependent on single individuals.
C3P22 (-+)	Commitment is an interpersonal phenomenon and hence it really does not matter when actors are organizations.
C1C3P22 (--+)	Interpersonal connections is a major feature of organizational markets since organizations are but aggregates of people.
C4P22 (-+)	Even in the case where interpersonal commitment does prevail between customers and suppliers it has no influence whatsoever on competition.
φC4P22	Those eventually engaged in interpersonal connections with suppliers are mostly found in areas such as technical development with little or no influence on barriers to relationship entry.
C1C4P22 (--+)	Purchasing employees are *as* engaged in interpersonal connections as are technical personnel in customer organizations
C2C4P22 (--+)	Development personnel have a huge influence on barriers of entry as their decisions with suppliers form the basis whereupon the purchasing function subsequently acts.

Table VIj; *Pro*-argument P22 pertaining to the issue-expression F2 (continued)

Commitment does not arise out of a vacuum but as an outcome of behavior. Of particular relevance in this a context is the granting of gifts causing ties of obligation that embody reciprocity and solidarity between human beings (confer Mauss (1990 (1950)) recapitulating studies from Polynesia). The former reciprocity is what Coleman (1990, pp 303-304, 306-313) discerns in the creation of 'social credit slips' in the central market of Cairo that could be redeemed at choice. The latter solidarity is what Granovetter (1995a, pp 154-155) traces in the works of Wong describing the textile industry in Hong Kong wherein 'conventional' (non-existent) barriers to entry are substituted by the formation of group solidarity that keeps incumbents together and others out. 'In other words, ties of group solidarity can substitute for "natural" factors that create barriers to entry, and so we may expect to see solidarity groups in markets that on purely economic grounds would be expected to be competitive, but empirically are not.' That is, *solidarity epitomizing the process of appropriation via closure* recapitulated above concerning P12. Commitment thus 'squeezes' parts together in a spiral-like manner. These conserving tendencies of trust and obligations are also identified by Uzzi (1996, 1997) in his scrutiny of the New York City apparel market. He (Uzzi (1997, pp 55-57)) argues that they embody a non-defection strategy of 'always holding on to one's partners', something signaling sort of an ignorance based in the 'psychology of embeddedness'. The outcome hereof is a 'diligent commitment' subject to reciprocity expectations and social pressure that works conserving and draws the assignment of resources away from alternative sources of business to those prevailing in the first place.[13] Another telling example of the thus obvious practical viability of P22 (here its *tenability*) is the Granovetter (1985, p 496) quote of Webster and Wind pertaining to the conduct of personnel within organizational purchasing.

> [The] *evidence consistently suggests that it takes some kind of a 'shock' to jolt the organizational buying out of a pattern of placing repeat orders with a favored supplier or to extend the constrained set of feasible suppliers. A moment's reflection will suggest several reasons for this behavior, including the costs associated with searching for new suppliers and establishing new relationships, the fact that users are likely to prefer* [known] *sources, the relatively low risk in dealing with known vendors, and the likelihood that the buyer has established personal relationships that he values with representatives of the supplying firm ...*

More of a discursive case for P22, its *relevance*, is the reasoning by Lindenberg (1997) on solidarity as an outcome of people's conscious engineering thereof. 'Ego [a party to a relationship the aim of which is to start up a restaurant together] will stick to this [restaurant] agreement with Alter [the other party to the restaurant project relationship] and not enter a deal with the third person, even though he thereby passes up a deal that looked better to him than the one he kept'. Since Ego 'contributes private resources without compensation' there is solidarity, the strength of which is a function of the cost thereof to Ego. This is in part echoed by O'Driscoll Jr and Rizzo (1996 (1985), pp 30, 34).

> *The particular identity of the individuals who engage in certain actions will itself have an effect* [on the decision-maker] *since some individuals are closer than others, in an economically relevant sense, to the original decision maker. ... 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...*

The essence hereof is that void of commitment, interpreted as trust and obligations, the risk for parties to a relationship drifting apart increases substantially. That is, in accordance with Ahrne's (1994, pp 92-95) reasoning on organizations, one could then say that also relationships, interpreted as 'quasi-organizations', are subject to both centripetal and centrifugal forces, the former of which thus seen in the emergence of trust and obligations. More of a business-related argument in this vein is further Morgan and Hunt (1994) who establish the strong negative relationship between trust-induced 'relationship commitment' and 'propensity to leave' a relationship. The *relevance* of P22 is then very much found within the discourse of contemporary sociology and as findings herein are drawn upon in interorganizational business studies. As seen the entire discussion revolving around commitment, be it within sociology or in other disciplines, strongly points towards the

[13] Yet another distinct proof of reciprocity in customer – supplier relationships is that of Mueller (1970, p 95). 'A recent study showed that 100 percent of the purchasing agents surveyed reported that reciprocity is a major factor in buyer-seller relations in the chemical, petroleum, and steel industries. Over three-fourths of these buyers said that they divided purchases on a reciprocal basis.'

relevance also of P_{22}. That is, it does not seem possible to accept P_{22} and at the same time to reject the issue-expression F_2.

There is, further, an array of extra-order arguments in support of, and in opposition to, P_{22}. Most of them revolve around the true character of relationships as this is wherein commitment, when present, allegedly works out. They also discuss the extent to which people display truly human qualities while at work within organizations. Of particular interest is the counter-argument C_1P_{22} emphasizing the overt vulnerability of commitment structures endorsing a 'you always hurt the one you love'-type of reasoning. That is, what at the surface seems very stable might in fact be something very fragile following the manner in which two parties open up to each other in the process of commitment formation. When summarized all over the extra-order arguments tend to provide relatively more support for, than opposition to, P_{22}. This an impression then strengthens what is definitely learned from the above discourse on tenability and relevance, P_{22} is a 'convincingly conclusive' argument in relation to F_2 that hence is furnished with significant proofability.

C_{12}, on how commitment entails competitive relationships

ARGUMENTS	UNDERPINNINGS
F_2	There is a negative causal association between social capital and competition.
Specification	The more two suppliers, parties to two interconnected customer relationships, perceive that expectations of commitment prevail within these relationships, the less competition they enact between themselves since they interpret the barriers to relationship entry as high.
==========	
C_{12} (-)	The formation of commitment is an impetus for competition as a relationship characterized hereby is a most competitive market entity.
φ_1C_{12}	Competitive sub-entities of a market imply a whole characterized by competition.
φ_2C_{12}	The formation of commitment decreases perceived barriers of entry as suppliers with strong customer bonds become more competitive. In consequence, to show commitment in customer relationships in fact entails that competition is very much taken into account as strong ties to the customer is the foremost manner of competing with others. And, wherever there is competitiveness, there is competition.
P_1C_{12} (+-)	Once markets are conceived of as networks, competition occurs via actor dyads.
$C_1P_1C_{12}$ (-+-)	The decisive competitive unit is still the individual organization however connected it is to others.
$C_1C_1P_1C_{12}$ (--+-)	A network market actor is nothing devoid of its relationships.
$C_1C_1C_1P_1C_{12}$ (---+-)	True, but when it comes to competitive considerations one must still resort to the individual actor – how would it otherwise be possible to distinguish between organizations that 'share' relationship parties?
$C_2C_1C_1P_1C_{12}$ (---+-)	This holds only when cooperation is considered, the understanding of competition requires another mental logic.
$C_2P_1C_{12}$ (-+-)	Competition cannot ever occur via dyads as the parties to a relationship cannot ever be identical regarding the competition they face.

Table VIk; *Contra*-argument C_{12} pertaining to the issue-expression F_2 (continued overleaf)

P2C12 (+-)	The generally perceived prevalence of commitment in a market renders actors more awake and hence propels their competitive spirit.
C1P2C12 (-+-)	But commitment is not a feeling generally prevailing but a tangible property of concrete exchange relationships.
φC1P2C12	In this role it can hardly propel competition in the manner alleged by P2C12.
P3C12 (+-)	There is fair reason to believe that, following relationship interconnectedness, the commitment in one relationship will, concerning its overall idea, spill over to other market relationships.
C1P3C12 (-+-)	Commitment is however not just a free good that emerges out of nothing, it demands the mobilization of considerable resources and, hence, can hardly just diffuse through a market.
C1C12 (--)	There is nothing saying that competitive actors, in dyads or in separate, per se characterize a competitive market, especially not when the latter is conceived of as low barriers of relationship entry.
P1C1C12 (+--)	It is in fact viable to conceive of a market replete with competitive actors that each has created own pockets of monopoly, something hardly reminiscent of a market characterized by competition.
C1P1C1C12 (-+--)	If actors are truly competitive these monopoly pockets will only be temporary, they will be competed away as time goes by.
C1C1C12 (---)	Competitive actors are in any case a first and necessary requirement for competition to prevail.
C1C1C1C12 (----)	Something being *necessary* though not *sufficient* hardly deserves the weight ascribed to it in counter-argument C12.
C2C1C12 (---)	If the market does not display competition, however conceived of, there is no reason for suppliers to strive for competitiveness.
C2C12 (--)	A relationship is far too complex a phenomenon on its own also to be able to handle the 'social engineering of commitment' as a means of strengthening joint dyad competitiveness.
C1C2C12 (---)	The complexity of a relationship does not really matter as commitment arises spontaneously.
C1C1C2C12 (----)	Something arising *that* spontaneously can hardly be characterized as an 'impetus for competition'.
C3C12 (--)	As it takes two to form commitment this does not seem feasible to regard as part of a competitive strategy, something closely associated with the core idea of a business that hence preferably is controlled in full.
C4C12 (--)	The presence of strong customer bonds does not necessarily render a supplier competitive.
C1C4C12 (---)	The prevalence of strong customer bonds *is*, among other things, what entails competitiveness once a market is conceived of as relationships.

Table VIk; *Contra*-argument C12 pertaining to the issue-expression F2 (continued)

Some *tenability* of this contra-argument is obvious since organizations in fact do engage in relationships replete with commitment in order to survive and prosper in the marketplace that at least sometimes is characterized by competition. If C12 would be entirely untenable, markets would exclusively consist of one-time exchange encounters such as those oftentimes referred to in connection with the spot market for crude oil. An additional consequence of this imagined scenario is that exchange in general would be very standardized since there would be neither scope nor opportunity for adaptations between actors. Only if one assumes that the forming of exchange relationships had nothing to do at all with competitiveness in terms of long-time survival can the feasibility of C12 be questioned in full with some rigor. A most representative case in point confirming this reasoning is the nature of successful Italian regions, engaged in the making of anything from rubber soles and glasses frames to ski boots and fine machinery, commented upon by Piore and Sabel (1984, p 284). These business webs are made up of the sharing of a common goal fueled by cooperation.

But they are not so tightly integrated as to lose the competitive spirit to innovate. From this perspective it is clear that inciting ferocious competition among subcontractors is doubly disastrous: it either discourages them from entering bids or forces them to bid so low that they must cut quality, to reduce production costs and to increase (at the expense of their client's reputation) sales of replacements.

That is, cooperation entailing commitment in all market dimensions as a means for the region to stay competitive. Regional cooperation thus fueling global competitiveness. The tenability of this contra-argument becomes slightly more problematic once one realizes the bidimensional character of F_2 then ruling out cooperation between competitors as a means for joint progress. That is, since F_2 relates the impact of vertical social capital on horizontal competition, to oppose it by relating horizontal social capital (assumed away by the model) is not a very rigorous idea. There is, however, still some plausibility to the argument as one could say that it is not individual actors but customer-supplier dyads that constitute the competing unit. And in that case the cooperation between competitors alluded to in the Italian case emerges only *indirectly* thus not violating the model assumptions.

The argument has also got some *relevance* to it, then tying it directly to F_2 in more of a discursive manner. This is most explicitly found within the industrial networks tradition according to which organizations cooperate in order to appear competitively viable. This perspective in fact relies upon the innermost characteristics of relationships in order to understand what happens in markets. Even though not representing a full-fledged theory its aspirations in this direction are readily seen. Consider for instance how Håkansson and Snehota (1995, pp 9-10, 351) choose to describe a business relationship as imbued with, among other things, adaptations and cooperation and how they argue in favor of commitment as a prerequisite for joint product development. As said earlier they even define a commercial relationship as built from reciprocal commitment entailing interdependence between two parties mutually orienting towards one another (Håkansson and Snehota (1995, p 25)). Ford (1990 (1980), pp 46-47) argues in a similar vein by claiming that commitment is shown via formal / informal adaptations and how each party to a relationship chooses to organize its interaction with the other party. A yet more applied thread of reasoning appearing in the emergent realm of so-called 'relationship marketing' and arguing in a similar way by tying trust to commitment in business relationship is that of Morgan and Hunt (1994). What all of these marketing-based claims do is in fact to single out the formation of commitment and similar as the sine qua non of competitive strategies revolving around the presence of exchange relationships. The problem with regard to F_2 is however that they at times seem to focus also direct ties between competitors (confer Easton and Araujo (1992)), something violating the model assumptions and thus making it possible to accept C_{12} and F_2 at the same time (which would entail the absence of argument relevance).

The posing of extra-order arguments in relation to C_{12} is rather intriguing and truly challenges it without however really rendering it superfluous. That close ties between customers and suppliers do prevail seems undisputed but the issue here is then whether the competitiveness that they imply for the parties to a relationship in fact can be said to mirror that the market as such is competitive. And, is it really viable to consider a customer-supplier relationship as a competing market unit? That is, can a market be considered competitive merely by resorting to the striving for competitiveness by its actors, however organized in dyads et cetera? In addition, is it really so that strong links with customers can always be considered a good when pros and cons are balanced against each other? Or, is it viable to pose that the constraining effects of relationship commitment then is *not* always second to the enabling dittos? When scrutinizing the aggregate of extra-order arguments there is a small, but distinct, tendency for those opposing C_{12} to outperform those supporting it. This, but mostly the somewhat curtailed character of both tenability and relevance, renders the counter-argument C_{12} only 'moderately conclusive' with respect to the issue-expression F_2.

C_{22}, on how commitment, in parallel to competition, is endemic to markets

ARGUMENTS	UNDERPINNINGS
F_2	There is a negative causal association between social capital and competition.
Specification	The more two suppliers, parties to two interconnected customer relationships, perceive that expectations of commitment prevail within these relationships, the less competition they enact between themselves since they interpret the barriers to relationship entry as high.
==========	
C_{22} (-)	Since commitment is a feature endemic to relationships, as is in principle competition to markets, there is nothing saying that the former would foreclose the latter.
φC_{22}	There is nothing, in principle, that opposes the joint prevalence of commitment and competition in markets.
P_1C_{22} (+-)	When markets are scrutinized both commitment and competition are normally found, so how could they then be in opposition to each other?
$C_1P_1C_{22}$ (-+-)	F_2 does not have it that commitment and competition cannot coexist at all, it only says that the prevalence of competition tends to weaken the presence of competition.
P_2C_{22} (+-)	There is nothing saying that commitment in one relationship occurs at the expense of another one that eventually could materialize.
$C_1P_2C_{22}$ (-+-)	As commitment does not come by itself but must be mobilized it requires substantial efforts in terms of resources that hence cannot be deployed in the process of choice.
$C_1C_1P_2C_{22}$ (--+-)	Resources are not fixed but continually expanded upon.
$C_1C_1C_1P_2C_{22}$ (---+-)	In the short run it is perfectly viable to conceive of resources as rather fixed.
P_3C_{22} (+-)	It might in fact be that commitment is what propels competitive activity.
$C_1P_3C_{22}$ (-+-)	If this is so it is an utmost indirect connection.
P_4C_{22} (+-)	Devoid of both commitment and competition markets would cease to work.
φP_4C_{22}	Markets in general seem to work so there is in fact coexistence between commitment and competition.
$C_1P_4C_{22}$ (-+-)	The functioning of markets is too a subjective and here ill-defined term to merit any attention with regard to commitment and competition.

Table VII; *Contra*-argument C_{22} pertaining to the issue-expression F_2 (continued overleaf)

C_1C_{22} (--)	By adhering to that kind of 'anything goes'-reasoning it would be possible to rule out any alleged (negative) associations between market phenomena.
φC_1C_{22}	Coexistence, correlation, and causal association are three types of interrelations that must be kept clearly apart.
$P_1C_1C_{22}$ (+--)	To pursue 'in principle' arguments in the light of an explicitly stated causal association does not seem very wise.
C_2C_{22} (--)	However, neither does the parallel presence of commitment and competition rule out any negative association that might prevail between them.

Table VII; *Contra*-argument C_{22} pertaining to the issue-expression F_2 (continued)

The second contra-argument with respect to F_2 states that commitment is a natural feature of relationships that by itself does not necessarily foreclose competition, that is freedom of market entry. This argument then opposes a view that a market imbued with commitment between its actors in general should display this at the expense of overall competition. The scrutiny of two specific markets for banking and apparel supports this argument from an empirical angle thus assigning it some *tenability*. The first of these is the study of Baker (1990) looking into how investment banks relate to their customers. One of his conclusions is that the prevailing modus operandi, both at the level of the market and that of an individual connection, is a mix of close long-term and more transaction-like short-term relations. Relationships are thus 'socially structured' subject to actor conduct. Even though overall market competition is not really the subject matter of Baker's study it seems viable to posit that his findings imply that relationship commitment might not be *as* detrimental to competition as foreshadowed by F_2. This however applies *in general* and in the case one opts for understanding *a given triadic setting* (see further below) there is nothing that in principle rules out the main point of the issue-expression. An almost identical case can be made with regard to Uzzi's (1997) garment industry study. The prevalence of transaction-based exchange seems somewhat less salient here. But there is still enough of reason for Uzzi to conclude that the logic of embeddedness favors the individual actor up until a certain point where it starts to damage. This severe effect, with only implicit references to competition, means that a dyad-actor becomes 'insulated' from the rest of the market. There is then good reason to argue, given the general thread of Uzzi's claim, that not only market actors but also competition, as a market feature, is better off once there are also some arm's length linkages in place.[14] This in its turn supports C_{22} in the sense that the prevalence of relationship commitment per se can hardly be said to constitute an obstacle for competition. This is also very much in accordance with how certain 'cultural homogeneity' (which can well be conceived of in the realm of individual relationships as in entire industrial regions), wherein relationship commitment is a salient feature, can still coexist with competition (confer Lazerzon and Lorenzoni (1999, pp 18-19).

[14]Yes, Uzzi's reasoning is also used in pillaring the argument P_{22} in support of F_2 (and Baker's is found in relation to F_1). This might at first glance seem like a contradiction but this must not necessarily be the case since different parts of the argument are drawn on. That is, Uzzi says *both* that there is a lock-in effect of being over-embedded and that there is good reason to accept some social market interlinkage.

> [Community rules] *balance* [but do not rule out!] *competition among firms, so as to encourage permanent innovation ...* [f]*ear of punishment by exclusion from the community is probably critical to the success of* ***the explicit constraints on competition.***[15]

The prevalence of some *relevance* of C_{22} can be justified along the same discourse as that above relating C_{12}. That is, it is endemic in much of the reasoning of the industrial networks tradition that however does not pay much overt attention to the issue of competition. That is, the influence on competition cannot be tacitly nullified! More of an intriguing case for the discursive appeal of C_{22} relevance in the light of F_2 is the reasoning of Burt's (1992, p 206) on structural holes. Provided that the presence of a tie entails commitment between actors (a point in itself really not touched upon by Burt who is more 'structural' in character) one can then say that the more ties there are in a market (= the more commitment) the *more* competition there is. That is, the less the aggregated actor autonomy, the more competition there is since actors are then 'more similar' and less unique than otherwise.

The extra-order arguments pertaining to C_{22} are not numerous. They are somewhat against the argument but in general do not seem particularly vigorous. They thus do not change the overall impression gained from the scrutiny of tenability and relevance. Despite some prevalence of both (particularly some 'proven' tenability) C_{22} can only be considered as 'moderately conclusive' with respect to F_2.

Summarizing the pro aut contra dicere of F_2

The issue-expression F_2 is similar to F_1 in facing two arguments, C_{12} and C_{22}, that oppose it. What is more, these arguments do so with equal strength, in being 'moderately conclusive'. This does not mean that they, seen in isolation, do not provide any arguments that are viable in opposing F_2. There is obviously both tenability and relevance, but the arguments still do not manage to provide a full-fledged opposition to the issue-expression under scrutiny. They make their case in opposing the issue-expression by pointing to the de facto presence of commitment in markets that mostly experience some competition. But then they lose out since the explanatory model does not accept outright collaboration between competitors, something often included once the prevalence of rivalry and collaboration in parallel is scrutinized. As seen, they also display more extra-order arguments than C_{11} and C_{12}. This is an obvious consequence of the fact that social capital is a concept that so far receives more of attention in its own right than customer alertness. It is simply more mature as there is more to draw on here. This is something also discerned as the pro-arguments P_{12} and P_{22} are turned to. Although they are only two, in the light of P_{11}, P_{21}, and P_{31} (supporting F_1), they display a different character, something in part stemming from the fact that they are pillared by far

[15] Piore and Sabel (1984, pp 29, 267-268, added emphasis)

more extra-order arguments. Whereas only P_{11} manages to provide 'convincingly conclusive' support for F_1, here both the pro-arguments generated in relation to F_2 come up with such agendas thus entailing the proofability of the issue-expression. This is hardly weakened by the presence of the two, less strong, opposing arguments provided. If anything it gets more convincing once the nature of the arguments are considered. Whereas P_{12} makes its strong case by relating the tension between a focal relationship and its environment, P_{22} does so by looking into the details of this relationship. That is, they touch upon each other in a manner akin to the function of synergy where their joint supportive impact on F_2 adds up to more than if they are considered in isolation. To sum up, there is no doubt that the joint consideration of the *pro-* and contra-arguments provided in relation to the issue-expression lends tangible support. *Hence, there is hence very strong reason to believe in the proofability of F_2.* This stems from very strong support provided by P_{12} and P_{22} but also from the manner in which the arguments, given their area of interest, seem to strengthen each other. In comparison to F_1, an issue-expression pertaining to much more of a juvenile concept (customer alertness), F_2 is much less balanced in showing more of unanimous support. This stems mostly from the studies undertaken within sociology and the very strong theoretical case for the downside of social capital as discerned in the principle of amoral familism operating according to the tendency of appropriation identified by Weber.

> *In relationships that tend to be exclusive, as in the family, the enforcing power of competition is weaker, and the range for informal bargaining is wide. Parties who have already invested specifically in each other are in a short-run position of bilateral monopoly. ... "Trusted" suppliers face little competition, due to the buyers' interest in maintaining close relationships with known partners. "Distrusted" suppliers, on the other hand, face considerable competition in that these relationships are tolerated only until a suitable alternative is located.*[16]

vi. The mutual dependence of F_1 and F_2

Had the analysis of the above (as commented upon in Chapter V) been undertaken instead in the form of a reaching-out for empirical proof it is most likely that regression analysis, powered by the least-squares method, would have been adhered to. In that case competition would appear as the dependent variable and customer alertness and social capital respectively as the two independent variables by means of which competition is to be understood. It is then perfectly viable to envisage the two explanans simultaneously as they eventually (following the articulation of the two issue-expressions) impact the same explanandum, but in opposite directions. In practice, following the reasoning of above, this would tentatively entail a positive beta-value of customer alertness and a negative beta-value of social capital. This method-wise elegant consideration of two hypothesized causal associations in parallel is however not done in the case of a *pro aut contra* analysis. This is so as the core idea of this

[16] Ben-Porath (1980, pp 9-11), Håkansson and Snehota (1995, p 232)

type of analysis brought forward by Næss (1966 (1959)) is that only one issue-expression can be considered at a time. The reason for this is obvious once the highly intriguing posing of arguments is considered. The eventual pursuit of several issue-expressions in parallel would render the analysis beyond reach when considerations of complexity are pondered. This follows from the very idea of a *pro- aut contra* analysis according to which the initial statements must be kept as precise and simple as possible and hence not intertwined (confer Næss (1966 (1959), pp 37-54), Føllesdal et al (1993 (1990), pp 289-298)). The obvious (and probably only) alternative under the present circumstances, is the formulation of yet another few issue-expressions that posit how customer alertness and social capital are associated, *whichever is their association with competition*. These could read as follows.

F_3: *Customer alertness and social capital are two entirely independent constructs with no mutual impact whatsoever.*

F_4: *Customer alertness and social capital are mutually reinforcing constructs.*

F_5: *Customer alertness and social capital are mutually weakening constructs.*

Had customer alertness and social capital both been concepts, the meaning of which being relatively undisputed, the 'only' thing to do would have been to start up the arguing once again according to the tables above. Since this is however not the case (particularly not as customer alertness is considered) such a posing of arguments would run the risk of suffering immensely from the juvenile character of the project.[17] Is it then acceptable, purely on these grounds, to stop short of any further analysis in this regard? Of course not. But a slightly different and more compact modus operandi will be adhered to.

The articulation of the particular agency allegedly impacting competition in the model erected stems from two guiding principles. Each of these is highly representative for the two main theoretical pillars of this work, Austrian economics and economic sociology. That is 'Austrian' entrepreneurship-ignorance and 'sociological' autonomy-embeddedness'. These two principles are, then, interpreted as two separate continua in relation to which a customer-supplier relationship can be positioned. It is via the combination of these two principles that this thesis arrives at the formulation of the two explanans. Whereas customer alertness stems from the combination of entrepreneurship and autonomy, social capital is nourished by embeddedness and ignorance. When this is kept in mind the three 'new' issue-expressions F_3, F_4, and F_5 appear in new light. They can now undergo a most rudimentary, but still illuminating, experiment of thought. A few things then stand out clearly.

[17]In the above cases of F1 and F2 this risk is then less since competition, a relatively 'established' construct, serves as a logical anchor in each of the arguments.

1. F_3 hardly deserves any support since the combination of guiding principles, each of which is manifest in a continuum, necessarily means that full independence of customer alertness and social capital is not viable.

2. Since the combination of guiding principles is derived from two continua, *with 'opposing' endpoints*, it seems furthermore unlikely that the mutual interdependence thus at hand can be of a reinforcing character. In consequence F_4 can hardly attract any support.

3. Instead, the most likely association between customer alertness and social capital, given the underlying guiding principles, is a negative one, something then putting F_5 in an attractive light, at least when put next to its 'alternatives' F_3 and F_4.

What is then the intuitive appeal of considering F_5, that customer alertness and social capital are 'mutually weakening constructs'? This issue-expression says that the transparency of the framing context of (supplier) choice and the expectations of mutual (customer-supplier) commitment (both of which interpreted by suppliers) stand in a negative, almost 'zero-sum character', relation to one another. Is that feasible, and from which perspective in that case? At a most superficial level it seems hard to find any compelling evidence that they should be in a mutually 'fully exclusive' relation to one another. The only thing learned from the above is that they most likely impact each other negatively. In which way does this impact then go? Is it the perception of the framing context of choice that weakens commitment expectations or the other way around? If anything, arguing from a slightly resource-based perspective, it seems as if the negative association is stronger in the other direction. That is, as social capital is more tangibly manifest (in economic exchange, the basis for expectations of commitment here to unfold) there is some reason to believe that the resources devoted to this exchange somehow 'outperform' customer alertness. This alleged adverse impact of social capital on customer alertness is readily distinguished in the argument of Podolny (1991, p 27).

> *Thus, one way that social relations or social networks contribute to the linkage between status and quality is by serving as access constraints, inhibiting contacts which could potentially alter perceptions by bringing them into conformance with changes in the underlying quality of products. In short, social networks engender inertial tendencies in buying behavior.*

In consequence, the negative association at hand between the two explanans, following the relative support found for F_5, is stronger when social capital influences customer alertness than the other way around. *Anything pointing towards the perceived transparency of choice is then weakened by perceptions in parallel regarding expectations of relationship commitment.* This follows from the mutual impact asymmetry at hand between customer alertness and social capital.

So, what does this tell about the manner in which competition is impacted? There seems to be one main lesson. That there is a balancing effect at hand. That is, as both of the explanans, embodied in the issue-expressions, allegedly impact competition, but in opposite directions, there is fair reason to believe that they outweigh each other, *by means of their mutual impact in terms of customer attention*. Similarly, how a supplier perceives the presence of one of the explanans is likely to be influenced by how the other is perceived, and the enactment of competition will in consequence follow suit. The reason is that each of them not only balances the other as far as their joint outcome is concerned, but that how each of them appears will in fact be subject to the other. That is, the effects of customer alertness is likely to be moderated by social capital and vice versa. It is obvious that the balancing effect thus identified has its equivalence also in the sense that entrepreneurship and social ties can be seen as pulling the market in diverging directions. Nowhere is this more obvious than in Ricketts' (1992, p 82) characterization of Kirzner's inability to handle social bonds in the light of entrepreneurship (see Chapter VIII where Austrian institutions are brought up).

In sum, to scrutinize the eventual association between the two issue-expressions F_1 and F_2 is most problematic from a *pro aut contra* perspective. This is so as this way of reasoning is less apt to consider several causal relations in parallel. Its inherent complexity implies that only one issue-expression at a time is possible to look into. This is a major shortcoming of the approach that obviously weakens its eventual merits. However, by formulating three additional issue-expressions (F_3, F_4, and F_5) and by illuminating these via the guiding principles that pillar the explanans themselves, it is possible to come up with some support for one of them, F_5. The essence hereof is that there is reason to believe in a negative causal association between customer alertness and social capital. That is, they somehow 'weaken' one another, or at least each other's effects. By furthering this idea a little bit more there seems to be reason to believe that social capital impacts customer alertness more ('negatively') than vice versa. This 'balancing effect', considered in light of competition, is asymmetrical in the sense that 'it takes relatively more of perceived choice transparency to offset the negative impact of enacted commitment on competition than the other way around.'

vii. Relationship status impact

The preceding analysis relates how competition between suppliers can be explained. It is preoccupied not just with any competition or any suppliers but with the explanation of customer-geared competition in a model where two suppliers compete for repeated exchange with one and the same customer. This model is delineated as a triad wherein the agency of the model, the explanans customer alertness and social capital, works out within the parallelism of two interconnected customer-supplier relationships. That is, the suppliers 'share' the same customer and each of the two relationships is causally associated with competition in a manner stated by an issue-expression (F_1 or F_2). This triad, like the entire model, is an ideal-type. *This means that the triad is not always, if at all, a tangible market feature, but its properties serve to cast light on phenomena found in the market, such as how suppliers compete when the impact of the customer is considered.* Given the assumptions of the model it is thus viable to posit that any market could be understood by means of such ideal-type constructions. That is, any expression of customer-geared competition (as defined here) can be grasped by reconstructing such a triad, be it where one or both suppliers are already in economic exchange with the customer, or be it where one or both of them merely exist(s) as (a) supply alternative(s) in the eyes of the customer. Put differently, as has already been commented upon a couple of times, it is reasonable to posit that the two customer-supplier relationships 'facing' each other in the triad could take on either of two types of 'status'. Either there is already economic exchange going on between the customer and one of the suppliers. Then there is *an actual relationship* in relation to which the customer undertakes an 'internal choice' whether to continue commercial activity or not. Or there is *a potential relationship*, something implying that there is mutual social knowledge, but no economic exchange at hand between the parties. With respect to such a relationship the customer undertakes an 'external choice' whether to initiate commercial activity or not.[18]

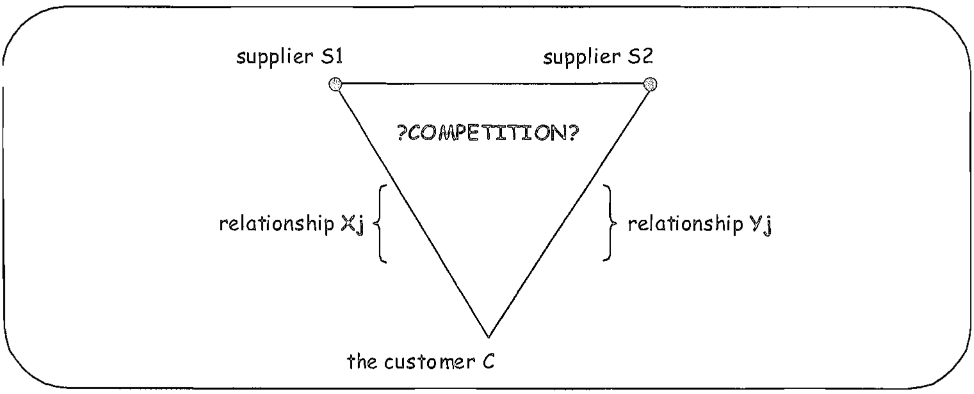

Figure VIb: The ideal-type triad

The statuses ('actual and or potential') of the two relationships that 'meet' in the triad will affect how the preceding *pro aut contra* analysis applies in the individual case. This matters in particular concerning the role of social capital that to work out needs some recurrent exchange to hold on to. That is, as already penetrated (when the issue-expression F_2 is discussed), the ideal-type triad can appear in three different guises, two symmetric and one asymmetric. Whereas the above *pro aut contra* analysis in principle applies irrespective of whether the two relationships are actual and / or potential, there is an obvious need for a brief comment on how this analysis appears in the light of different combinations of statuses.

[18]The case where a customer and a potential supplier only knows about one another in a most shallow way is not considered here.

By labeling the customer C and the suppliers S_1 and S_2 respectively, what is scrutinized is then the manner in which customer alertness and social capital, unfolding within the two parallel customer-supplier relationships X_j and Y_j, affect competition between the suppliers via the causal associations posited by the issue-expressions F_1 and F_2. To repeat, these relationships X_j and Y_j can then be either 'actual' and / or 'potential' with respect to whether there is in fact economic exchange going on between C and S_1 / S_2 or not (the suffix 'j' thus indicating which is the case). A potential relationship of course requires that the customer is somewhat aware of the presence of a supplier and could eventually consider initiating economic exchange therewith.[19] This triad constitutes the structural anchor devoid of which competition cannot be grasped in the model. There are three major ways in which the relationship parallelism can be formulated.[20]

- Both customer-supplier relationships are actual, Xa 'facing' Ya.
- Both customer-supplier relationships are potential, Xp 'facing' Yp.
- One customer-supplier relationship is actual while the other is potential, Xa 'facing' Yp.

As seen from the conclusions drawn above with respect to the two issue-expressions F_1 and F_2, there is fair reason to believe in some proofability of both, even though the latter seems more undisputed. This means that they appear in relatively favorable light irrespective of the relationship status combination at hand. But how does this proofability emerge when also this status is considered? Three typical cases are delineated in the following.

[19]Cook and Emerson (1984, p 4) claim that a connection between two actors constitutes an opportunity for exchange and that this opportunity, regarding exchange of valued resources, can be explored or not. Actual and potential relationships then represent seized or non-seized opportunities to engage in value-creating exchange. This in its turn presupposes some kind of contact between customer and supplier, at least to the extent that knowledge is present implying mutual orientation (that is, the existence of a potential relationship).

[20]These three ideal-type cases are furthermore easily conceived of as real-world settings wherein the first corresponds to common ongoing commercial activities between a customer and two parallel suppliers, the second to the eventual start-up of new sources of supply and the third to any case where an alternative supplier is considered in parallel to a prevailing ditto.

The symmetric triad of two actual relationships, 'XaYa'

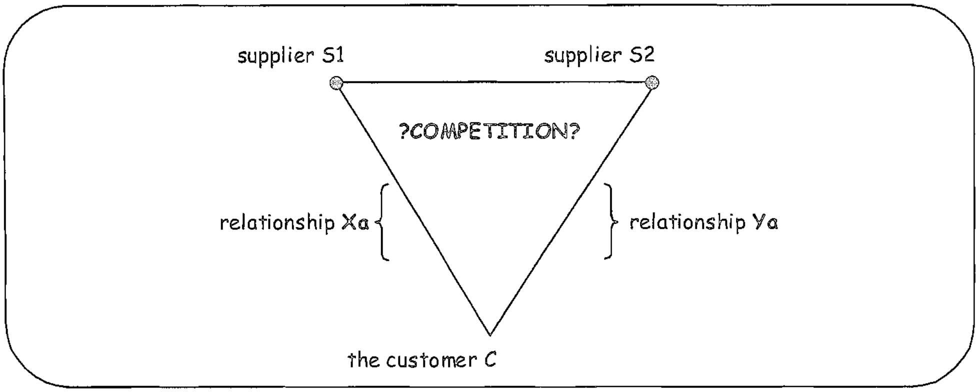

Figure VIc; The triad XaYa

Herein there is economic exchange between the customer and both of the suppliers. A key issue then becomes how dependent exchange in one relationship is on exchange in the other. This must be crucial for how the suppliers perceive ease of entry into both of the relationships. In the case of S_1, there is likely to be more competition from S_2 the lower the entry barrier of X_a is, and it is probable that S_2 will face more competition from S_1, the lower the entry barrier of Ya is. That is to say, at the outset competition is a function of both how open the 'own' relationship is to the threat of the 'other' and of how open the 'other' relationship is to the threat of the 'own'. As there is exchange going on in both relationships the threat pertains to the manner in which the customer decides to 'assign future purchasing orders between them'. Either the buyer can stay with the same partition of orders as before, or this can be changed in one way or the other, something pertaining both to the case where the total absolute exchange in the triad remains the same and when it changes downward (contraction) or upward (expansion). The placing of orders here represents the choice of the customer to interact at large, via for instance the undertaking of development projects et cetera.

When the alleged agency of the issue-expressions F_1 and F_2 is considered things naturally appear somewhat differently. There are in total three *pro-* and two *contra*-arguments when *the proofability of* F_1 is considered. Out of these the first two, P_{11} (on choice and alternatives) and P_{21} (on mutual awareness of being a competitor) definitely apply to this 'XaYa-triad' since both of them are reasonably general in character. There is slightly more of ambiguity around regarding the drawing on P_{31} (on the notion of choice and competition in Swedish procurement law). This is so as the very idea of this framework is that customers and suppliers are not really supposed to have the kind of ongoing exchange relationships (without recurrent formal procurement processes) that are depicted in the XaYa-triad. C_{11}, the first contra-argument, (on the isolating impact of a unilateral character of choice) is viable in the light of this triad, and this is also the case for the second ditto, C_{21} (on the independent nature of actors within social structures). When it comes to *the proofability of F_2* discussing social capital there are two *pro-*, and two *contra*-arguments to relate. The applicability of both of the latter, C_{12} (on how commitment entails competitive relationships), and C_{22} (on how commitment, in parallel to competition, is endemic to markets), and the two former, P_{12} (on the opportunity cost of a relationship in light of others), and P_{22} (on relationship myopia subject to self-reinforcing commitment), stands without doubt. There are *few* other arguments, be they *pro* or *contra*, that come to mind which could actually illuminate the triad better than the ones recapitulated above. In sum, there is fair reason to believe that the conclusions originally drawn with respect to F_1 and F_2 still apply once considered in the light of the triad XaYa.

The symmetric triad of two potential relationships, 'XpYp'

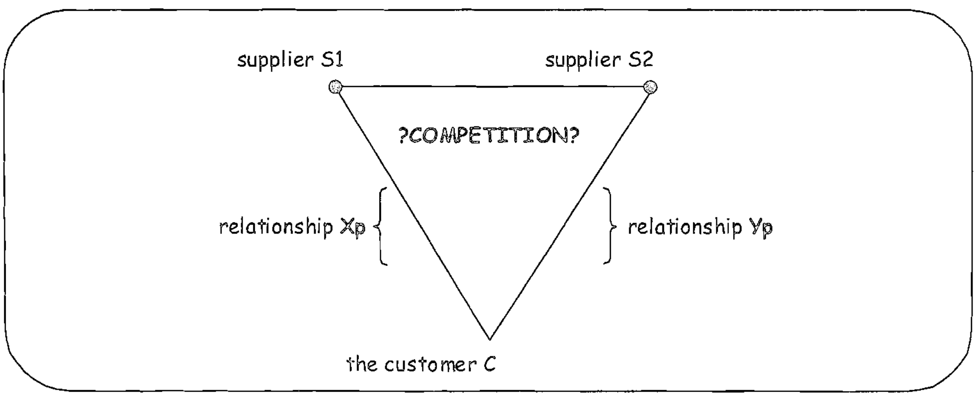

Figure VId; The triad XpYp

In this triad there is no economic exchange at hand between the customer and either of the suppliers. It could be that the relevant goods are still supplied, but by a supplier other than either S1 or S2, or it could be that the customer is in the process of initiating purchase of the goods. The 'potential' character of the two relationships still implies that there is at least some contact in place between C and S_1 / S_2 so that the customer knows that the suppliers are viable sources of delivery. They have declared themselves ready for exchange with C. As exchange is in fact not yet unfolding there is no way in which the relationships can be directly connected *from an economic perspective.* To build up interpersonal contacts prior to economic exchange is of course still a resource-demanding activity where it could be that time spent with S_1 comes at the expense of time not spent with S_2. The fact that economic exchange is not yet at hand furthermore means that the issue of competition, perceived ease of entry into exchange relationships, gets a special character. Assuming that C intends to initiate economic exchange, status quo is here not an option. Xp and / or Yp will thus necessarily transform into Xa and / or Ya. This means that barriers of entry initially will be absent and it is hard for either S_1 or S_2 to feel a conventional sort of threat as 'there is nothing prevalent to lose' from the other supplier's commercial contact with the customer. What is at stake is instead the prospect of future deliveries and in this sense it is obvious that there is a threat, but only in a 'discounted' version. Given the value here inherent to 'getting inside' the customer in the first place it is however obvious that this threat, then implying the eventual curtailment of considerable future own business, is most tangible. The notion of social capital has furthermore got a minor role here. This is so because expectations regarding mutual commitment to prevail have to be anchored in economic exchange, something not at hand here. As no deliveries can be initiated unless at least one of the suppliers is chosen, customer alertness seems on the contrary to be a more central feature.

In consequence it is certainly so that there is scope for the arguments pertaining to F_1 but not to F_2 in this setting. When considering all of the four *F_2 arguments*, P_{12}, P_{22}, C_{12}, and C_{22}, they do not fit very well in the XpYp-triad. This is hardly surprising given that they relate issues of social capital, then not really applicable in the case of two potential relationships. As expected *the arguments supporting or opposing F_1* however apply widely. In fact all of the three pro-arguments, also P_{31} (on the notion of choice and competition in Swedish procurement law) are very well conceivable in the realm of the XpYp-triad. Regarding the latter argument it in fact epitomizes this triad as the legal framework implicitly assumes that no actual relationships are at hand. The same holds for both of the counter-arguments C_{11} and C_{21}. To be observed is that the last argument, dealing with social structures, applies very much despite the sheer presence of potential relationships. The reason is obvious. Social structures do not have to embrace economic exchange. There is however a host of additional arguments that could be furthered in case one opts for an even more exhaustive *pro aut contra* analysis with more direct application to the triad XpYp. One line of argumentation in the light of F_1 could for instance revolve around whether it is possible or not to treat relationship entry as a truly *future* phenomenon. And another might bring up whether choice really can be regarded as explicit or not once a customer has to devote all its efforts towards the *initial* acquisition of some goods, irrespective of the identity of the supplier. Or one might ask, maybe this is the only real instance where choice is really explicit in the eyes of the supplier, particularly in light of the symbolism it entails? To sum up, although the triad XpYp lends itself to a thorough scrutiny in terms of F_1, it is doubtful whether the framework here presented really can exhaust the implications of this ideal-type triad. Given the definition of social capital in this text, the most crucial reason for this, of course, is that F_2 does not really apply. This badly curtails the entire line of reasoning. One way of accommodating this obvious weakness would be to redefine social capital thus freeing it from the structural demands currently associated therewith. There is also fair reason to believe that yet another line of *pro-* and *contra*-arguments needs to come forward if this triad is possibly to be understood in depth given the framework of the model here adhered to.

The asymmetric triad of one actual and one potential relationship, 'XaYp'

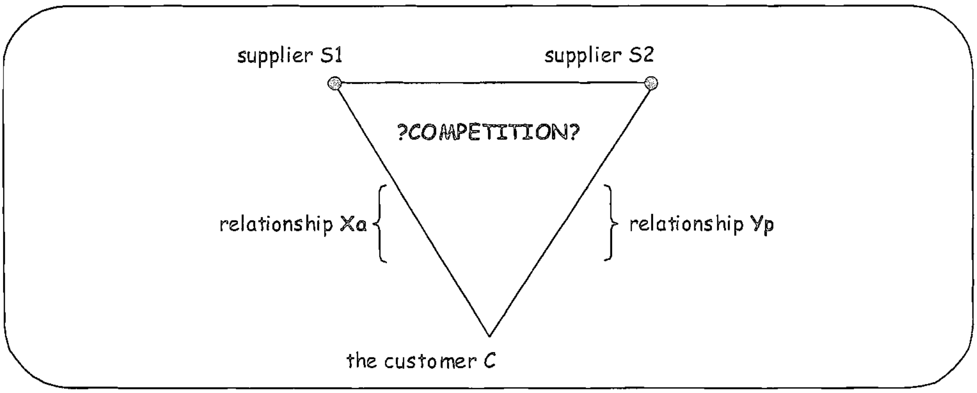

Figure VIe; The triad XaYp

This triad is without doubt the most intricate one of the three here brought forward. It features the parallelism of the actual relationship Xa where there is already economic exchange at hand and Yp where this is not the case. This latter potential relationship however puts C in the position to consider economic exchange also with S_2, eventually at the expense of that already at hand with S_1. What is intriguing is then the eventual character of competition. It will be genuinely asymmetric since only one of the ties, Xa, features a relationship in regard to which entry barriers could prevail or not. In terms of competitive threats it then follows that whereas S_2 conceives of competition only as the own opportunity of 'entering' Xa (by having Yp materialize into Ya), the situation is the opposite for S_1, party to Xa. To this actor entry barriers do not pertain to the other, but only to the own, relationship that hence runs the risk of being 'invaded' by someone else. It is hence most viable for S_1 to experience a competitive threat from S_2 once the barriers of entry into Xa are overcome. It follows that both customer alertness and social capital apply differently in the eyes of the two suppliers. This is so since social capital by definition only prevails in Xa whereas the consequences of customer alertness differs substantially between Xa and Yp.

One can then say that the applicability of the *pro aut contra* analysis to this triad is a mixture of what is recapitulated above concerning the triads XaYa and XpYp. This is so in the sense that the arguments pursued in the light of F1 and F_2 are generally applicable (as is the case with XaYa) whereas they seem to be in need of further *pro-* and *contra*-arguments for an in-depth analysis (as is the case with XpYp). Since the triad XaYp is asymmetric it follows that the impact of the arguments will differ accordingly. That is, the arguments will not apply equally to the suppliers since Xa and Yp differ in status. Consider first the *pro*-arguments in support of *the issue-expression F_1*. Here, far from surprising, the first two arguments, P_{11} and P_{21} are sufficiently general to apply to both Xa and Yp. This is however not the case with P_{31}, the 'public procurement argument'. One could thus (as with XaYa) posit that repeated acts of exchange in an actual relationship renders less valuable P_{31}. This is so since the underlying reasoning of the law posits that exchange is in fact not to be repeated with no intermediate procurement process. It still seems viable however given (as distinguished concerning XpYp) the immense impact of this argument for a potential relationship. That is, its relative contributive ability with respect to Yp by far outweighs its somewhat troubled impact on Xa. Staying with the same issue-expression but focusing the two contra-arguments C_{11} and C_{21}, both of them apply equally to both relationships (confer what is said about why also potential relationships are part of a social structure). Turning to *the issue-expression F_2* pertaining to social capital it is obvious that there is none thereof in relationship Yp. Still, all of the F_2-arguments here recapitulated, be they *pro* or *contra*, apply very much to this triad. The reason is that the very essence of F_2, relationship appropriation by way of amoral familism, gains its reason for being from the opposition of 'inside' to 'outside'. This is epitomized in XaYp. That is, the value or risk of being 'inside' here matters only as someone is 'outside'.[21] Xa and Yp then continuously mirror one another. Take for instance P_{12} (on the opportunity cost of a relationship in light of others) and C_{12}, relating how the formation of commitment implies competitiveness for the parties hereto. Even though they take on entirely opposite stances the arguments fit as nicely into the ideal-type triad XaYp. It is however also obvious that this triad lends itself to further analysis via the posing of yet an array of arguments. This stems from the intriguing manner in which the alleged two-faceted agency here scrutinized comes to the fore once an actual and a potential relationship are considered next to each other. Tentatively, such an elaborated *pro aut contra* discourse could revolve around how the intricate nature of the context of choice can be reconsidered depending on whether Xa is seen as more influential on Yp or vice versa. Something similar is viable for F_2, not to mention the balanced character of the agency itself.

viii. Analytical summary

This chapter sets out to furnish a proofability analysis of a particular agency underlying the socio-Austrian Tertius Gaudens, customer-geared competition as a social mechanism. Whereas each of the three constructs customer alertness, social capital and competition is the subject matter of preceding chapters, the paragraphs above put them together. At the heart of this endeavor lies the formulation of the two issues-expressions, F_1 and F_2. These are what renders analyzable in terms of proofability the model agency worked out earlier. These two issue-expressions assert that customer alertness is positively, and social capital is negatively, causally associated with competition. Each of them is subsequently tried out by means of a

[21]This is in fact a little bit like Simmel's argument on the value of exchange according to which an exchange is evaluated higher, the more that has to be given up in return for this exchange.

Næss-inspired *pro aut contra* analysis. This scrutiny lends substantial support for F_2 whereas the proofability of F_1 can be somewhat more disputed. Its eventual logical shortcomings aside, part of this seems to stem from the fact that customer alertness (that F_1 revolves around) is a construct in need of further elaboration before being really 'eligible' to undergo an analysis on a par with social capital.

F_1

There is a positive causal association between customer alertness and competition.

(The more two suppliers, parties to two interconnected customer relationships, perceive that the customer's context of supplier choice is transparent, the more competition they enact between themselves since they interpret the barriers to relationship entry as low.)

P11, on choice and openness to alternatives
→ 'convincingly conclusive'
P21, on mutual awareness of being a competitor
→ 'moderately conclusive'
P31, on the notion of choice and competition in Swedish procurement law
→ 'moderately conclusive'

C11, on the isolating impact of a unilateral character of choice
→ 'moderately conclusive'
C21, on the independent nature of actors within social structures
→ 'moderately conclusive'

F_2

There is a negative causal association between social capital and competition.

(The more two suppliers, parties to two interconnected customer relationships, perceive that expectations of commitment prevail within these relationships, the less competition they enact between themselves since they interpret the barriers to relationship entry as high.)

P12, on the opportunity cost of a relationship in light of potential others
→ 'convincingly conclusive'
P22, on relationship myopia subject to self-reinforcing commitment
→ 'convincingly conclusive'

C12, on how commitment entails competitive relationships
→ 'moderately conclusive'
C22, on how commitment, in parallel to competition, is endemic to markets
→ 'moderately conclusive'

Figure VIf: Analytical summary of the model agency proofability by issue-expressions F_1 and F_2

The sections above also posit that F_1 and F_2 eventually depend on each other via some sort of mutual impact. Three new issue-expressions are then brought forward and looked into. Given the guiding principles that underlie the articulation of the two explanans customer alertness and social capital there is reason to believe in a negative type of association between them. It is furthermore found that social capital most likely exerts more of a negative impact on customer alertness than the other way around. That is, the balancing effect between F_1 and F_2, then seen as they moderate each other, is discerned as the relatively more prevalent impact of social capital to the effects of customer alertness than the other way around.

After this general argument, each of the articulated three ideal-type triads, XaYa, XpYp, and

XaYp are looked into regarding the applicability of the arguments posed to each and every one of them. It is also asked whether each of the triads could in fact be properly understood by means of the arguments furthered or whether in fact others are necessary. XpYp is then not really analyzable in the realm of the model agency provided, and both this triad and XaYp are most likely in need of further in-depth scrutiny to be in the position to work out in full. In sum, whereas the arguments posited in favor of and in opposition to both of the issue-expressions jointly appear viable when at least one of the ideal-type triad relationships is actual, competition between two potential relationships facing each other can hardly be understood by means of the model furthered in this text.

ix. Two alternative issue-expressions

As is well known from an array of neoclassical studies, the formulation of a model with some power and robustness demands the explicit statement both of its underlying assumptions and relevant parameters. The same lodestar is applicable to the model articulated in this dissertation. That is, its assumptions are clearly stated and its parameters (here the constructs competition, customer alertness and social capital) are rigorously defined following extensive theoretical survey. Furthermore, a common feature of good models is also that they are not excessively rigid in the sense that they open up for alternative formulations. They can be re-articulated while keeping their core contents that render them particular in the first place. One or several of the assumptions can thus be relinquished. Or some of the parameters can be substituted. In a price-predicting economics model this typically occurs as an initial assumption of perfect information is turned into one stating that information is imperfect. That is, more knowledge can be gained by acquiring further information at a cost. Regarding the model here under scrutiny one could easily conceive of abandoned assumptions. What happens for instance if the unbalanced character of the triad is abandoned? Or, if suppliers are allowed to cooperate? Some of that will be touched upon in the successive, conclusive chapter of this dissertation. For the time being this section will bring up the idea of alternating the explanans- parameters of the model.

The explanans customer alertness and social capital that underlie the issue-expressions F_1 and F_2 are derived from the two guiding principles autonomy-embeddedness and entrepreneurship-ignorance. And, as said at the outset of this chapter, in principle the erected model could be altered both as regards how the issue-expressions come about and how the explanans themselves are formulated. That is, in the first place other causal associations could be proposed still involving the same explanans and the same explanandum. Consider for instance a proposed different causal association so that competition would also be allowed to somewhat affect customer alertness and social capital. This would of course entail some reworking of the model assumptions, but in principle it could be done. Consider then a reformulation of the explanans, still derived from the original guiding principles. Two alternatives are suggested as this chapter opens up. The scrutiny thereof is where the remainder of the section now turns.[22]

While staying on with the identical guiding principles two new explanans could be formulated when these principles are combined in a revised manner. By putting autonomy next to ignorance one tentatively gets 'atomistic striving' and by letting entrepreneurship combine with embeddedness the result is 'social entrepreneurship'.[23] To scrutinize these alternatives three fundamental questions can be posed. *Firstly*, what are the characteristics of each new construct? *Secondly*, is it viable for each of them to appear as an explanans in the model given the assumptions at hand? *Thirdly* (provided this *is* viable), which causal association is then feasible to posit as a new issue-expression when such a revised explanans is allowed to work out in the model? And, *fourthly and finally*, what is the likely outcome of a *pro aut contra* analysis then undertaken to try out the proofability of the new issue-expression? An in-depth scrutiny of these questions is far beyond the reasonable scope of this essay. But a few dense comments seem apt.

'Atomistic striving' then represents autonomy and ignorance. Whereas autonomy represents a low level of social interdependence, ignorance is obviously about staying on to what one has got and not really being open to what new opportunities might reside in the market.[24] Is there any school where atomistic striving (just like the original explanans) can find more of a theoretical pillar? Yes, there is. And the source of inspiration seems obvious. Rudimentary non-refined versions of neoclassical economics that bring forward primitive versions of economic man are what comes to mind.[25] Atomistic striving then characterizes the activity of a non-reflecting homo oeconomicus. Such a socially detached creature is preoccupied mostly with traditional rational maximization operations within a given means-ends framework. The atomistic nature of autonomy implies that social interdependence is low, not to say non-existent.[26] Social relationships are then really not an issue, but mere frictions to maximization operations. And in case the presence of such relationships are in fact recognized they appear in a most standardized manner, devoid of any personal element rendering them alive. Ignorance means that one clings to what is at hand and tries to do one's very best, *this given*. To opt for alternative solutions outside the realm of a fixed means-ends framework is simply not an option. Besides there are no real market opportunities to be discovered since the market is an equilibrium set-up where tastes, preferences et cetera are already endemic to the utility

[22]However, to also change the guiding principles would probably be a step too far. In that case it is hardly viable to relate the same model anymore.

[23]Or something else.

[24]This is commented upon in Chapter IV when the original explanans are formulated.

[25]This is *not* meant to represent neoclassical economics at large which encompasses also more advanced assumptions about humans.

[26]This is however not to represent voluntarism as 'neoclassical autonomy' works out within determinate schedules subject to the impersonal and constraining market forces of demand and supply.

function underlying the striving for maximization.[27] *Any agency of atomistic striving hardly fits as an explanans of the model.* The reason for this is obvious when the assumptions that pillar the explanatory model are considered. For one thing the composite character of competition cannot ever be accommodated, for another the market assumptions are, if not in outright opposition to one another, so close thereto. This holds in particular when social issues are considered. Economic man hardly takes others into account. In sum, atomistic striving might display valuable qualities as an explanans of competition, but it does not belong in the explanatory model erected here.

What if one instead turns towards the other combination, entrepreneurship put alongside embeddedness to form 'social entrepreneurship'? This construct is concerned with the grasping of market opportunities that actors do in concert with others. That is, it displays embedded innovative market openness. Probably either Austrian economics or economic sociology could be consulted to learn more about this construct. Still, there is an additional alternative of particular importance for this text that can be drawn upon. This is the interest devoted towards the area of *entrepreneurship* within the industrial networks tradition belonging to the 'informal governance network approach'. Therein exchange relationships between actors form an 'upper' level of governance that subsequently influences how resources are transformed and combined via activities at a subordinate level that however also provide feedback loops 'upwards'. Any market opportunity thus identified necessarily emerges in close association with others. That is, the lonely entrepreneur-hero is far away. Instead she is a most social creature that in fact exerts entrepreneurship *only* from within ties that connect herself, her resources and her activities to those of others. This *is* different from, for instance, the Misesian entrepreneur that indulges in speculation as one dimension of human action other than that of social exchange.[28] Consider for instance the manner in which Lundgren (1995) chooses to depict the coming into being of a certain type of computerized imaging technology. This technology develops only as the result of the joint efforts of actors that come closer together as the technology project evolves. And this 'closing in' is not only a facilitating agent of technology change but in fact the very factor by means of which development actually occurs. The *embeddedness* aspect of this new construct, social entrepreneurship, is as outspoken. Activities unfold only subject to the immediate social context made up of network relationships. These are characterized by closeness, adaptations et cetera. The fundamental characteristics of social entrepreneurship thus discussed, anchored in the theoretical realm of industrial network studies, seem to make it eligible as an explanans of the erected model. Social entrepreneurship could then tentatively be described as 'the

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[27]True, the somewhat extreme picture that appears is at the core of much (unwarranted) criticisms directed towards neoclassical economics claiming that it lacks the ability to handle both social interdependencies and innovation broadly conceived of (videlicet entrepreneurship).

[28]As a case in point Austrians do not, at least not overtly, really recognize any collective qualities with the entrepreneur, even though they can claim this to be implicitly presumed (confer Kirzner (1998b)).

active openness to market opportunities through the transformation of resources in concert with others'. This definition embodies what is seen as central for the industrial networks tradition in this regard with respect to its main theme, interconnected actors carrying out activities by means of combined resources. Neither of the assumptions made here in fact opposes what is stated in the explanatory model formulated in this essay. This holds both for the pure model assumptions and those pertaining to the market. If anything the characterization of human conduct as purposeful et cetera is not really an issue for industrial networks studies that do not dwell a lot in the area of competition as an analytical feature either. True, apart from some obvious common roots (in relation to the schools behind the model) this stems from the fact that the industrial networks tradition (with no pretensions to constitute a full-fledged theory) by and large miss out on the explicit statement of pillaring assumptions. Still *social entrepreneurship, theoretically anchored in this approach, is no doubt in the position to constitute a model explanans.*

This now established, which causal association seems viable to posit in relation to competition? Remember, social entrepreneurship is 'the active openness to market opportunities through the transformation of resources in concert with others'. Supposing that there *is* in fact an agency around (that is, that social entrepreneurship *has* got an impact on competition as defined in the model) there are two alternatives to choose from. Either social entrepreneurship is akin to customer alertness in positively impacting competition. Or it is on the verge of social capital thus weakening competition. There are two different paths of argument here. On the one hand it seems plausible that entrepreneurship, though carried out jointly with others, spurs the market by injecting it with new solutions. As this is a feature commonly associated with competition, the causal association sought for should be positive. On the other hand there is an alternative interpretation having it that competition is what comes together with 'static efficiency' whereas cooperation goes along with 'dynamic effectiveness', the latter of which is close to the notion of entrepreneurship (confer Lundgren (1995, p 207)). Both of these interpretations could in fact be endorsed, but then from different angles. The choice made must reasonably stem from how competition is defined in the explanatory model. *That* particular competition clearly displays much more of the former, than of the latter, interpretation. That is, when customer-geared competition implying perceived ease of relationship entry barrier permeability is to be grasped, social entrepreneurship seems, ex-ante, more likely to affect this competition positively than negatively. The reasoning then goes that by exerting social entrepreneurship within each of the two interconnected supplier relationships the customer renders each of the suppliers aware of those market opportunities that can be grasped by the transformation of common resources. Competition would then arise as the resources devoted by the customer are not abundant. They will somehow have to be managed within and between the two relationships, something then experienced by the suppliers.

Is this feasible as an agency? Tried out like the two original explanans, maybe a *pro aut contra* analysis could tell about its proofability. Imagine the formulation of an entirely new issue-expression.

F_6: *Social entrepreneurship is positively associated with competition.*

Since the association suggested is akin to that of customer alertness it seems reasonable to let it undergo the same type of analysis. This however presupposes that the bricks built upon therein are similar. This can be arranged by having the first step of the analysis, the recapitulation of *pro et contra-arguments*, appear in similar light to that of the 'original' F_1. That is, by drawing on the same kind of first-order arguments at least an idea can come forward concerning the proofability of F_6. Hence the table below followed by comments concerning the conclusiveness of each of the arguments.

ARGUMENTS	UNDERPINNINGS
F6	There is a positive causal association between social entrepreneurship and competition.
Specification	The more two suppliers, parties to two interconnected customer relationships, perceive that the customer displays an active openness regarding the transformation of resources with each of them, the more competition they enact between themselves since they interpret the barriers to relationship entry as low.
P16 (+)	The openness displayed regarding alternative solutions *within*, will naturally be interpreted as prevailing also *between*, relationships.
P26 (+)	If two suppliers, following the active openness of the customer displayed regarding development activities, are aware of one another they are more likely to perceive each other as competitors than if this is not the case.
C16 (-)	To undertake joint development activities with one supplier does not necessarily entail that this is not pursued in parallel with someone else.
C26 (-)	The social ties evolving following close cooperation in areas of development safeguards that suppliers are rather independent in relation to each other.

Table VIm: *Pro et contra*-arguments pertaining to the issue-expression F6

As seen there is some obvious similarity with the arguments posed in relation to F_1. There is however one major difference. Whereas customer alertness, while pertaining to a network structure, is relatively 'autonomous' and thus 'independent' this is not the case for social entrepreneurship. This revised explanans is more enmeshed with qualities that reside directly in the immediate social context surrounding the triad actors. It goes without saying that this is a problem, in light of the first model assumption that 'detaches' the triad from its surrounding context.

Concerning P_{16}, the first pro-argument, there is definitely some conclusiveness to it, although not on a par with what the corresponding argument of F_1, P_{11}, manages to come up with. That is, it is obvious that a customer which displays some major openness within one relationship can very well be expected to do so in general. A supplier that experiences this openness has good reason to believe that it prevails also *between* relationships although this particular supplier might not learn a lot about others. This is so, as there is a general tendency of perceiving that others know more about oneself than the other way around. Still the conclusiveness is only moderate as what is at stake here is development activities, requiring another type of closeness than the context of choice of some relevance for F_1. The second pro-argument, P_{26}, is more of a direct blueprint of the corresponding argument relating customer alertness, P_{21}. This is so as both of these first-order arguments have it that it is *awareness per se*, not the reason for this (be it transparent context of choice or 'development openness') that makes competition (as perceived absence of relationship entry barriers) come about. It is, then, but logical to judge this pro-argument pertaining to F_6 in the same manner as the original one supporting F_1. And on the same grounds. In consequence P_{26} is moderately conclusive with regard to F_6.

When it comes to the counter-arguments these are, just like the one just commented upon, really close to the ones at hand for F1. The 'original' C_{11} then has it that the choice undertaken is unilateral in character and thus not connected to choice of others. And the 'revised' C_{16} which relates social entrepreneurship says that the pursuit of development activities with one supplier must not occur at the expense of such activities with someone else. It then all comes down to the zero-sum character or not of how a customer connects to different suppliers in terms of development projects. For C_{11} it is said that horizontal conditions, following vertical focus, is something not very much commented upon by the referred theoretical sources. The same holds for this counter-argument C_{16}. If anything the tendency is even more expressed. That is, to grasp development activities as such is complex enough. To relate how these affect others is beyond the reasonable limit of understanding. This means that the emphasis of 'single sourcing' and similar is even more explicit here as the need for joint development is often what is drawn upon to legitimize the adherence to only one or a few sources of supply. C_{26}, finally, is very much akin to the reasoning of C_{16} since it also discusses the 'isolation tendencies' of social relationships. If anything these tendencies are likely to get stronger once joint innovation and similar issues are concerned. This means that the 'revised' C_{26} seems somewhat stronger than the original one, C_{21}. That is, accepting C_{26} makes the rejection of F_6 even more reasonable than what it is to reject F_1 in the light of an accepted C_{21}. In sum, these two counter-arguments appear *as* relatively strong as their predecessors. They are 'moderately conclusive'.

To conclude, social entrepreneurship seems to display less proofability than customer alertness, as regards its alleged positive impact (following F6) on competition. This idea follows from a section where first social entrepreneurship and atomistic striving are generated as two new explanans for the model. Whereas the latter is the combination of autonomy and ignorance, social entrepreneurship is made up of embeddedness and entrepreneurship. Atomistic striving, akin to the function of a primitive neoclassical economic man, is hardly an imaginable feature of the model following from the incompatibility of underlying assumptions. This is not the case for social entrepreneurship, then finding its theoretical abode in the interest devoted to entrepreneurship within the industrial networks tradition. Its alleged agency positively impacting competition cannot be proved by means of a brief *pro aut contra* reasoning pursued. Trivial as this may seem at first glance the discussion, however inconclusive and very much in the inductive, still illuminates some of the alternative ways of reasoning that could emanate from the model.

x. Some further support for the main argument pursued

If anything, the coming into being of an explanation of competition in the above vein is reminiscent of Chamberlin's work on monopolistic competition. Therein he argues in favor of competition as a two-faceted 'imperfect' construct pillared by on the one hand 'pure competition' and on the other 'monopoly' (Chamberlin (1969 (1933)). That is, competition is a 'balanced' outcome of two market forces working out in opposite directions. A similar idea lies at the heart of the model here rendered complete by the formulation of issue-expressions that posits customer alertness and social capital 'against' one another thus explaining competition. That is, the socio-Austrian Tertius Gaudens. In this way the two explanans also jointly display the coexistence of dynamic and stable market features in the understanding of competition. They furthermore together epitomize the two dimensions of human action as identified by Mises (1963 (1949)) wherein (relatively stable) social exchange and (relatively dynamic) entrepreneurship complement one another in the understanding of markets.

There is furthermore no doubt that there is some support to be found concerning the here alleged negative causal association between (vertical) social capital and (horizontal) competition also in part of the mainstream economics argument. The most explicit discourse in this vein seems to be that of new institutional economics wherein there is a case made for the role of transactor-specific investments for the ease of partner switch. This is interesting as it is very much akin to the argument on social capital made above, but judged from entirely different pillars. Demsetz (1992, p 25) hence brings forward the way in which 'transactor specificity' in terms of 'cooperatively committed exchange' reaches out in terms of anti-competitive impact.

> *Difficulty in turning to others increases the probability that present parties to a cooperative arrangement will attempt to take advantage of each other if the future unfolds in a way that makes this possible. ... Competition* [thus] *loses some of its disciplining force because transactor-specific assets* [such as site-, physical asset-, human asset- and dedicated asset-specificity] *suffer a reduction in their value if new transactors are turned to in substitution for those for whom the assets were designed. .... The entering into a contractual arrangement requiring transactor-specific assets entails, in the words of Williamson, a "fundamental transformation" from a potentially highly competitive precontractural situation to a post-contractual situation tinged with bilateral monopoly characteristics. The bilateral monopoly problem is more severe the more important transactor-specific assets are to low cost production.*

What this in essence comes down to is the idea of appropriation thus framed by Weber and related in some depth above. That is, appropriation is a concept that, via the construct of social capital, most succinctly embodies the understanding of customer-geared competition in this thesis, both theoretically and analytically following the *pro aut contra* analysis of above. In addition it is at least in part akin to some of the alternative paths taken by economics. Why is it, then, that appropriation occupies such a prominent position in this discourse? The reason appears clearly as once again reference is made to the intriguing manner in which ideas of the market and competition respectively interfere with each other. As markets here are conceived of as webs of interconnected exchange relationships it is then but logical that appropriation stands out in the above manner.

The reason is that appropriation, embodied in the downside of social capital in the light of competition, by itself entails the closure of market relationships for which competition in a markets-as-networks context takes place. That is, appropriation, the monopolization of network market opportunities, does away with the very sine qua non of the objective of network competition, the relationship.

This furthermore occurs via the prevalence of amoral familism, a concept that renders intelligent the manner in which appropriation works out in the ideal-type context of two (interconnected) parallel customer-supplier relationships here scrutinized. So, while appropriation refers to the closure of market opportunities residing within relationships, amoral familism is the general social principle devoid of which appropriation cannot be.

> *As important as the exchanges which are pursued are the exchanges which are abdicated since it is only through both that the structure of the market is enacted. ... [T]he embeddedness of action in social relations prevents contact between a producer and a consumer which could potentially change the latter's opinion of the former. If a low status producer's good is not even considered as a reasonable substitute for those perceived to be of high quality, purchasers of higher quality products will most likely remain unaware of any changes in the good because of lack of contact, and they will continue to perceive it as low quality. Conversely, loyal purchasers of a high status producer's product may not become aware of a relative decline in quality if they do not compare it with the array of products which confront them in the market. ... Thus, one way that social relations or social networks contribute to the linkage between status and quality is by serving as access constraints, inhibiting contacts which could potentially alter perceptions by bringing them into conformance with changes in the underlying quality of products. In short, social networks engender inertial tendencies in buying behavior.*[29]

The thus underlying social principle of amoral familism then epitomizes the manner in which the downside of social capital, following the appropriation of incumbents to a relationship, curtails competition. That is, there is an 'opportunity cost' of social capital here. What is beneficial from one perspective is not so from another. This inheres very much in the public

[29]Podolny (1991, pp 110, 26-27, in part referred also earlier)

good character of social capital. The foremost example thereof already accounted for is that of the 'conspiracies against the public' brought forward within the realm of immigration studies by Portes and Sensenbrenner (1993). This situation is mirrored in the ideal-type triad XaYp where the prevalence of social capital in one actual customer-supplier relationship stays on at the expense of another potential ditto that cannot come true following appropriation via amoral familism. As noted, this argument tells that some actors (African American contractors in New York City) are excluded from private construction projects. 'Not playing golf' is one of the explanations, not having been awarded a contract before is another. That is, not having *already* a relationship with the potential customer is, to the African American contractor, equivalent of not really *ever* being eligible for a contract. And how could you then ever be awarded the second one?

Incumbents thus appropriate the exchange opportunities inhering in construction projects undertaken in New York City. That is, relationships prevailing between customers (building proprietors-to-be) and suppliers (Caucasian American contractors) preclude other suppliers from submitting their bids and hence to get the business. It should then be noted that appropriation as such is seen as the presence of both structural and substantial social capital. That is, if there is only a 'cold' arms-length relationship in place there is hardly any commitment present. And hence appropriation, implying negative social capital to outsiders, cannot be discerned. So, the prevalence of actual relationships that harm potential dittos is a distinct downside feature of social capital. *One set-up of relationships with certain properties impedes another from emerging.* In this example, the social capital present (= the relationships imbued with historically erected commitment) is clearly negative to the African American contractor and mostly positive to the contractor getting the contracts and the customer. Must that always be so? Of course not. There is plenty of ambiguity around. It might be that the customer in the example above feels locked-in and would want to go for another kind of supplier, something not done given the social capital at hand. It might also be (even though less likely) that the supplier feels locked-in and would prefer not to serve a particular longstanding customer as there might be more money around elsewhere. That is, what at the outset may seem as positive social capital to someone might not always be that. The construction industry seems, it can be added, really a case in point. This is so since even though works are project-related, there are still relationships around that are not easily broken (confer Eccles (1981) on The Quasifirm in the Construction Industry). Blois (1972) refers to this phenomenon as 'vertical quasi-integration'. And pushing the argument even further, gaining some inspiration from Ahrne (1994, p 92), one might even talk about tight relationships as making up 'quasi-organizations' subject to both the centripetal and centrifugal forces also found within 'real' organizations.

As this chapter is now drawing to a close so is also the scrutiny of the explanatory model of customer-geared competition as a social mechanism, the socio-Austrian Tertius Gaudens, formulated in this essay. Whereas the fundamental bricks of the model are essentially in place since earlier, this chapter starts out by turning the general model agency of customer alertness and social capital into a specific agency. This is the precise manner in which the causal association between these two explanans and the explanandum (competition) comes about. The very last pillars of the model are thus brought into the light as the two 'issue-expressions', F_1 on customer alertness, and F_2 on social capital. Whereas the former posits a positive, the latter suggests a negative, causal association between the respective explanans and competition. This is the specific agency endemic to the explanatory model formulated - the socio-Austrian Tertius Gaudens - customer-geared competition as a social mechanism. The mechanism is then the precise nature of the causal association suggested by the model. This model agency is subsequently tried out regarding its proofability by means of a pro aut contra analysis. Therein each of the two issue-expressions is analyzed by means of arguments in support and in opposition thereof. The analytical outcome is that there is some support for F_1 relating customer alertness, and considerable support for F_2. That is, whereas customer alertness displays distinct signs of being positively associated with competition, there is more of convincing proof at hand concerning that the negative causal association posited between social capital and competition does in fact prevail. Thereafter the eventual mutual dependence prevailing between the two model explanans is looked into. After a brief discussion it is then concluded that such a dependence is most likely at hand and that there is reason to believe that social capital exerts more influence on customer alertness than the other way around. A concise scrutiny is also provided regarding how the statuses of the two interconnected relationships in the ideal-type triad endemic to the model impact the analytical outcome arrived at by means of the pro aut contra analysis. It is then found that, because of its definition of social capital, the model is not very well equipped to handle the case of two potential relationships where economic exchange is not already at hand. This is not a problem once two actual or one actual and one potential relationship(s) are brought to coincide. The chapter also tries out two alternative explanans that are arrived at by an alternation of the manner in which the two guiding principles, underlying the formulation of explanans, combine. 'Atomistic striving', a potential explanans arrived at via the combination of autonomy and ignorance, is found to be a non-viable alternative following its obvious homo oeconomicus characteristics. This is not the case for 'social entrepreneurship', the combination of embeddedness and entrepreneurship that however does not display any proofability once tried out by means of pro aut contra in light of a suggested positive impact on competition. The chapter concludes by providing yet more proof for its main analytical outcome, the negative causal association seemingly prevailing between social capital and competition. In the final chapter of this block now to follow, what is learned from the model will instead be relied upon in order to scrutinize something else, this time some aspects of the Swedish antitrust legal framework.

VII. SOME ASPECTS OF SWEDISH ANTITRUST LAW

In the last chapter the formulated explanatory model is tried out by means of a pro aut contra analysis. The model thus provides some theory-generated analytical understanding of customer-geared competition. As this insight is at hand it is time to illustrate the earlier reasoning by some empirical facts. As argued this is not done in order to test the model, or to scrutinize any empirical data in depth regarding its eventual 'goodness-of-fit'. Instead what will come forward is an illustration by means of some aspects of Swedish antitrust legislation. The chapter however opens up with some market data provided by a report on the Swedish mobile telecommunications market. Thereafter the argument of Simmel's (on competition as indirect) will be put to contrast antitrust law in general, something followed by a survey of Swedish development in the area. The key illustration then follows, as one particular element of Swedish antitrust law is looked into, article 19 of the Competition Act banning abuse of dominant position. This is done by scrutinizing the manner in which the customer appears in preparatory works, in the letter of the law itself, and in a legal case concerning procurement of regional railway services. A crucial aspect here will be the differences which prevail between an 'active' and a 'passive' customer - Tertius Gaudens. Whereas the first of these implies that agency and outcome of competition are interconnected, this is not the case for its passive counterpart. It will then be shown that the legal aspects looked into are mostly void of an active Tertius. It is argued that this could constitute a true weakness since to overlook the active Tertius might imply that sources of competition are in fact underutilized. This shortcoming seems however less alarming as some recent official statements, in essence endorsing more of an active Tertius, are recapitulated. In practice, it is then concluded, a policy which promotes the active Tertius might come forward as a closer integration of competition and consumer policies on the one hand, and antitrust law and the philosophy which pillars the Public Procurement Act on the other.

i. An introductory case, the Swedish market for mobile telecommunication services

As alluded to by Monti (2000b) there seems to be a 'so-called new economy' underway, the eventual further emergence of which allegedly will be subject to the impact of adopted competition policies.[1] That is, there is a legal policy impact on how markets develop in this regard. As a case in point, consider the Swedish market for mobile telecommunication services that by any means (such as general societal impact of the specific technology thus accessed and relative international market maturity) must be labeled one of the icons of whatever is meant by the 'so-called new economy'. According to a report prepared by the relevant Swedish authorities, *Post- och Telestyrelsen* (The Swedish National Post and Telecom Agency), *Konsumentverket* (The Swedish Consumer Agency), and *Konkurrensverket* (The Swedish Competition Authority) competition does not work out very well in this market (Konkurrensverket (1999a)). Why is that and what could be the remedy, provided competition is seen as desirable?

The report has it that a) similar pricing policies, b) the inertia of downward pricing tendencies despite tangible market growth and in the light of the situation in comparable (Nordic)

[1] 'Competition law / legislation' and 'antitrust law / legislation' will here be used interchangeably.

countries, and c) the distinct profitability of the main operators, together prove that there is a considerable potential for improved competition in the Swedish market for mobile telecommunication services. This holds in particular for 'actual' customers that already make use of these services. 'Potential' customers that do not have a mobile phone seem to suffer a bit less from these shortcomings. As an overall effect, with particular impact in the case of Sweden where there is already a high penetration of mobile communication use, consumers are allegedly charged too high prices for their use of these telecommunication facilities.[2] The reason for this unsatisfactory situation is said to result from an array of factors, the most prominent of which are the pricing of communication network co-traffic, the conditions of the consumer contracts and, to some extent, the oligopolistic market structure.[3] While leaving the purely structural aspect aside, the report focuses the manner in which customers, following the contract conditions and the co-traffic arrangements, are kept in the dark and thus deprived of any ability of impacting competition in a desirable direction by means of their own choice of mobile telecommunication operator. That is, *mobile telecommunication customers are 'pinioned' by the operators and hence not in the position to exert any competitive impact*, the report argues. There are said to prevail four main reasons for this.

1. The co-traffic arrangements (the conditions that stipulate how much the operators have to pay when they use each other's nets), making up a major part of the consumer's actual cost of using mobile telecommunication services, are simply not subject to any competitive pressure at all. This is so since a customer hardly selects operator on the grounds of what is charged for calling *to*, but only *from*, a chosen operator's communication network. That is, when someone ponders on which operator to subscribe to this decision is mostly based on the cost of exiting the 'own' network, not that of other callers accessing this network, something which however impacts the overall prices charged a lot.

2. Consumers in general miss out on information regarding the ability to compare the de facto net costs of subscribing to the services of one operator and not to that of another. This is striking in particular as the supply of services has become more differentiated during the last five years. Contract conditions are then not really transparent as they constitute a true 'jungle' of impermeable pricing options concerning, among an array of things, when and how much a consumer makes use of the communication services provided. 'The contemporary supply of mobile telecommunication services requires that the consumer is in the position first to be oriented and to become informed regarding the

[2]The results obtained are allegedly checked for the impact of the subvention of mobile phones themselves which obviously is endemic to the pricing of the services.

[3]Additional cases in point are the non-transferability of mobile phone numbers, the signing-up fees for new contracts and the three main operators' very pale interest in letting other suppliers use their communication network infrastructure.

offers at hand, and then to be able to predict one's own calling conduct in a correct and precise manner' (Konkurrensverket (1999a, p 18, authors' translation)).[4]

3. The contract conditions generally state that a consumer is not allowed to change operator during the course of the contract that mostly involves some kind of fixed monthly contractual fee. That is, during the contract period the consumer is 'locked in' and practically devoid of any ability to change service supplier, something thus 'isolating' one operator from the other in the eyes of the customer. This is seen as particularly alarming in light of the longevity of some contracts.

4. By switching from one operator to another a customer generally has to give up the 'pool' of service time accumulated. That is, by subscribing to a fixed monthly contract, the fee charged entails the provision of 'free' call time arrangements. The pool of call time is then made up of the unused services that is paid for by the stipulated contract. By not being able to transfer an accumulated pool of call time between operators there is hence less incentive to change suppliers since the opportunity cost of doing so will be considerable. In consequence consumers tend to stay on with the original operator following this anti-switch mechanism that together with the aforementioned one thus makes it difficult for an operator to attract customers between themselves. There is hence no real reason to cut prices to win over customers from someone else since the costs they have to incur to switch suppliers are considerable.

The measures suggested for coming to grips with these market deficiencies follow closely the four recapitulated reasons for the weak prevalence of competition. That is, by allowing consumers to transfer their call pools between operators, by shortening the contract periods, by supplying the customers with more accessible and comparable price information, and by forcing down the prices charged between operators for co-traffic, there seem to be conditions in place that could foster competition on the Swedish market for mobile telecommunication services.[5] As seen, with the exception of co-traffic costs, the remaining three remedies all reside with the consumer, once in the position to exert any impact. That is, by being informed and by not being pinioned by contract clauses the consumer will be in the position to invoke competition between suppliers to an extent not known of today. This, it is argued, might eventually result in the lowering of prices thus benefiting customers at large. That is, *competition between mobile telecommunication operators will then be unhampered in the*

[4]For steps taken in this direction, confer the case of Denmark where the competition authority, *Konkurrencestyrelsen*, distributes informative brochures to consumers on a regular basis such as '*Hallo, hallo – ved du hvad du får?*' ('Hallo, hallo, do you know what you get?') and '*Hallo, hallo – ved du hvad det koster?*' ('Hallo, hallo – do you know how much it costs?') (Konkurrensverket (1999a, p 50)).

[5]True, the prevalence of so-called prepaid SIM-cards to a certain extent weakens some of the tying-in effects accounted for. Still, the holding of such cards demands an initial contractual fee that cannot be recaptured if one decides to change from one operator's SIM-card to another's.

sense that it will be subject to direct customer impact, the consumer thus arriving in the beneficial position of Simmel's active Tertius Gaudens.

> *From the survey undertaken it is obvious that consumers are not particularly active in their search for more advantageous mobile telecommunication services contracts. In our opinion this might in part stem from the fact that there does not prevail enough of transparency on the mobile telecommunication market so that consumers are in the position to discern differences and thereby to experience enough incentives to mobilize efforts to look out for (supplier) alternatives. ... There is* [however] *reason to believe that it is difficult to make the customer actively look out for cheaper services as long as the differences between the offers of the net operators are not more tangible than what is the case today. By improved information and an increased number of actors it is reasonable to expect that market competition will increase. In consequence also prices will be lowered.*[6]

This a view presented in the report by the relevant Swedish authorities constitutes a strong support for the view endorsed in this dissertation of competition as a customer-induced phenomenon. It remains to be seen in the rest of this chapter whether there is in fact any advocacy for this position of the three authorities also in the Swedish antitrust framework.

ii. The why and how of this chapter

Judging from the specific example above there should hence be some relevance of this thesis' position as manifest in the formulated explanatory model. More of a general empirical discourse can be discerned if one turns to the legal framework which is in place in order to secure the kind of societal benefits alluded to by the above report. That is, by looking into Swedish antitrust legislation it will be possible to scrutinize whether the case for customer-geared competition, as obviously endorsed by the authority report, can in fact be distinguished in the formal institutional framework that is in place to promote competition. This should be of some interest for the applicability of the ideas furthered in this dissertation.

Since this chapter appears 'only' as an empirical *illustration* of the thesis' theoretical argument, it would be far beyond its reasonable aspirations to supply an in-depth scrutiny of competition law at large in this regard. What is to appear below is instead the illumination of some highly selective parts of Swedish antitrust law in light of this thesis' claims. In short these ideas can be formulated in accordance with the posing of two questions which pertain to antitrust law.

1. Is the customer, as a consumer or otherwise, referred to at all, in the applicable instances of law?
2. Is the customer, as a consumer or otherwise, referred to as an agent, and not only as a beneficiary of competition, in the applicable instances of law?

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[6]Konkurrensverket (1999a, p 46, author's translation)

Prevailing competition law can furthermore be discerned at three 'levels', each of which can then be looked into via the questions above. A) The preparatory works. B) The letter of the law itself with appropriate comments. C) A legal case. That is, one can then envisage a certain relation between ideas of customer-geared competition, questions '1-2', and instances of law 'A-B-C' where each of the two questions can be 'answered' at three different 'levels of law'.

Not even this a highly selective aim can however be accomplished unless its scope, in terms of which particular aspects of law to cover, is properly delimited. As will be learned from below, the relevant legislation centers around three major themes, a) collusion that restricts competition, b) the abuse of a dominant position, and c) the control of market concentrations. It then seems plausible to let the division between these three constitute a feasible ground for delimitation in the effort to follow. In principle each of the themes could probably be drawn upon for the illustrative purpose here aimed at, but only one will be discussed, that found in article 82 of the EC Treaty (formerly article 86 of the Rome Treaty) concerning the abuse of dominant position. The major reason for choosing this particular theme is that a) it is slightly more 'vertical' in character than article 81 is (that deals mostly with horizontal cooperation) and b) it forms the ground for the rules which penetrate market concentration matters.[7] In addition article 82 seems slightly more 'straightforward' than article 81 which controls cooperation agreements. This is so since this latter article is in practice somewhat moderated following the possibility of exceptions, something never granted when it comes to violation of article 82. This very article is also of particular relevance for this thesis since it entails a discussion of market identification through its discourse on the 'relevant market' (in relation to which eventual dominance and abuse are to be estimated).[8] In sum, the sections to follow below mostly revolve around the particular aspect of Swedish antitrust legislation that is derived from article 82 of the European Community treaty on the abuse of dominant position. That is what will be commented upon in the format sketched above where two questions which reflect the perspective on competition taken on in this thesis will be mirrored in three elements of law, preparatory works, the commented wording of the law, and a legal case arising from here. Issues pertaining to the legal system of sanctions and the procedural instances at work to monitor and apply the law will be commented upon only in passing in this chapter.

The chapter will unfold as follows. First the founding father of the particular competition idea here pursued, Georg Simmel, will be allowed to comment upon how he sees the way in which his notion of competition as indirect connects to society's view of competition through

[7]As commented upon by Korah (1997, pp 4-5) the regulation 4064/89 on concentration control has got a preventive function with respect to article 82 on the abuse of dominant position. That is, by being able to control mergers, competition law can curtail the risk of later abuse according to article 82.

[8]The 'relevant market'-issue matters also for article 81 but it is yet even more central to the abuse of dominant position.

competition law. Once this 'philosophical' fundament is in place the text will turn to a brief overview regarding the roots and fundamental contents of contemporary Swedish antitrust legislation. Apart from its national precedents this recapitulation will obviously relate some of the United States and European law in the area as well. Thereafter the truly analytical section of this chapter follows as the two questions foreshadowed above (originating in the ideas of Simmel) are put to contrast the way in which abuse of dominant position is brought up by Swedish antitrust law. Of particular importance here is the legal framework's working out in practice via a legal case, *Statens Järnvägar* (The Swedish State Railways) versus *Konkurrensverket* (The Swedish Competition Authority) (MD 2000:2, Marknadsdomstolen (2000)) that is processed by the Market Court (the highest relevant legal instance). The chapter then closes with a summary account where, in addition, some general comments appear. A few policy implications of the reasoning pursued are also provided.

iii. Simmel's perspective on competition law

As elaborated at some length in previous chapters there are a few distinct characteristics that set Simmel apart from most others who try to come to grips with competition. The most prominent of these, constituting the very sine qua non of this essay, is the seeing of competition as an indirect form of conflict, the control of which lays outside the parties to such a conflict. This means that the *subjective* striving of competitors is tied to the *objective* outcome for others, that the aim of competitors necessarily must be to benefit whoever is in control of the competitive conflict and that the eventual success of one competitor is very much tied to that of its rival. A natural consequence for Simmel is then to pinpoint what characterizes the controlling party to a competitive conflict. This is the 'third' who benefits from competition and for the favors of whom competitors oppose each other. This 'third' says Simmel, is Tertius Gaudens, the intrusive party thus gaining from the disunion of the two. This embodies the manner in which 'subjective striving' and 'objective outcome' are interrelated. As for the identity of this third party Simmel has it that once economic issues are at stake 'the third party is the consumer' and '[o]n the largest scale, the tertius gaudens is represented by the buying public' (Simmel (1955 (1908), pp 77, 1950 (1908), p 156)). Tertius can furthermore appear in either of two guises, as passive or active, the fundamental difference of which should be clear. In the former case benefits are enjoyed with little or no own active engagement whereas such efforts are in fact typical for the latter.

To Simmel this framing of competition as indirect, and its emphasis of Tertius, is most apt when the role of competition law in general is commented upon. That is, *competition must necessarily be understood in this particular manner if the spirit of the law thus fostering competition - as it benefits consumers / the buying public at large - is to be justified.* In consequence some types of conflict, not having these desired properties, are deemed unlawful.

> *[T]hese laws wish to eliminate from competition what is not competition in the social sense. For, competition in the social sense is a conflict which is fought out by means of objective accomplishments benefiting third parties. ... What the law designates as "honest" competition turns out, on careful analysis, always to be what corresponds to that pure conception of competition itself. ... Thus even the specific legal restrictions concerning competitive means reveal themselves to be, precisely, the restriction of those restrictions which competition suffers from purely subjective, individualistic practices.*[9]

Under the wording of the law, says Simmel, competitive means are thus 'restricted' 'without affecting the continuation of competition itself'. That is, competition has to be 'fostered' in a most deliberate manner so as to curb the evil risks residing therein without however suffocating the obvious net gains thereof to society. Or, *by taming the subjective elements thereof, the objective beneficial properties of competition are ascertained.* This a reasoning, Simmel has it, cannot ever be viable in case competition is not interpreted as indirect. This is not to say that competition does not entail the 'ruining' of some actors in the process, those losing out from competitive defeat. But their misery is only a byproduct, their wellbeing has to be sacrificed in order for society at large to enjoy the benefits of competitive rivalry. This stems, says Simmel (1955 (1908), p 79) from 'the social-utilitarian reason that society does not want to give up the advantage which accrues to it from competition and which greatly outweighs the loss it suffers from the occasional destruction of individuals by the competitive struggle'.

> *Society does not allow an individual to harm another directly and only to the harmer's benefit. It permits such harm, however, when it occurs while producing an objective result which is valuable to an indeterminable number of individuals.*[10]

Simmel (1955 (1908), pp 80-81) goes on to ascertain that in the interest of the general public (thus benefiting from the workings of competition) it is at times paramount to protect competitors from each other. That is, not only consumers, but also competitors vis-à-vis one another, deserve to be safeguarded by the word of law.

Simmel hence has it that his own view of competition, with public at large as the 'third' benefiting Tertius Gaudens, lies at the heart of the idea of competition legislation. This formal institution then serves to foster competition in the spirit of Weber, something that might also entail the ruining of some competitors and the protection of some others. Both these events are however accepted by the law as they ultimately serve the interest of consumers at large.

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[9]Simmel (1955 (1908), pp 82-83)). The correspondence of competition in this 'social sense' to the argument of Weber, among other things seeing competition as a socially peaceful form of conflict is obvious. 'The term "peaceful" conflict will be applied to cases in which actual physical violence is not employed. A peaceful conflict is "competition" insofar as it consists in a formally peaceful attempt to attain control over opportunities and advantages which are also desired by others. A competitive process is "regulated" competition to the extent that its ends and means are oriented to an order' (Weber (1968 (1922), p 38)).

[10]Simmel (1955 (1908), p 80)

iv. The roots of antitrust legislation[11]

Antitrust legislation stands out in comparison to most other elements of contemporary law in that it is a relatively recent phenomenon with no counterpart in ancient Roman law. Just like sections of family law it is more orienting than precise in character than what most other parts of Western legislation are. In consequence it experiences a progressive and at times rather drastic development during the last 100 years or so. Prior hereto the working out of Western national economies only displays scattered formal rules such as some bans on price cartels, but with no overarching coherent legal framework. Even this limited regulation is however curtailed in the mid-19th century as the principle of 'freedom of business activity' gains ground. The lodestar now is freedom of contract, a principle working out amidst a complex network of agreements involving for instance the commercial privileges bestowed upon guilds and similar. That is, business *itself* is seen as the main surety for the functioning of markets. Authority intervention is then mainly limited to the gathering and distribution of information with respect to individual company conduct.

All this is to change with the advent of the maturing industrial revolution in the 19th century in relation to which it is being recognized that restraints to competition must be regulated in order for the expanding market economies to work out as intended. Nowhere is this more transparent than in the United States where the coming into being of giant business corporations is one of the major reasons for the framing of federal antitrust legislation.[12] Ever since the passing of the Sherman Act in 1890 American competition policy, with its distinct emphasis of prohibition-via-sanctions of harmful behavior, has served as a role model for most other Western legal frameworks, something pertaining in particular from the 1950s and onwards.[13] That is, given the brief history of competition law it is but natural that the United States plays an influential role also for other economies in this regard. A distinct exception is the small Nordic economies, the legal frameworks of which for a long time are guided more by the principle of abuse, than the principle of prohibition. This 'Nordic' principle has it that authorities may interfere with restraints on competition only in observed individual cases whereas misconduct that is not noticed is still valid according to civil law despite its de facto

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[11]This section draws, where otherwise not stated differently, on Carlsson et al (1995, pp 21-22), Bernitz (1996, pp 16-20), Konkurrensverket (1998a, pp 7-10, 1999b, pp 9-12),

[12]'[United States] antitrust legislation is part of "the American heritage" and constitutes a central part of the American legal system, mostly as a fundamental constitution for business' (Bernitz (1996, p 17, author's translation)). This a central position is then something rendering its relative impact more tangible in the US than in most other countries.

[13]The Sherman Act states that '... every contract, combination ..., or conspiracy, in restraint of trade or commerce among the several States, or with foreign nations, is hereby declared to be illegal' (referred in Bernitz (1996, p 17)). The practical application of the Act is however also guided by the so-called *rule of reason* meaning that minor restraints on trade might be allowed in the individual case, but no one is in the position to obtain such an exception on beforehand from authorities. There is then an explicit spirit of threat in this legislation (dating back to older legal practice) that hence encompasses both the risk for defendants to incur heavy damages, and the forced breaking-up of companies. This latter option is closely associated with the Fate of the Standard Oil corporation in early 20th century and also lies at the heart of the present-day case United States vs Microsoft Corporation.

constituting impediments to competition. To take authoritative action is then foremost to affect what might prevail in the future. The other principle (of abuse), which characterizes US antitrust legislation, says that certain business behavior that harms competition is unlawful and hence prohibited. It is backward-looking in its punishment of already committed breaches of law. This function depends significantly on the authorities' ability to monitor misconduct and to bring it to court where it can be deemed invalid according to civil law and where tangible sanctions can be imposed in the form of liability for damages. This 'American' principle, hence most influential also on an international level, is also embodied in the Clayton and Federal Trade Commission Acts (appearing in 1914 and treating the control of mergers and the formation of a federal authority for monitoring and enforcement purposes) and the Robinson-Patman Act (of 1936, discussing various vertical restraints on competition, for instance price discrimination).

If any one issue in particular is to be focused concerning the de facto development of US legislation in the area it seems wise, following Hovenkamp (1994, pp 48-77), to scrutinize the identity of the antitrust beneficiary. For whom are the rules formulated and applied? What is to be protected from the evil of competition restraint? Is it economic efficiency *per se* following from the size of production, consumer welfare at large, or small businesses?

Hovenkamp says that the emphases change over the years in a manner that is not always easy to grasp in retrospect. In the discussion which precedes the passing of the Sherman Act there prevails the opinion that consumer welfare, with legislation as a wealth redistributing body, is one of the major concerns. But it is also possible to trace interest to pure efficiency as such. This means that the presence of large corporations is accepted as their sheer size makes consumers pay less for individual products. In the former case consumer interests are *directly* taken into account whereas this is only *indirectly* so in the latter. Such views (somewhat troubling as the notion of economic and hence distributive efficiency is not really theoretically mature prior to 1890) are however opposed by the fact that Congress of the time seems much more preoccupied with the well-being of small business than anything else. This is a tendency discerned also in the earliest enforcements of the law where cartels and trusts are targeted. 'The trend in the legislative history does not necessarily undermine a general antirust goal of improving allocative efficiency. ... Nevertheless, Congress' "regression" on the matter of efficiency and consumer welfare is hard to ignore' (Hovenkamp (1994, p 50)). That is, those who suffer from the emergence of giant corporations at the time are entrepreneurs from within small business, and their totality is also strong enough to exert considerable power on the legislative bodies. They are thus protected, claims Hovenkamp, since they embody the American dream of people freeing themselves from what others (employers et cetera) have imposed upon them. The passing of the Clayton Act, that encompasses for instance a more forceful stance towards the condemnation of mergers, seems to constitute an additional step in this direction. This path is followed also by the coming into being of the Robinson-Patman Act and the (Celler-Kefauver) Clayton Acts amendments , all of which are in force from the 1950s and onwards.

> *With* ... [the Robinson-Patman] *statue, the government enforcement agencies embarked on the highly anticompetitive policy of trying to protect small business from more efficient, larger firms.* ... [And with the passing of the Celler-Kefauver amendments to the Clayton Act] *concern with market imperfections* [and not consumer welfare] *had become the most pronounced feature of antitrust policy. ... The culmination of this thinking was a 1960s antitrust policy that was openly hostile toward innovation and large scale development, and a zealous protector of the right of small business to operate independently. ... It was particularly hostile toward innovation in distribution systems that tended to replace small, independent entrepreneurs.*[14]

Critical as he thus seems towards this praise for small businesses in general Hovenkamp (1994, p 76) however recognizes the ambiguity which inheres in the pinpointing of consumer welfare. His argument goes that this dictum holds as an overall legislative purpose but is more in the dark once it is to be the actual outcome of antitrust policy. He traces part of this opaqueness to the fact that the principle is asymmetric with regard to economic efficiency and / or small businesses concerns. This is so since it revolves around the idea that all of us are consumers and the target of consumer welfare then becomes the wellbeing of all, a rather loose, though appetizing, concept.

> [The] *competing values* [of antitrust policy] *include maximization of consumer wealth, protection of small business from larger competitors, protection of easy entry into business, concern about large accumulations of economic or political power, prevention of the impersonality or "facelessness" of giant corporations, encouragement of morality or "fairness" in business practice, and perhaps some others. ... All these alternative goals can be inconsistent with the economic goals of maximizing allocative and productive efficiency. ... Antitrust could reasonably be expected to balance a policy of low consumer prices against a policy of protecting small businesses from larger competitors, and choose different policies to win in different cases. ... The history of American antitrust is* [however] *strewn with the corpses of small businesses who fell victim to antitrust rules designed to protect them.*[15]

As hinted at above the case of Sweden, until rather recently, is much different from that seen in American antitrust legislation. It is not until the mid-1920s that authorities have the formal right to scrutinize companies or associations of companies which hold dominant market positions. These rules however do entail only limited action against any abuse found and they have only marginal practical impact. The authorities become more proactive only some twenty years later as the first actual act on competition is passed, this time however only dealing with surveillance issues tied to suspected restraint of competition. From now on it becomes possible to undertake outright surveys in the area to gather information and a

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[14]Hovenkamp (1994, pp 58, 59)
[15]Hovenkamp (1994, p 72)

register on cartels is also introduced. In 1953 the first Swedish law on competition, the Restraint on Competition Act, is passed, thus formalizing and expanding considerably upon prior works in the area. The ruling principle then says that when individual cases of abuse are identified these are to be dispensed with via *negotiation* with the thus unlawful party. Furthermore, for the very first time two different *prohibitions* tied to sanctions come forward. The first of these, a ban on resale price maintenance, has it that a reseller cannot be 'tied up' by the supplier in its own customer pricing decisions. A reseller-customer must, then, always be in the position to enjoy pricing freedom with respect to its suppliers. The second prohibition is a ban on bidding cartels, something which implies that suppliers are not allowed to collaborate when submitting bids to customers. This law is subsequently reworked and results some 30 years later in the Competition Act, a law holding on to the former rules but complementing them by also encompassing the option of control concerning company acquisitions that eventually can be deemed unlawful. This law is also characterized by its intent regarding the promotion of socially 'efficient', and not 'perfect', competition. The implication thereof is that some restraints to competition, as long as they are not explicitly harming, are not only lawful but also desirable. This follows from a general clause which favors business efficiency and the price mechanism in general and the businesses of others in particular together with the aforementioned bans on resale price maintenance, and bidding cartels. The earlier negotiation and the publicity principles still apply. In 1993, finally, Sweden gets a new and totally revised Competition Act (SFS 1993:20). The passing thereof follows the country's decision to join the European Union. The very impetus of this new legislation is corresponding European Community law, as seen in the passing of the Treaty of Rome in 1957 that in itself gains inspiration from the German *Gesetz gegen Wettbewerbsbeschränkungen*. In the spirit of United States law, and in thus following closely European Community legislation in the area, this new Swedish law is much 'sharper' in adhering to the principle of prohibition according to which sanctions (in part administered by a new authority, The Swedish Competition Authority, *Konkurrensverket*), directly follow from unlawful conduct.

v. Fundamental contents of Swedish antitrust legislation based on European Community law

The two passages depicted in Figure VIIa below are articles 81 and 82 of the European Community Treaty, originating in articles 85 and 86 of the Rome Treaty. They constitute the core of EC, and also Swedish, antitrust legislation. The first of these pertains to collaboration and stipulates that concerted action between companies or associations of companies that a) might interfere with interstate trade, *and* b) the intent or outcome of which curtails or warps competition, is not allowed. There are however a few exceptions that are deemed lawful by resorting to their alleged beneficial result in other areas. That is, in such particular instances the interest of competition per se is only second to that of market improvements, the advantages of which are shared by consumers.

[Article 81]

1. The following shall be prohibited as incompatible with the common market: all agreements between undertakings, decisions by associations of undertakings and concerted practices which may affect trade between Member States and which have as their object or effect the prevention, restriction or distortion of competition within the common market, and in particular those which:
(a) directly or indirectly fix purchase or selling prices or any other trading conditions;
(b) limit or control production, markets, technical development, or investment;
(c) share markets or sources of supply;
(d) apply dissimilar conditions to equivalent transactions with other trading parties, thereby placing them at a competitive disadvantage;
(e) make the conclusion of contracts subject to acceptance by the other parties of supplementary obligations which, by their nature or according to commercial usage, have no connection with the subject of such contracts.

2. Any agreements or decisions prohibited pursuant to this Article shall be automatically void.

3. The provisions of paragraph 1 may, however, be declared inapplicable in the case of:
- any agreement or category of agreements between undertakings;
- any decision or category of decisions by associations of undertakings;
- any concerted practice or category of concerted practices,
which contributes to improving the production or distribution of goods or to promoting technical or economic progress, while allowing consumers a fair share of the resulting benefit, and which does not
(a) impose on the undertakings concerned restrictions which are not indispensable to the attainment of these objectives;
(b) afford such undertakings the possibility of eliminating competition in respect of a substantial part of the products in question.

[Article 82]

Any abuse by one or more undertakings of a dominant position within the common market or in a substantial part of it shall be prohibited as incompatible with the common market insofar as it may affect trade between Member States.
Such abuse may, in particular, consist in:
(a) directly or indirectly imposing unfair purchase or selling prices or other unfair trading conditions;
(b) limiting production, markets or technical development to the prejudice of consumers;
(c) applying dissimilar conditions to equivalent transactions with other trading parties, thereby placing them at a competitive disadvantage;
(d) making the conclusion of contracts subject to acceptance by the other parties of supplementary obligations which, by their nature or according to commerical usage, have no connection with the subject of such contracts

Figure VIIa; Articles 81 and 82 of the European Community Treaty[16]

Article 82 is different in particularly condemning a) the abuse of b) a dominant position on a certain market by companies or associations of companies. Whereas the two requisites of the preceding article (81) in fact are one and the same (harm of trade *and* impediments to competition are two sides of the same coin) the requisites of article 82 are more complementary in character. It is *not* unlawful to have a dominant market position per se, but it *is* unlawful to profit from this position *via abusive market behavior*. The ground for this is

[16]The European Community (2000a, b)

that abusive conduct under the article is meant to be possible only as a consequence of curtailed competitive pressure, something which follows with a very strong market position. The European Commission (and national courts) are furthermore empowered to intervene in individual cases with exemptions and prohibition orders / fines thus adapting and enforcing the rules respectively.

The third distinct pillar of European Community antitrust law is regulation 4064/89 which bestows upon authorities the preventive right to check and control for market concentration by deeming unlawful company mergers and acquisitions that would result in the emergence of (or strengthening of already existing) too dominant a market position that only later might constitute a risk for outright abuse. This regulation then ties to the previous articles, foremost the 82nd in preventing the risk for their subsequent application.

As emphasized by Korah (1997, pp 1, 9-11, 13) European Community competition law must necessarily be interpreted in light of the very idea of the European Union (as seen in articles 2 and 3 of the Maastricht Treaty), that of free movements of goods, services, workers and capital. There are, then, five main goals of European Community law in the area that legislation is to promote. 1) Economic efficiency. 2) Market integration. 3) Small businesses. 4) Competition fairness. 5) Political freedom. With so many varied interests at stake, it is hence obvious that the very same opaqueness identified by Hovenkamp (1994) in relation to American antitrust legislation above regarding who and / or what is to benefit from competition is present here. It seems clear that at the heart of the issue lies the manner in which *la cohabitation* between economic efficiency ('goal 1') and other goals is to work out. There is an ambiguous trade-off at hand, something commented upon by Korah, the risk that small businesses-related concerns downplay calls for overall market efficiency. In consequence European Community courts seem to face a challenge at least on a par with that experienced in the United States.

> *The Community Courts have had difficulty distinguishing conduct that excludes others through efficiency, by giving better value for money, from methods of exclusion not based on the merits. They have used a formula suggesting that competition on the basis of performance is lawful, but it is not clear what is included in this category .... Consequently, conduct that would not infringe US antitrust law may infringe that of EC.*[17]

It is crucial to take these words into consideration to gain an understanding of the Swedish antitrust law. 'In all brevity the new [Swedish] Competition Act implies that EC competition law has been transferred to Swedish law with respect [however] to some adjustments called for by ... the national conditions and the significantly smaller size of the Swedish market. .. It

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[17]Korah (1997, p 4)

is most likely the case that Sweden today is *the* EU member state whose national competition law corresponds the most to the community law on competition. ... Hence the Swedish Competition law mostly appears as adopted EC law' (Bernitz (1996, pp 20-21, 28, author's translation)).[18] Thus there is no doubt that 'following ... [its] precedence, direct applicability, and direct effect, EC law constitutes an important part of Swedish law' in the area (Wetter et al (1999, p 45, author's translation).[19] The major difference between the two systems is that whereas the former only applies to trade the effects of which occur *between* two member states, the latter prevails only for trade with effects *within* Sweden. In practice these two instances of commerce are obviously very much interconnected. There is however good reason to believe that the pursuit of national law can hardly go against what would be a reasonable interpretation of European Community law.

Just like European Community antitrust legislation, the Swedish text (SFS 1993:20) revolves around two major restraints to competition that are banned according to the law, collaboration between companies (article 6) and abuse of a dominant market position (article 19). Companies and / or associations of companies are then not allowed to cooperate, horizontally or vertically, if either the purpose, and / or the outcome, of this collaboration is to impede competition in a tangible way on the (Swedish) market labeled 'relevant' in the particular case. Companies and / or associations of companies are likewise not allowed to abuse, horizontally or vertically, a position on the relevant market that can be deemed as dominant with reference to their market shares. The two sections of law furthermore differ in the sense that article 6, just like article 81 of the EC treaty, also entails the possibility of exemption from the said ban, something specified in article 8 but not applicable at all concerning article 6. That is, collaboration might be allowed, abuse of dominance is never accepted. The exemption rules in article 8 state that conduct involving collaboration that might constitute breach of article 6, but which entails particular societal benefits, can be accepted via the granting of either individual or group exemptions.[20] There are furthermore a number of sanctions tied to unlawful company conduct in breach of articles 6 and 19. For one thing agreements made are not valid under civil law, for another companies can be forced under penalty of a fine immediately to discontinue the thus unlawful conduct. What is more, such behavior can entail liability and the imposing of competition fines. In addition to the two main

[18]Whereas 'EG' (*den Europeiska Gemenskapen*) is 'EC' (the European Community), 'EU' is the European Union.

[19]The close adherence to European Community legislation can here in part be explained by the fact that there are simply not too many resources available for framing an *entirely new* 'all-Swedish' version of competitive law (resources are already spent on the official state report then largely unimplemented).

[20]There are two main criteria for the granting of *an individual exemption* for a certain time period, overall market efficiency / effectiveness, and consumer benefits. *Group exemptions* are instead granted following eight specified types of agreements that are deemed legitimate on the same grounds as individual exemptions. The agreements pertain to a) exclusive dealership, b) exclusive purchasing, c) sales and service of motor vehicles, d) specialization of manufacturing, e) research and development, f) technology transfer, g) franchising, h) voluntary retailing chains.

sections of above thus corresponding directly to articles 81 and 82 of the European Community Treaty, the Swedish Competition Act is also applicable in the case of merger control via article 34.[21] Hereby the courts can prohibit acquisitions that either create or strengthen a predominant market position to the detriment of efficient competition.[22]

vi. Tertius Gaudens and 'abuse of dominant position'

It now remains to be seen whether the view taken by the authority report mentioned earlier (Konkurrensverket 1999a), akin to the ideas of this thesis, is a corollary of Swedish law on antitrust. That is, does the law when discussed more in detail also endorse this customer perspective, or does the position taken in this report mainly grope its way in vain when it comes to find legislative support and legitimacy in the area of competition? As said, from now on the law is represented by the section which covers abuse of dominant position (SFS 1993: 20, article 19). At a most rudimentary level it can then be scrutinized whether the customer, a consumer or otherwise, is referred to at all in here. Once this has been looked into one can go on and pinpoint the precise manner in which the customer, where appropriate, appears. Is it merely as a reactive *beneficiary*-only of competition or is it *also* as an *agent*, an active force thus shaping competition?

The relevant section of law (article 19 of the Competition Act) will hence be scrutinized in three ways. *First* one must turn to the preparatory works as these represent the background and the 'philosophy' of what is the intention of the law-maker. It is *thereafter* appropriate to look into the letter of the law itself and the way in which comments unfold regarding how the section is to be interpreted.[23] *Only once this is undertaken* will attention be directed towards the particular empirical case related later in the chapter on eventual abuse of dominant position concerning bidding for regional railway traffic (Marknadsdomstolen 2000). In the case, The Swedish Competition Authority files a motion with The Stockholm District Court implying that The Swedish State Railways is to pay a damage-of-competition fee of SEK 30 million for abuse of dominant position in the course of a bidding contest for regional railway traffic. The verdict of the Court is subsequently appealed against and thus passed on for jurisdiction to the Market Court whose final and irrevocable verdict is given not until February 1st, 2000. There is no pretension that the findings in this case are applicable in general. However, given its relative recency there is good reason to believe that the case embraces Swedish legal usage in the particular area up and until 1999.

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[21] The article thus corresponds to regulation 4064/89 in the European Community framework.

[22] This last paragraph draws, where not indicated differently, on Carlsson et al (1995, pp 19-27), Bernitz (1996, pp 25-30), and Wetter et al (1999, pp 3-11).

[23] The juvenile character of Swedish law in the area results in a paucity of case law to fall back on and consequently the comments drawn upon will also necessarily originate from within cases handled by the European Commission.

The preparatory works

There are four main preparatory works of relevance in the particular area of dominant position abuse. Two of them pillar the original preparation of the new law (SFS 1993:20) and two suggest a revision of this law. The 'original' works are the government bill *Proposition 1992/93:56* (on new competition legislation) and the adjacent committee report *Näringsutskottets betänkande 1992/93:NU17*. Later works that suggest a slight revision of the law are the government bill *Proposition 1997/98:130* (on amendments to the Competition Act) and the adjacent committee report *Näringsutskottets betänkande 1997/98:NU09*. It goes without saying that the first two addresses constitute the major share of the preparatory works of relevance here. When scrutinizing the manner in which these petitions relate to a customer-based view of competition, the survey will focus on three distinct aspects of the text.[24] *Firstly*, it will be analyzed whether the customer appears, and has a role to play, in *the opening sections* of the law thus underway. This is crucial since the introductory paragraphs of any legal act serve as a kind of programmatic statement thus foreshadowing the legitimacy of what is to follow. *Secondly*, the wording pertaining to the precise section in question (article 19) is looked into. *Thirdly*, the way in which the relevant text chooses to come to grips with the demarcation of the relevant market is being pondered upon (something formally not really salient in article 19). This matters since the analytical delimitation of the market is conducive for if a company is in fact predominant (dominance is calculated based on market share), something which constitutes the prerequisite if allegations of abuse can prevail at all.

Any claim that the customer[25] takes on a prominent role in the government bill 1992/93:56 proposing a new law on competition is highly inaccurate. The bill opens by recognizing that there is insufficient competition in the Swedish economy. This allegedly calls for more powerful legislation in accordance with the prohibition principle that is at force within the European Union.

> *The new competition rules that we propose are derived from a model that has been applied within the European Community during several decades and that has proved to have major impact on company conduct and in consequence for the competitive conditions of various industries. The introduction of Swedish competition rules derived from the Rome Treaty's material general prohibition rules of competition can in consequence be expected to contribute to promote more efficient competition also in the Swedish market. ... Efficient competition can in principle be assumed to prevail in a market where the number of sellers is not too restrained, the offered products are not too differentiated, companies do not act in concert with each other and no major barriers prevail for new market entry.*[26]

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[24]These three aspects will also matter as the letter of the law and the case are looked into later on.

[25]In the following 'the customer' and 'the consumer' will be used interchangeably where not stated otherwise, an approach thus assuming away the particular differences at hand between consumers and organizational customers.

[26]*Proposition 1992/93:56*, pp 4, 66, author's translation

With respect to the discourse pursued by Hovenkamp (1994), beneficiaries of antitrust legislation can be either efficiency as such (something seemingly favoring large scale operations allowing for cost containment), the collective of consumers, or small business.[27] If anything the bill seems to herald efficiency as such, *in relation to which consumers are only indirectly touched upon.* The emphasis of advantages stemming from small business operations is put more to the fore. This is particularly evident from the fact that the pursuit of small business in relation to the law is commented upon under a heading of its own, something not being the case for consumers. 'An important goal of competition policy is to strengthen and maintain and thereby promote development in small and medium-sized firms. ... The ban on abuse of dominant position in particular aims very much at the protection of small and medium-sized companies against strong competitors, suppliers or customers' (*Proposition 1992/93:56*, pp 21-22, author's translation). The wording itself concerning these two groups *is* also different since customers are commented upon in more of a rigid, and less vivid, manner. 'Increased competition benefits consumers since it entails a downward pressure on prices and enlarged supply' (*Proposition 1992/93:56*, p 4, author's translation). Consumers are referred to explicitly in two more instances in the opening programmatic statements. It is first claimed that 'consumers have to pay higher prices' when competition is not allowed to work out in full and '[i]n cases where companies restrain competition in a way that is mostly negative for the economy and for the consumers the state must be in possession of strong tools to impede this' (*Proposition 1992/93:56*, pp 6, 18, author's translation). As seen the consumer is drawn upon in a most general, reactive, and almost patronizing manner. This impression is however slightly weakened towards the end of the opening section where customer agency at least is hinted at. That is, both consumer choice and the active role of customer needs are discerned here without however being assigned a very influential role of their own.

> *The rendering of competition more efficient through a sharpened competition legislation is of utmost importance for the consumers. Efficient competition is the most important, and in the long run the only workable, means to ensure supply diversity, freedom of choice and lowered prices. The dynamic effects of competition via adaptation of supply to consumer needs and developed and renewed production and distribution constitute fundamental interests for consumers.*[28]

When it comes to the particular section of the proposed act that deals with abuse of dominant

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[27]The expression 'efficiency' will here be drawn upon as an umbrella term for positive performative aspects associated with competition in regard to the economy as a whole. 'Effective competition' will in consequence be seen as a corollary to 'efficient competition', thus corresponding to what in Swedish is called *effektiv konkurrens*, as opposed to 'perfect' or 'pure' competition with less of direct societal impact. That is, there *are* differences between 'efficient' ('input-output'), effective ('overall ability to satisfy a market') and also 'workable' ('practically relevant and pursuable') competition but they converge in focusing some overall aspect of 'good function' in relation to certain goals of the economy and are in consequence lumped together in this text.

[28]*Proposition 1992/93:56*, p 63, author's translation

position, article 19, the bill is *as* taciturn regarding the role of customers. Apart from noticing in passing that excessive pricing which follows from said abuse is negative for consumers, not very much is learned apart from that already at hand in article 82 of the European Community Treaty, regarding for instance how market dominance can be identified.[29] 'The EC court has defined a dominant position as a company's strong financial position, enabling that company to obstruct the maintenance of efficient competition in a relevant market by thus allowing the company to act, to a considerable extent, independently of its competitors, customers and ultimately the consumers' (*Proposition 1992/93:56*, p 85, author's translation). It can however be observed that this definition of dominance implicitly attributes at least traces of an impact to customers. That is, if the active role eventually occupied by consumers is fully absent there would be no reason to comment thereupon in terms of dependence. It is hardly possible to depend on something that embodies no agency of its own whatsoever. The definition of the relevant market is commented upon only in brief where it is merely established that '[t]his market delimitation is arrived at by deciding on the one hand the *product market* and on the other the *geographical market*. Products that are mutually substitutable with reference to properties, price, use, the opinion of consumers and other customers and de facto substitution opportunities et cetera belong to the same product market' (*Proposition 1992/93:56*, p 85, author's translation). As seen there are both demand and supply considerations at hand even though the former seem to take on a discretionary role. The prevalence of consumer mentioning in this regard will later prove to be the foremost source of customer influence in this context.

The bill however does not emerge in a vacuum but is subject also to works which precede it. Although those have relatively minor impact (the law underway is completely 'new'), one brief comment is called for concerning the official state report SOU 1991:59. This report, Competition for increased societal welfare, is commissioned in 1989 prior to Sweden's decision to join the European Union. It works in the spirit of the old principle of abuse and is hence, in most aspects, simply not relevant for the bill commented upon above. The only suggestions taken on by the bill from this report are those which regard the introduction of competition damage fees and control of company acquisitions (confer the official state report SOU 1997:20, p 43). But, it *is* interesting to look into it concerning the role of consumers, something not very salient in the government bill subsequently to be passed. Consider first a general programmatic reasoning about competition and then the proposed *opening section* of a revised Competition Act.

> *Restraint of competition implies that market efficiency as a governance mechanism is curtailed. Free and well working competition where consumers have the opportunity of choosing between goods and services*

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[29] Article 82 mentions the consumer in one of four non-exhaustive examples of when abuse may prevail, then consisting in 'limiting production, markets or technical development to the prejudice of consumers' (The European Community (2000b)).

is thus an important aspect of economic policy. When supply is subject to the wants of households and preferences, societal efficiency is attained.[30]

The purpose of this law is to create and maintain efficient competition within private and public economic activity that ... provides consumer and other customers with freedom of choice and opportunity to affect supply of goods, services and other utilities.[31]

There is no doubt that the role of the customer here is much more transparent than in the government bill which underlies the formulation of the new law. For one thing the choice of consumers is openly recognized, for another their very wants are deemed crucial. None of this is discerned in the Department of Industry Memorandum Ds 1992:18, A new competition law (*Proposition 1992/93:56*, pp 216-223), that is to pave the way for the government bill.[32] This memorandum is subject to circulation for consideration (*remissbehandling*) among an array of authority organizations and organizations. Most notably The Swedish Consumer Agency is not among these bodies.[33]

The government bill, *Proposition 1992/93:56*, is followed by the adjacent committee report *Näringsutskottets betänkande 1992/93:NU17*. The overall conclusion of the committee report is that it agrees with the suggestions coming forward in the government bill. The committee however brings forward a slightly more balanced opinion in that consumers enjoys a little bit more of attention than what is the case in the bill. Given the parliamentary composition of the committee this should however come as no surprise.[34]

The committee *shares the opinion of the government, conditions of competition play a decisive role for growth and dynamics in a country's economy. Efficient competition is important also for the consumers*

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[30]*Proposition 1992/93:56*, p 159, author's translation (the 'outdated' official state report 1991:59 appears as an enclosure to the government bill)

[31]*Proposition 1992/93:56*, p 173 (the 'outdated' official state report 1991:59 appears as an enclosure to the government bill)

[32]Formally, a memorandum which discusses new legislation (most likely preceded by an official state report) is first subject to circulation for consideration. Thereafter the government proposes a bill (based on the memorandum and the comments) and only then, before the Riksdag (the Swedish Parliament) votes on the issue for eventual approval, comes the committee report.

[33]Although this is way beyond the scope of this chapter one could always speculate regarding the political grounds for the sudden change of interest discerned here. There is then good reason to believe that the Swedish Social Democrats, in governing position until 1991, and from 1994 and onwards, are more inclined towards consumer care than what are the non-socialist parties in power from 1991 and three years ahead, a period during which the government bill is passed. Still, the new law itself seems to have been passed with unanimous political support.

[34]This is even more explicit in a diverging expression of opinion put forward by one of the committee deputies (representing the 'left', a socialist party). 'The deficient competition that has been allowed to prevail has been damaging companies as well as consumers. The progressive pressure that companies should experience has mostly been absent. ... Swedish consumers have had to experience prices that are higher than elsewhere. ... The proposed law constitutes a sharpening of the kind that is necessary for the ability of Swedish companies to develop strength on their own and for seeing to the interest of consumers. ... A major problem for Swedish consumers is the lack of competition in the area of food' (*Näringsutskottets betänkande 1992/93:NU17*, pp 43-44, author's translation).

by lowering prices and enlarging and diversifying the supply of goods and services. Efficient competition is [however] *also important for the companies. As seen in the government bill it is however, as seen in many instances, obvious that competition within substantial and crucial parts of the Swedish economy is insufficient.*[35]

A new government bill, *Proposition 1997/98:130* (Amendments to the Competition Act) is passed a few years after the new Competition Act is put to work. This new government bill appears in the light of the official state report SOU 1997:20, The Competition Act 1993-1996. This report does not distinguish any real impact on consumers under the new law. In line with its directives the report however scrutinizes this aspect *in separate* and it is then learned that some respondents to questions posed emphasize the role of competition for consumer wellbeing. Some others (representatives of the food and construction industries) allegedly feel that the new law impedes small businesses as they are not allowed to collaborate. The only two comments referred from The Swedish Consumer Agency say that it must be established exactly how a dominant position is showed to prevail and that The Swedish Competition Authority should have the right to intervene when companies granted a right to cooperate misuse this right in a manner that at the outset was not foreseeable (SOU 1997:20, pp 14, 45, 50-51, 57, 351). The ensuing government bill proposes only moderate changes to article 19 by means of an editorial elucidation concerning the market concept as the original wording 'the Swedish market' is changed to 'the market' (*Proposition 1997/98:130*, p 26). Consumers hence seem to enjoy a slightly more transparent role here than in the earlier government bill which provokes the passing of the new Competition Act in the first place.

The Competition Act constitutes an important tool for the attainment of improved transformation pressure and more efficient competition benefiting the whole national economy and consumers.[36]

The adjacent committee report, *Näringsutskottets betänkande 1997/1998:NU09*, finds no reason not to agree with the ideas of the government bill concerning the proposed amendment of article 19.[37]

The preparatory works accounted for above can then be summarized as follows. The consumer is by no means absent in the reasoning put forward. *As* evident, however, is the fact that customers do not emerge as an active force in relation to competition that hence hardly appears in any manner 'shaped' by their impact. *There is no customer agency.* Consumers are treated as one of several beneficiaries of competition and in this role it is also obvious that

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[35]*Näringsutskottets betänkande 1992/93:NU17*, p 11, author's translation

[36]*Proposition 1997/98:130*, p 1

[37]There is however a slightly diverging view expressed by the non-socialist parties. In a few instances they claim among other things that a) Swedish industrial policy in general favors large corporations at the expense of small business and consumers, and b) there is a risk that the Competition Act is weakened concerning its impact on consumers with the suggested amendment to article 19.

they by no means stand out in relation to 'economic efficiency' in general or to the interests of small business in particular. If anything, consumers appear as slightly less important to comment upon than either of these other two beneficiary categories. In relation to the specific issue of market dominance abuse there seems to prevail somewhat more of customer focus. This is mostly seen in the discussion of market dominance definition but also in the crucial role of market demand when it comes to deciding upon the relevant product market. Concerning the nature of the relevant market, as such, not much is said except for a recapitulation of European Community law that by itself contrasts the product and the geographical market. It shall however be clear that these preparatory works do not emerge in a 'consequential structure' as, following Sweden's rather sudden change of mind in joining the European Community, and different parliamentary majorities (Sweden held general elections in 1991, 1994, and 1998), the original official state report (SOU 1991:59) does not connect to what is to emerge as the new Competition Act (SFS 1993:20). That is, whereas the report adheres to the old principle of abuse, the subsequent department memorandum (Ds 1992:18) leaves this behind and goes on to fully adhere to prevailing European Community legislation thus embracing the prohibition principle. This is not to say that the principle as such impacts the alleged role of the consumer. What is obvious is however that a non-socialist government (in power between 1991 and 1994) is more inclined to small businesses than consumers in general, the opposite of which then applies once socialist governments reign. One can thus discern comments pertaining to consumers to a somewhat greater degree when the socialists rule. What is a little bit striking, however, is the role played by The Swedish Consumer Agency which *in the first place* is conspicuous by its absence from among those who comment on the department memorandum (Ds 1992:18) that changes the entire course of Swedish competition policy and *in the second place* does not really seem to provide very much of an opinion when actually asked to do so in the official state report SOU 1997:20. This is a striking contrast to the view expressed together with other authorities in the mobile telecommunications report (Konkurrensverket 1999a) alluded to at the outset of this chapter.

These preparatory works can be commented upon in yet two ways. *Firstly*, it is obvious that legislators are not unaware of the general role of customers in markets and thus for competition. That would be an absurd conclusion not intended by the above. Consumer benefits lie obviously implicit in most of the reasoning above, something also pertaining to the presumption of the law that it takes care of what consumers are not in the position to take care of themselves. This is all the more obvious when the sanction system (not discussed here) is looked into.[38] That is, to say that the consumer is relatively invisible is not the same as alleging that consumer interests are ignored. What it says is that legislators, for one reason or the other, have chosen to downplay the role of customers in their overt argument. And

[38]Herein it is learned that The Swedish Competition Authority is in the position to file a motion with the court *on behalf of consumers and in their very interest.*

since law itself is applied very much with respect to what is written thereof this cannot reasonably be void of practical impact. *Secondly*, the role of these preparatory works themselves can be questioned. As commented upon by Bernitz (1996, p 29) the rather shallow character of these works is well in line with the European tradition itself, that the law thus aspires at joining forces with. The obvious advantage is that it paves the ground for a progressive development of Swedish legal practice, the downside of which obviously is that there are no national handrails whatsoever to cling to (confer Holgersson (1998)).

The letter of the law itself and some comments thereupon

[Article 1]

The purpose of this Act is to eliminate and counteract obstacles to effective competition in the field of production of and trade in goods, services and other products.

Figure VIIb; Article 1 of the Swedish Competition Act[39]

The general reasoning of the Competition Act is manifest in its opening first article where its purpose is discussed. It is then obvious that 'effective competition' in general, with no further specification, is the target. As seen this article is very supply-oriented with no reference whatsoever to customers. What this mentioning of 'effective competition' actually implies is however not that obvious when one listens to commentators on the subject. In accordance with the argument of Hovenkamp (1994, pp 48-77) one can then, in addition to efficiency (and / or effectiveness), also identify consumers or small business as principal beneficiaries of competition. All of these categories can be discerned in comments on this article. On a general level Korah (1997, pp 1, 122), commenting on EC law, seems inclined to a position where antitrust legislation mostly targets the wellbeing of small business.

> *My concern is that the competition rules are being used not to enable efficient firms to expand at the expense of the less efficient, but to protect smaller and medium sized firms at the expense of efficient or larger firms. I am concerned that the interests of consumers, and the economy as a whole, in the encouragement of efficiency by firms of any size is being subordinated to the interests of smaller traders.*[40]

Wetter et al (1999, pp 5,6, author's translation) comments upon this issue with reference to what is learned from the preparatory works (as seen in the section above). These authors penetrate whether small business interests are in fact a goal in itself (as Korah above seems to think) or whether these only appear as second to the striving for general efficiency. They conclude by endorsing this last position in explicitly having it that '[t]he Competition Act

[39]Excerpt from The Swedish Competition Act (SFS 1993:20) (Konkurrensverket (2000b))
[40]Korah (1997, p 122)

protects competition, not competitors or customers'. This also seems to be the position of Carlsson et al (1995, p 34), something meaning that consumers 'only' constitute indirect beneficiaries of the law. Wetter et al (1999, p 5) furthermore add that on the actor level it is the collective, and not individual, market participants that are seen to. This is of particular relevance with regard to consumers. More overtly concerned with this consumer collective is Bernitz (1996, p 23, author's translation) who says that 'competition legislation should be interpreted as part of consumer protection law broadly conceived of, with particular emphasis of protecting the consumer collective at large.' Bernitz is however keen to point out that this protection (working out in particular in the areas of pricing and freedom of customer choice), although crucial within its own distinct field, is only indirectly at the fore of the new law, the main idea of which allegedly is to protect the economy as a whole. Still he explicitly argues that once the overarching societal interests are met, it is consumers, and not business, that are to enjoy legal protection. This somewhat ambiguous issue regarding what interest (in addition to efficiency as such) that the pursuit of Swedish competition law is to serve, also appears when the opinion of the relevant state body, The Swedish Competition Authority, is looked out for. On the one hand business as such seems to be the foremost interest.

> *The market economy is based on competition between undertakings. Competition strengthens the ability of Swedish industry to maintain its position on international markets. It also stimulates better use of aggregate resources. Increased competitive pressure benefits consumers by keeping prices down as well as providing a greater and more varied range of goods and services.*[41]

On the other there is no doubt that the foremost beneficiary category is consumers at large.

> *The Swedish Competition Act starts out in the general interest of consumers. It has primarily not been passed in order to promote the interests of producers in case this does not coincide with that of consumers. In the Competition Act there are thus rules that as their ultimate aim have the attainment of efficient market competition to the good of consumer utility.*[42]

[Article 19]

Any abuse by one or more undertakings of a dominant position on the market shall be prohibited. Such abuse may, in particular, consist in

1. directly or indirectly imposing unfair purchase or selling prices or other unfair trading conditions;
2. limiting production, markets or technological development to the prejudice of consumers;
3. applying dissimilar conditions to equivalent transactions with other trading parties, thereby placing them at a competitive disadvantage; or
4. making the conclusion of contracts subject to acceptance by the other parties of supplementary obligations, which by their nature or according to commercial usage have no connection with the subject of such contracts.

Figure VIIc; Article 19 of the Swedish Competition Act[43]

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[41] Konkurrensverket (2000b)

[42] Konkurrensverket (1998b, author's translation), referred to by Wetter et al (1999, p 5)

[43] Excerpt from The Swedish Competition Act (SFS 1993:20) (Konkurrensverket (2000b))

Article 19 of the law has it that once it can be established that a company (or an association of companies) occupies a dominant market position, and this position is gained from by means of abuse, it is unlawful. That is, dominance is a first necessary though not sufficient prerequisite for the article to be applicable. It is then not abusive to be dominant per se. But the way in which this, a position of market power, might in fact be used 'horizontally' and / or 'vertically' *to the unlawful disadvantage of others*, is (Konkurrensverket (2000b)). As learned from Figure VIIc, four cases of possible abuse are delineated in the letter of the law and consumers are only explicitly referred to in one of these. There is hence no doubt that this wording provides some legitimacy for the interpretation of above concerning the law's general downplaying of consumers. Abuse itself can furthermore be of two types. *On the one hand* there can be so-called 'exploitative abuse' according to which an own market position is drawn upon to directly further one's own interests. *Customers are hurt.* This is what is meant by the first two examples delineated in article 19 which embrace unfair pricing / trading and the pursuit of market foreclosure. *On the other hand* abuse can be 'exclusionary', something implying that *competitors* are directly hurt by someone that draws on a strong market position. As seen in the last two examples of the article text this prevails in case of unfairly dissimilar trade conditions and the imposing of tie-in clauses. *It is hence obvious that both direct (exclusionary) and indirect (exploitative) harm to other sellers is covered by the article.* That is, competition can be hampered both 'immediately' by (exclusionary) action as such but also 'in the long run' by the negative side-effects that some (exploitative) conduct might have on potential competition by impacting the market structure (Carlsson et al (1995, p 334), Bernitz (1996, p 58), Korah (1997, p 4), Wetter et al (1999, p 419)). As noted by Korah (1997, pp 6, 89) the implication thereof is that both actual *and potential* competition is protected by the article thus putting customers and competitors at equal weight as potential victims of abuse.

> *In Continental Can ... the Court interpreted article 86* [the current article 82 which corresponds to the 'Swedish' article 19] *not only as a provision under which the conduct of firms already dominant which harmed consumers directly could be regulated but also as one forbidding the weakening of any remaining potential competition by a firm already dominant, as this might harm consumers in the longer term,... Even if potential competition exists on the supply side, competitors may not be able to enter the market if consumers are locked in to an existing product by the costs of switching, lack of information, contractual commitments.*

This apart, what does in fact constitute dominance? On a general level it seems as if this is tied to a powerful market position that puts someone in a rather autonomous position vis-à-vis others. That is, *independence*, stemming from the ability to influence others, is what seems to count.[44] 'A dominant position thus implies that the company has got such a market influence so that its conduct is not in any way circumvented by prevalent market forces',

[44]This is very much akin to the reasoning within social exchange theory on power-dependence conditions.

something however by itself not necessarily saying that competition does not exist, only that it is *conditioned* in a particular manner (Wetter et al (1999, p 407, author's translation)). The key definition of reference in the area is, according to Korah (1997, p 78) and Wetter et al (1999, p 406), the wording of the European Community Court in its ruling in the so-called United Brands case thus defining a dominant position as

> *...a position of economic strength enjoyed by an undertaking which enables it to prevent effective competition being maintained on the relevant market by giving it the power to behave to an appreciable extent independently of its competitors, customers and ultimately of consumers.*[45]

This independence can then be distinguished via factors such as 'financial strength, barriers to entry on the market, access to capital goods, patents and industrial property rights as well as technology and other knowledge-oriented advantages' (Konkurrensverket (2000b)). As seen the issue of customers – consumers is here explicitly brought up. That is, *as opposed to both the opening first article (1) and the very article of abuse (19) the role of customers is much more paramount once dominance, through market interdependence, is discussed.* But before dominance, and thus abuse, can be shown to prevail it is however necessary to decide upon the relevant market context. This is obvious since an actor must always be dominant in relation to something and if this is not properly defined neither dominance nor abuse can be established. This is 'the relevant market'.

The formal ground for defining the relevant market is found in the general advice regarding so-called petty agreements provided by The Swedish Competition Authority (KKVFS 1993:2, referred by Bernitz (1996, p 126)). These provisions closely follow the corresponding guidelines provided by the European Community legislation (European Commission 2000, p2).[46]

> *A relevant product market comprises all those products and / or services which are regarded as interchangeable or substitutable by the consumer, by reason of the products' characteristics, their prices and their intended use. ... The relevant geographic market comprises the area in which the undertakings concerned are involved in the supply and demand of products or services, in which the conditions of competition are sufficiently homogeneous and which can be distinguished from neighbouring areas because the conditions of competition are appreciably different in those areas. ... The relevant market within which to assess a given competition issue is therefore established by the combination of the product and geographic markets.*[47]

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[45]The European Community Court referred by Korah (1997, p 78)

[46]As argued by Wetter et al (1999, pp 63-64), the relying on European Community law is of particular importance here. This is so since there is not much Swedish legal practice in the area and the preparatory works do not provide much guidance either except for reference to European Community practice.

[47]An alternative, technically more sophisticated definition which explicitly relates also supply is that of Hovenkamp (1994, p 83). 'A relevant market is the smallest grouping of sales for which the elasticity of demand and supply are sufficiently low that a firm with 100% of that grouping could profitably reduce output and increase price substantially above marginal cost.'

That is, there are two major dimensions to take into account when reaching out for an appropriate market definition. What is interesting is then that there are both a supply and a demand aspect of both market types and whereas the product market is more demand oriented the opposite seems to hold for the geographic market. That is, *by emphasizing the product market at the expense of the geographic market is akin to attributing relatively more weight to customer, than to supplier, issues (such as cost).* This is most salient as product markets are typically discerned via substitutability in the eyes of consumers whereas the area served by a supplier and applicable transportation costs more often are found in definitions of the geographic market. This also renders the former somewhat more difficult to grasp than the latter (confer Konkurrensverket (1999c, 2000b)).

> *In one sense the problem of product market definition is less tractable than that of geographic market definition. Often geographic market definition is a function of cost of transportation, and this is an objective number that can be measured. By contrast, product market definition is often a function of consumer taste, and taste cannot be measured so easily. ... But over a broad range of cases, product definition depends on substitutability in consumers' eyes, and since consumers utility cannot be measured by some easily identified criterion, such as cost of transportation, the market definition question can become very difficult.*[48]

Wetter et al (1999, p 65, author's translation) recapitulate the reasoning of the European Commission (2000). Underlying any relevant market definition is then, it is alleged, the conviction that there are three market forces which circumvent someone's market influence, a) supply substitutability, b) demand substitutability, and c) potential competition. Whereas the latter cannot be taken into account for practical reasons, the other two are in principle eligible for analysis. Even though supply substitutability (a seller's de facto opportunity of switching from the production of one product to another) is a most feasible point of departure, these authors have it that the key concern is demand substitutability. This is so 'as it normally constitutes the most immediate and workable restriction of companies' ability to exert influence' by means of how customers react to a price increase undertaken by a supplier. Do they stay on or do they switch to another seller? That is, *focus seems to be on the customer also in this regard*, something allegedly also prevailing once the geographic market is looked into. One of the reasons for this, according to Korah (1997, p 13) is that demand substitutability works out faster than its supply equivalent (consumer response is faster than supplier adaptation).

> *From an economic point of view, for the definition of the relevant market, demand substitution constitutes the most immediate and effective disciplinary force on the suppliers of a given product, in particular in relation to their pricing decisions. A firm or a group of firms cannot have a significant impact on the prevailing conditions of sale, such as prices, if its customers are in a position to switch easily to available substitute products or to suppliers located elsewhere. Basically, the exercise of market definition consists*

[48]Hovenkamp (1994, p 89)

> *in identifying the effective alternative sources of supply for the customers of the undertakings involved, both in terms of products/services and geographic location of suppliers.*[49]

In practice the trying out of whether there are any alternatives available is seen in the pursuit of the so-called SSNIP-test surveying how customers are likely to react following 'an hypothetical small (in the range 5%-10%), permanent relative price increase in the products and areas being considered' (European Commission (2000, p 4)). In case customers switch suppliers products most likely belong to the same relevant market and the price increase eventually pursued by the first supplier is not a very profitable market move. It is then striking how central a role customers take on in this reasoning, mirroring European Community law at large and Swedish legislation in particular. Customer opinion is then a central concept, something at times sought for by means of surveys et cetera. This is no doubt most transparent when product markets are looked into but it also carries substantial weight in the analysis of geographic markets. Once the relevant market is decided upon according to the ideas of above, market shares can be established volume- or value-wise, the latter being more suitable when products are differentiated (confer Wetter et al (1999, pp 61-64, 67, 70-82)). 'An important factor is the market share of the undertaking on the relevant market. A market share of between 40 and 50% is regarded as being a clear indication of a dominant position. If the market share exceeds 65%, the presumption of a dominant position is virtually conclusive' (Konkurrensverket (2000b)).

Which are, then, the practical implications of this? Bernitz (1996, p 56) has it that antitrust law in general applies rather narrow market definitions, something then of course increasing the prevalence of interpreted market dominance. A telling example hereof (recapitulated by Wetter et al (1999, p 62)) is how a relevant market in Sweden was defined as 'all information regarding adjustment values for Bosch diesel pumps'. The recapitulated customer-bias of above furthermore clearly appears in the case of *Continental Can* elaborated upon by Carlsson et al (1995, p 340). Therein glass bottles and aluminum cans are seen as being part of the same market with reference to their functional value for consumers (and not their physical supply-based properties). There is however one example which more than others seem to serve as *the* precedent par preference. It tells about whether bananas constitute a market of their own or whether they are merely a sub-entity of the fruit market in general.

> *In **United Brands** the Court confirmed the Commission's view that bananas were in a separate market from apples and oranges, partly because the very young or old and infirm could not manage other fruit, although there was no way of discriminating against these people. In fact, they were protected from high prices by the loss of sales to healthy people that would result if the price of bananas were raised. They eat far more bananas than do the young, old and sick. ... In its decision, the Commission was concerned*

[49]The European Commission (2000)

about the need of the young, the old and the infirm who may have difficulty eating other fruit.[50]

As furthered by Carlsson et al (1995, p 340), 'other fresh fruit display [in the eyes of consumers] only to a limited extent substitutability with bananas'. That is, *the market is defined according to basic customer needs*, and what is more, *these needs seem to constitute the objective of protection for the ruling court.*

To summarize, this section of the chapter deals with the very wording of relevant aspects of the Swedish Competition Act and comments thereof in light of legal European Community practice in the area. It starts out by scrutinizing the manner in which the opening article relates to consumers. This issue is ambiguous and hosts comments embracing widely differing perspectives. Some (confer Korah (1997)) seem to endorse a view where small business is at the fore whereas others (confer Bernitz (1996)) are more inclined towards attributing a key role to consumers.[51] A reasonable mid-range stance is that of Wetter et al (1999), who argue that competition protects first and foremost competition per se. Even though comments thus differ slightly, it can easily be established that whenever consumers are drawn upon in the programmatic statements this is in a most reactive manner where they allegedly are to enjoy the benefits of competition without any active role on their part in the shaping thereof. The consumer is more salient once article 19 is turned to, something holding in particular as regards the argument pillaring it. In the text itself consumers appear in a most reactive manner in one of the two examples of exploitative abuse. This pale impression changes when the discourse on dominance and relevant market follows suit. In the former argument a company's likely independence from customers is commented upon. Already here, traces of a consumer who not only responds to stimuli but also acts, and thus causes dependence to be around, is foreshadowed. This tendency is even clearer as the relevant market issue, constituting the very sine qua non of any search for abuse, is commented upon. Even though some slight emphasis of the product market endorses the role of customers it is first and foremost when demand versus supply substitutability is discussed that consumers really come to the fore. It is hence obvious how consumers, by their market activity patterns which involve the eventual switch of suppliers (following someone's increase of prices), are in the position to define the very manner in which the relevant market is defined. This is extremely crucial since, devoid of such a fundamental discourse, no court can hold any company responsible for abuse of competition. That is, *unless active customer conduct is taken into account (explicitly or otherwise) by interpreters of article 19, abuse according thereto cannot ever be reasonably shown.* This stands in striking contrast to the overly passive view adhered to by Bernitz (1996, p 23) who sees the Competition Act as 'part of consumer protection law'.

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[50]Korah (1997, pp 13, 81)

[51]True, Korah (1997) comments on things at the European Community level but given its close affinity with Swedish law (confer the preparatory works commented upon earlier) it should still carry some major relevance here.

Statens Järnvägar versus Konkurrensverket, case Marknadsdomstolen 2000:2[52]

Once both preparatory works and the letter of the law itself are covered it is now time for the third and final pillar of the illustration underway. To look into how antitrust law works out in practice in light of customer considerations. This will be accomplished by analyzing case MD 2000:2 (Marknadsdomstolen (2000)), The State Railways (SJ) versus The Swedish Competition Authority (KV). There are four main sections of this analysis, each of the parties' arguments (in both court instances), and the ruling verdict of The Stockholm District Court (SDC) and The Market Court (MD).

Railway traffic in Sweden is traditionally a state monopoly operated by *Statens Järnvägar* (The Swedish State Railways, 'SJ'). In the late 1980s a re-regulation of Swedish railway traffic is decided upon and as a result the nature of this business changes substantially. Among other things railway network operations are divided in two parts, the national railway framework (*stomnätet*) and the regional railways (*länsjärnvägarna*). Whereas SJ can continue as a state-granted monopolist in the national framework, and for all freight traffic, operations on the regional railways are now to become open for competition. This means that regional responsible traffic authorities (*trafikhuvudmän*) are in the position to call for bids regarding all passenger traffic within the regions by means of public procurement. Alternatively they can decide to operate this traffic entirely by themselves. SJ is furthermore no more in charge of physical railway maintenance, something passed on to another state-operated company. This means that the former monopolist SJ now can concentrate its efforts on running traffic itself, something that according to the instructions is to be accomplished on business-related premises. This also implies that SJ can refuse to operate non-profitable traffic on the national railway framework (where there is still a state-granted monopoly), a responsibility in that case taken over by the state via invitation of other operators to submit bids for running this traffic. Private undertakings can thus enter railway passenger traffic via a) bids invited by the state for unprofitable parts of the national framework that SJ chooses not to operate, and b) bids invited by regional responsible traffic authorities for regional railway operations. The first of the latter type of bidding contests unfolds in 1989 as *Smålandstrafiken*, a regional responsible traffic authority body in southern Sweden, calls for bids regarding the operation of railway traffic in the area. SJ submits a bid but loses to the private traffic operator *BK Tåg* ('BK Trains', henceforth BK) that hence gets the right of traffic operation from June 1990 and four years ahead.

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[52]Where not explicitly stated otherwise this section builds entirely upon the material provided in the judgement of the Market Court 2000:2 (Dnr A 3/99) (Marknadsdomstolen (2000)) announced as of February 1st, 2000. What follows is for obvious reasons not an exhaustive account of the case but a summary where aspects of relevance for this text are focused. This means that the arguments of each of the two parties are accounted for as to their main contents. Their claims in the two applicable court instances come forward in an integrated fashion for the sake of argument clarity. In addition the judgement of the two courts themselves, The Stockholm District Court, and The Market Court, are recapitulated.

In June 1993, one year prior to the expiration of BK's first traffic contract, *Smålandstrafiken*, the regional customer, announces a new round of public procurement by means of a so-called 'negotiated' bidding contest.[53] The traffic period is another four years and consists in five separate traffic sections. Bids are to be based upon the cost for operating the total amount of 'passenger kilometers' discerned in enclosed time tables for the relevant traffic sections. Another traffic condition embraced in the call for bids is that the operator, at no cost, has the right to utilize some 20 diesel-powered railway vehicles owned by the customer. Insurance and daily maintenance are to be taken care of by the chosen operator whereas the customer, the regional responsible traffic authority *Smålandstrafiken*, is to be responsible for major repairs and upgrading efforts. This time SJ emerges as a winner by quoting a price of SEK 23.5 million, and BK is in consequence deprived of a further right to operate the traffic under consideration. There is a 30% price difference (thus favoring SJ) between the final bids submitted and in addition SJ offers some extra service at no cost implying connections between some of the regional traffic and that on the national railway framework (where SJ still operates as a monopolist).

Konkurrensverket (KV), The Swedish Competition Authority, does not approve of SJ's conduct and claims, in a motion filed at The Stockholm District Court, that SJ is to be imposed a damage-of-competition fee of SEK 30 million for purposeful predatory pricing in breach of article 19 of the Competition Act (SFS 1993:20).[54] SJ does not accept the claim and furthers that it does not enjoy a dominant market position at the time and does not quote prices in a predatory manner. The former monopolist is anyhow, according to the ruling of the Stockholm District Court, ordered to pay a damage-of-competition fee of SEK eight million for abuse of dominant position via predatory pricing in breach of article 19 of the Competition Act. SJ does not accept this ruling and appeals against it in the Market Court that subsequently, in February 2000, confirms the verdict thereby entirely dismissing the appeal of SJ.

The position taken on by The Swedish Competition Authority

The opening position of KV is that *the relevant product market* in the case is 'operation of railway passenger traffic on contract', the customers of which are regional responsible traffic authority bodies which procure such regional traffic and the Swedish state which procures 'unprofitable' traffic on the national railway framework.[55] The identity of the actor that provides the necessary diesel vehicles, be it the state or a regional responsible traffic authority, is then not an issue with any impact. KV furthermore takes particular pains in

[53]This implies that some parts of the procurement process is to remain open until a final negotiation between the customer and the suppliers considered.

[54]Predatory pricing means the submitting of a bid which does not cover the average variable cost for operating the business at stake.

[55]KV says that it is possible that the demands of these two customer categories are mutually dependent.

emphasizing that bus traffic is not an alternative here since the operation of railway traffic at the time is an irrevocable political decision subject to which any procurement is to unfold. Some railway sections are then 'protected' from competition by means of regulation pertaining to transport by bus. That is, since customers (the regional responsible traffic authorities or the state) in their call for bids say that railway traffic is the object of procurement, it is not feasible to argue that buses can be part of the relevant market according to KV. In addition, bus and railway traffic must be considered very different in the eyes of the user. *Supply* (and not demand) substitutability could at the outset eventually render viable the inclusion of bus traffic in the relevant market. This however does not make sense in light of the argument of the European Commission which claims that 'it is normally only demand substitutability that shall be considered, since it is [only] this substitutability that embodies the most immediate and economic-wise efficient competitive pressure' (Marknadsdomstolen (2000, p 15)). But even in case where such substitutability *would* be called upon for the purpose of defining the relevant market, this does not alter the definition provided, argues KV. This is so since there is no way that a bus traffic operator is in the position to switch its operations from buses to trains. This conclusion follows from different requirements regarding security, technical know-how and the time required to complete such a strategic redefinition of the business, something of particular relevance once the situation prevailing in 1993 is considered. *The relevant geographic market* is, says KV, the whole of Sweden. This is so since all railway traffic service providers are probably capable of handling any operations anywhere in the country that hence is characterized by uniform competitive conditions.

When it comes to SJ's eventual *dominance* on this market, 'operation of railway passenger traffic on contract in Sweden', this actor enjoys, says KV, a 95% market share prior to the actual procurement process in back 1993 (BK holds 5% which is the traffic 'won' from SJ in 1989 and an additional operator, *Linjetåg*, holds nothing at all). This very powerful market position is furthermore strengthened once Swedish railway traffic in general is considered, something opening up for economies of scale and scope not enjoyed by anyone else. In addition SJ has the privilege, as a former long-time monopolist, of knowing railway operations much better than anyone else, and SJ also controls many of the technical facilities (such as depots and station buildings) that are necessary for the pursuit of railway traffic. The overall turnover of SJ, some SEK 22 billion at the time, is also considerably higher than that of BK, SEK 250 million. KV furthermore has it that this SJ's market dominance is undisputed also when other alternative relevant markets are considered, such as that potential one encompassing buses (where SJ, via Swedbus, also is a very powerful actor). In fact, the dominance stands out even clearer in light of such alternative markets definitions says KV.

Since market dominance then seems to prevail it must be established whether SJ, by submitting the winning bid, acts *abusively* by quoting a price inferior to a) its average variable cost, and / or b) its average total cost for the relevant railway traffic services. By pricing below one's variable cost a company is directly presumed to behave abusively whereas this is so when pricing below total cost can be shown to be part of a plan which aims at harming competitors. By comparing the prices quoted by SJ in the 1989 (when the contract is *lost to BK*) and 1993 (when the contract is *won from BK*) bidding contests, KV says that SJ (after appropriate price adjustments that enable this kind of comparison) *decreases* its price by some 31 per cent. This happens at the same time as the general index for railway passenger traffic in Sweden *increases* by more than 30 per cent.[56] That is, whereas SJ in general (given its overall dominant position for railway passenger services) elevates its average price level substantially, the bid submitted in contest with BK constitutes an *as* substantial *reduction* of price between 1989 and 1993. When scrutinizing the costs in detail KV furthermore finds that the price quoted by SJ does not cover more than about 70 per cent of the average *total* costs reasonably incurred, something SJ, it is said, must have understood. The next step is to establish whether SJ's bidding price is also inferior to its average *variable* cost, an additional (and yet worse) indication of alleged abuse. KV then says that since every cost element attributable to the traffic services to be undertaken emerges only as the traffic commences, *all costs must be considered as variable.* In consequence what is said above for total costs applies also here. They are far from being covered by the price quoted in the bid. In case this a position would not be feasible (if some of the costs still would be considered as fixed as opposed to variable), KV (by making a detailed scrutiny of possible fixed aspects of these variable costs) still concludes that the bidding price of SJ (making BK lose out) covers only some 74% of the average variable costs reasonably incurred. Pricing thus is predatory.

If this is so, that predatory pricing is actually being pursued, it can furthermore be shown that the purpose hereof is to hurt BK in particular and / or to deter market entry in general. This matters in particular if it can only be shown that SJ's bid is lower than the average *total*, but not the average *variable*, costs. KV argues that there are a number of factors that seem to indicate that the pricing strategy pursued (that in itself is a tangible threat) is part of an overall plan to restrain competition. There is hence a purpose working out in this direction. These factors encompass attempts to put BK under pressure and to obstruct others from supplying the relevant railway services. Hands-on examples of alleged measures undertaken by SJ in this regard is its conduct when cooperation in the area of repair and maintenance is discussed, attempts to take over BK, and repeated threats posed regarding predatory pricing, local time schedules and responsibility for personnel. KV furthermore has it that, following its sheer size, SJ has every opportunity to succeed in the strategy pursued. That is, SJ has the necessary power to finance pricing below cost, in part by means of subsidies from other business areas,

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[56]As a comparison BK elevates its offered price by ten percent, thus losing out to SJ. The consumer price index during the period grows by some 20 per cent.

most of which are protected from competition via state-granted monopolies.

> *By the pursuit of predatory pricing SJ for a long time, at least during the length of the agreement period, competed to the very detriment of its only true competitor on the market. This regional market was furthermore the area where BK Tåg* [BK] *pursued its main railway operations* ...[and this market was hence] *of decisive financial importance for BK Tåg's continued railway business. ... What is more, the indirect effects that SJ's conduct might have given rise to, such as that other potential actors on the market for railway passenger traffic are discouraged from submitting future bids when procurement is underway, must be recognized...*[57]

The position taken on by The Swedish State Railways

When *the relevant market* is to be defined, the European Commission has it that demand substitutability shall be the lodestar for product market identification, something holding in particular as regards pricing. In essence, then, the relevant market definition must revolve around a scrutiny of which feasible alternative sources of supply that someone's customers have. It is then fair to argue, says SJ, that 'trains and buses are substitutable in the eyes of the customers, that is for the responsible regional traffic authorities and also for the end customer – the consumer' (Marknadsdomstolen (2000, p e37). The preferences of the individual customer here do not matter, but only long-lasting and generally prevailing non-substitutable needs. To have only Coke and not Pepsi in a store thus does not, SJ argues, mean that Pepsi is not part of the relevant market. 'Accordingly a responsible regional traffic authority's choice of train in a procurement does not mean that buses are not part hereof' (Marknadsdomstolen (2000, p 4)). This view is also supported by the fact that the responsible regional traffic authority has the privilege of state subsidies no matter if the services are accomplished via trains or buses. It is furthermore obvious that these regional authorities on a continuous basis strategically ponder on whether buses or trains are best, something then meaning that an *accomplished* individual procurement does not tell a lot in this regard. When identifying the relevant market in this case it is obvious, SJ furthermore claims, that this definition must coincide with the particular traffic *intended* in the procurement *to be undertaken*, here 'the operation of public transportation (trains/buses) on contract' according to the specified traffic sections. This is so, it is said, according to European Community practice. Even in case buses are exempted from the market definition, the core meaning still holds. The market must be defined according to the actual procurement that is underway. This is seen as the customer, here the responsible regional traffic authorities, via their calling for bids make clear that they are in need of a particular service, and nothing else. What is asked for is hence not substitutable with regard to something else. Demand is specific, decided upon by the customer, something also holding in case supply substitutability is to be considered. The whole of Sweden hence cannot be the geographic market, only the traffic sections mentioned in the bid can. As seen SJ takes on a position where the product market is defined broadly

[57]Marknadsdomstolen (2000, p e36, author's translation)

(trains *and* buses) whereas the geographic market is interpreted most narrowly (*not* the whole of Sweden), *something accompanied by a crucial impact of what is asked for in the individual act of procurement*. Being awarded a contract under these circumstances, and for a certain time period further naturally implies that someone enjoys a market share of 100 per cent since the market is what is asked for in the preceding procurement process. Then there will be only potential competition, something eventually changing once a new procurement process will be underway later on. Competitors will then always be those submitting bids in the particular case and as anyone is free to do so barriers to entry must be considered as very low. 'As long as there is more than one company that can submit a competitive bid, market competition will be maintained since the bidder that bids too high a price is not going to win any bidding contests. The decisive factor in a procurement market is not market size but the ability of individual suppliers to submit competitive bids' (Marknadsdomstolen (2000, p 10, author's translation)). What is more, according to the European Community, to have *a dominant position* implies that someone is in the position to act independently of competitors, customers, and ultimately, the consumers. SJ is allegedly not in such a position at the time, *however the relevant market is defined*. In consequence SJ does not experience a dominant position. This also follows from the very nature of the traffic service and the characteristics of procurement bidding contests where several bidders always can enter the 'bidding market' thus competing with each other on equal terms.

As far as the cost structure of SJ is concerned it is allegedly obvious that the reorganization of the company has the effect of lowering costs substantially. That is seen in particular as several units become exposed to competition. This is the background against which SJ submits its bid in competition with BK in 1993. Hence, decreasing costs are but a natural consequence of overall competition. SJ also claims that new accounting principles are introduced, something which entails that costs are more directly tied to the actual part of the organization which is to incur them. The intent of the cost calculation pursued is, according to SJ, to submit a profitable bid that is no lower than either average total or average variable, costs. SJ further recognizes that some costs, following mistakes, are left out from the bid in a non-deliberate manner. SJ furthermore denies, regarding the nature of the costs, that all of them are to be regarded as variable. This is seen in particular as the societal responsibility for personnel is considered. In consequence there is no doubt that the bid submitted by SJ by and large covers all the variable costs, something holding also if the errors related above are taken into account.

According to SJ there finally does not prevail any purpose or plans whatsoever to try to eliminate BK, or to curtail market competition as such. Instead, says SJ, the company tries to support BK with necessary services once this company emerges as the winner of the 1989 bidding contest. In fact, it is claimed, SJ is truly helpful to BK, something allegedly also recognized by the latter. Since BK goes on to submit bids in competition with SJ it furthermore hardly seems likely that BK is badly hurt by SJ's behavior during the actual period.

> *Konkurrensverket claims that ... the purpose of SJ's conduct was to hurt BK Tåg* **and** *to warp and weaken competition on the contract market. The claims pursued by Konkurrensverket are erroneous. The position of SJ is that BK Tåg, irrespective of how SJ's bid is judged, has never been hurt. BK Tåg's chairman of the board said in January 1994 that BK Tåg was prepared to submit a bid that only covered its cost price, that is without entailing a profit. Since BK Tåg could never know about the bids submitted by others, the conduct of BK Tåg shows that BK Tåg never suffered any harm. ... Market development and the fact that BK Tåg has continued to submit bids proves that there has not been any harmful effect at all. There are more actors than ever in the market.*[58]

The ruling of The Stockholm District Court

An initial wide product market definition with relevance for the case is, according to the Stockholm District Court (SDC), 'a services market where regional responsible traffic authorities [the customers] procure collective passenger traffic and call for bids from companies that at a certain price are prepared to provide the traffic required' (Marknadsdomstolen (2000, p e70, author's translation)). This means that the very identities of the responsible traffic authority, the state (procuring 'non-profitable' services for the national railway framework), or regional responsible traffic authorities (procuring regional traffic services), do not really matter for defining the market that hence could encompass both railways and bus services. This holds in particular given the alleged interdependence of the two types of services. When then reaching out for more of a precise market definition it is important, says SDC, to consider both supply and demand substitutability. Of particular importance is then product characteristics, price, and how users such as consumers perceive the de facto opportunity for substitutability. There is here a demand for certain public transportation that eventually is met by those suppliers which submit bids for these services. There further seems to prevail, SDC argues, at least some substitutability between trains and buses in this context. It is nevertheless clear that the two means of transportation differ concerning price, required time for transportation, and travelling comfort. When taking customer opinion (the actual regional responsible traffic authority) into account SDC claims that railway transport cannot, except for in very few cases, be considered as a substitute for bus services. That is, '[t]he described differences between the two means of transportation imply that the regional responsible traffic authority [the customer] only with substantial difficulty can alter its demand for railway traffic services from train to bus' (Marknadsdomstolen (2000, p e72, author's translation)). Something similar holds for supply substitutability. It is then said that this is asymmetric following the fact that a provider of railway services (in the actual procurement) does not have to have own vehicles, something

[58]Marknadsdomstolen (2000, pp e67, e68, author's translation)

however necessary for a bus services provider. It is thus easier to switch from supplying bus services to railway services than the other way around. The geographic market is furthermore no doubt the entire area of Sweden as anyone is free to supply the services required by submitting a bid. In consequence, says SDC, 'the relevant market in the case is constituted by operation of public railway passenger traffic on contract in Sweden' ('operation' here also entails auxiliary services such as general maintenance, ticket sales et cetera) (Marknadsdomstolen (2000, p e73)). The barriers of entry seem low it is said, since the regional responsible traffic authority provides the necessary diesel vehicles.

As regards SJ's eventual *dominance* in this market SDC starts out by stating that a procurement process can very well be competitive despite the fact that someone is dominant in the relevant market. This follows from the notion that dominance might be at hand in a market that still experiences competition when this dominance is not abusive by thus curtailing competition. Dominance per se, it is argued, is a position entailing 'such financial strength that provides the company with the opportunity of acting, to a considerable extent, independently of its competitors and customers, and in the end of consumers' (Marknadsdomstolen (2000, p e73, author's translation)). When considering the facts of the case SDC, with reference to the arguments presented by KV, finds that SJ enjoys a very strong position in the market. This follows, among other things, from the sheer size of the company, its long-time monopolistic experience, its obvious relative financial and technical advantages, and its control of most of the infrastructure necessary for the operation of Swedish railway traffic. In conclusion, says SDC, 'SJ was in the position to exert considerable influence over the conditions subject to which competition in the newly deregulated market developed and could to a considerable extent act irrespective of other market actors. SJ must in consequence at the actual time be considered as having a dominant position on the relevant market' (Marknadsdomstolen (2000, p e76, author's translation)).

When it comes to eventual abuse by means of predatory pricing SDC says that this can be discerned either as pricing inferior to someone's average *variable* costs, something implying a presumption of intended abuse, or it can occur as quoted prices are found to be below average *total* costs if such pricing is shown to be part of a plan to eliminate or hurt competitors. In accepting most of the arguments pursued by KV, except for that having it that all SJ costs are to be considered as variable, the judgement of SDC is 'that SJ, in its bid for *Smålandstrafiken* [the traffic services encompassed by the procurement] has committed predatory pricing since ... the price [submitted by SJ] was below SJ's total as well as [its] variable costs and [since] SJ must have realized this ... It must hence be considered as confirmed that SJ, via its conduct of committing predatory pricing in relation to its bid for *Smålandstrafiken*, has violated the ban in article 19 on abuse of dominant position'. (Marknadsdomstolen (2000, pp e84, e85, author's translation)).

In the actual case the conduct was obviously targeting BK Tåg [BK] *that was perceived as a powerful competitor that already had beaten SJ in a bidding contest. Because of the predatory pricing adhered to by SJ BK Tåg lost Smålandstrafiken* [the traffic services encompassed by the procurement] *for a period of four years, something obviously constituting a serious drawback for a small company that tries to enter a formerly closed market. BK Tåg also incurred losses since one could not fully utilize, for instance, the railway workshop that had been constructed. The conspicuously low bid from SJ probably also cooled down other potential competitors of SJ. The demonstrated circumstances speak in favor of deciding upon a relatively high damage-of-competition fee, in particular with regard to the fact that the bid constituted a major risk for that competition on the by then newly deregulated market would vanish completely.*[59]

The ruling of The Market Court

Following the arguments presented by SDC it is obvious, says The Market Court (MD), that procurement of public transportation, be it handled by the state or by regional responsible traffic authorities, makes up one and the same overarching market. It is however doubtful whether railway and bus transportation, in particular as the former costs more and demands more of long-term considerations, are part of the same market as their supply substitutability is only limited. The geographic market is Sweden.

The Market Court hence shares the opinion of The [Stockholm] *District Court implying that the relevant market is made up by operation of public passenger railway traffic on contract in Sweden. ... Although the particular character of a* [public] *procurement market might affect the judgement of whether a company in such a market can be considered as having a dominant position in the meaning of article 19, according to the reasons presented by the District Court SJ must in 1993 be considered as having enjoyed a dominant position on the relevant market.*[60]

When it comes to SJ's calculation of costs, MD agrees with KV in saying that it is obvious that one expects such calculus to have been accomplished with proper care. Regarding calculation of actual costs MD supports the view presented by SDC, that the bidding *costs* of SJ are somewhat more than SEK 30 million. Despite some differing remarks MD also agrees with the manner in which SDC makes a division between fixed and variable costs, an issue of particular relevance in the case. The offered bid then as a whole, argues MD, lies well below SJ's total variable costs and what is more, this must have been clear to SJ as the bid itself is scrutinized by an array of people. The presumption of harmful purpose in relation to competitors hence cannot be dismissed and in consequence MD says it is obvious that SJ has abused its dominant market position.

The Market Court has found that SJ has abused its dominant position. To be able to determine that the violation has been completed in a purposeful manner it is, as argued by the [Stockholm] *District Court, sufficient to show that SJ could not have been unknowledgeable concerning that its conduct restrained competition. According to the opinion of The Market Court SJ must have realized that the pricing of the*

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[59]Marknadsdomstolen (2000, p e86, author's translation)
[60]Marknadsdomstolen (2000, p 23, author's translation)

bid submitted by SJ ran the risk of at least seriously weakening BK Tåg [BK], *which by then supplied railway traffic services only at a minor scale and had invested in own maintenance facilities in the area, and that the* [SJ] *conduct accordingly had a restraining effect on competition.*[61]

Customer transparency in the case

When now analyzing the manner in which the customer appears in the referred case there are two major questions to consider. Firstly, to what extent do the two parties to the case, and the two courts judging it, relate to the customer and, secondly, do their arguments correspond to what is found in the preparatory works / the commented law itself as accounted for earlier on in this chapter?

Consider first the claim of the plaintiff, The Swedish Competition Authority, KV. The original claim of KV, filed with The Stockholm District Court, starts out by using the identity of the customer as a reference point when painting the background to the argument subsequently to come forward concerning the relevant market. It is then first said that the two customer categories, the regional responsible traffic authorities (procuring regional services) and the state (procuring 'non-profitable' national services let down by SJ) are tied up by political decisions. This delimits the market at large and implies that bus services is not an alternative to railway transport. That is, the institutional framework that constrains customer conduct is the initial decisive point of reference when the claim concerning the relevant market is worked out. This a position is strengthened by the manner in which the demands of these two customer categories allegedly are interdependent. The remainder of the argument is devoid of mentioning customers at all, except for in most scattered and superficial instances. The only passage where user (that is consumer) considerations come to the fore is in the penetration of one of the alternative definitions of the relevant market. Only then are the substantial differences between railway and bus passenger traffic delineated in terms of travelers' perception of price, time spent on travel et cetera. KV then does not refer to the substitutability of demand , a very customer-focused term, until its plea to The Market Court, and then only in passing. In this last context KV repeats its fundamental argument from The Stockholm District Court concerning the constrained character of procurement (the customer not experiencing any freedom in choosing between railway and bus transport since the former is stipulated by political decrees) but also chooses to present more overtly the view that the traffic services considered affect the user in various ways. Still KV does not really focus the customer in any of the arguments pursued.

The impression one gets from SJ, defendant in The Stockholm District Court, is obviously rather different. This party by contrast chooses to focus the customer very much in its discussion of the character of the relevant market. The argument starts out in penetrating

[61]Marknadsdomstolen (2000, p 29, author's translation)

demand substitutability following European Commission recommendations in the area, a discourse then pursued from the perspective of consumers regarding foremost their access to alternatives. 'On the demand side trains and buses are substitutable for the customers, that is the regional responsible traffic authorities and the final customer – the collective of consumers' (Marknadsdomstolen (2000, p 4, author's translation)). The conclusion drawn is crucial for the main position taken on by SJ, that both railway and bus traffic services are part of the relevant (product) market. This reasoning is then backed up by SJ's claim as to the nature of the procurement thus undertaken by the regional responsible traffic authorities. In a procurement process it is argued, it is only what the customer asks for that can be seen as the relevant market, an argument thus denying the inclusion of all of Sweden in the market definition. That is, *by formulating the call for bids in a particular manner the customer defines the relevant market.* It shall then be observed that SJ thus *geographically* interprets the call for bids as most restricted whereas the interpretation instead is most extensive when it comes to *the type of service* demanded, trains and / or buses. But customers also appear in other instances. By referring to the European Commission SJ furthermore sees dominance as a function of independence of 'competitors, customers, and last of all consumers'. That is, whether dominance prevails or not stems directly from how someone's customers behave. And implicitly it is then said that SJ's customers do not behave in a manner which permits SJ to act independently from them. That is, customers are likely to adapt their behavior in light of how suppliers other than SJ set prices et cetera. This argument is also discerned when SJ discusses how it is that costs in general sink following exposure to competition. The customer is *as* present when SJ makes its case as complainant in The Market Court. Once again it is demand substitutability that is referred to when the relevant market is a) geographically downsized, and b) product-wise enlarged. That is, by focusing demand substitutability (= likely customer conduct), the market delimitation is made both sufficiently narrow and sufficiently large to suit the purposes of SJ. The most intriguing customer-based reasoning of SJ's is no doubt that revolving around how a food retailer chain's assortment selection of brown soft drinks corresponds to a regional responsible traffic authority's choice of type of traffic service. To choose Coke then allegedly does no imply that Pepsi is not part of the market.[62] More of an institutional argument is however also pursued as SJ says that state subsidies for regional traffic prevail irrespective of the precise type of services, train or bus, that is at hand. Similarly it is furthered that the mere prevalence of *customers' long-term strategies* encompassing considerations of both trains and buses confirm how close these are *in the eyes of the customer*. That SJ sees itself as very dependent on customer conduct, and thus not dominant in this particular sense, is discussed and discerned as the possibility of redeeming eventual predatory prices. SJ then has it that a) consumers benefit from low prices,

[62]A first-hand objection to this argument is of course that there is more of a difference, not least from the horizon of consumers, between two modes of transportation than what there is between two brown soft drink brands.

and b) there is no way that SJ can compensate itself in retrospect by increasing prices once competitors have been forced to leave the market following the alleged abuse of SJ. That is, the low prices charged by SJ in the case (provided they are passed on to end customers) benefit consumers.

When The Stockholm District Court states its findings, it initially chooses to relate the customer in much the same way that KV, the plaintiff, does. That is, the interaction which prevails between the two customer categories (the regional responsible traffic authorities and the state) makes them act in the same market. When this market is considered more in detail substitutability, in particular regarding demand, is pondered upon. Since these two customer types demand both railway and bus transport services, there is some substitutability at hand. This is however not the case anymore when the discourse is deepened. For various reasons (investments made, regional strategic decisions taken) says SDC, railway and bus services cannot substitute each other in the eyes of the customer (foremost the regional responsible traffic authorities) and hence '[t]he differences accounted for between the two types of transportation are conducive for the judgement that a regional responsible traffic authority cannot easily switch its demand for railway traffic services to, instead, the provision of bus traffic services' (Marknadsdomstolen (2000, p e72, author's translation)). The court relates dominance in much the same way as SJ (as independence from, among others, customers) but comes to a different conclusion. The implicit meaning thereof is that customers (and competitors) are not in the position to affect SJ to the extent that it can be considered as dependent on these market actors. The independence of SJ in this regard then confirms its alleged market dominance.

Since the reasoning of The Market Court comes to the same conclusion as The Stockholm District Court there is no surprise that one chooses to present the arguments in a similar manner, something pertaining also to customer attention. That is, the two main customer categories are initially alluded to and bus traffic services are not seen as part of the relevant market with reference to its doubtful demand substitutability with respect to railway services. Otherwise the customer is not very much referred to in the opinion expressed by the Market Court.

To summarize, a few issues stand out clearly when the presence of any eventual customer-based arguments are considered.

- Customers are principally alluded to in two areas, (foremost) in relation to demand substitutability when the relevant market is to be defined, and (to a certain extent) when dominance is to be established following SJ's eventual dependence on other market actors.
- Customers, and the eventual care-taking hereof, are however not a very central aspect of

this case. They do not constitute the propelling force for bringing the case to court in the first place. This can be seen, as the original plaintiff, The Swedish Competition Authority, hardly touches thereupon. And they do not emerge as a decisive factor when eventual abuse is to be ultimately established as seen in the final opinion submitted by The Market Court.

- The one party which chooses to penetrate customers at any depth is SJ, but then hardly outside the realm of the separate procurement process discussed.
- Except for in a few instances, *consumers* are not dealt with at all. Only primary customer categories, the state and the regional responsible traffic authorities, seem to matter for the case.
- When commented upon customers are in general treated neither as agents, nor as beneficiaries of competition. They mostly appear as an institutional actor devoid of both much own discretionary power and the opportunity to derive advantages from competition.

How do these five issues now appear once looked at in light of what is learned about customer-based reasoning above in the preparatory works and in the wording of the law with adjacent comments? A few things seem obvious.

- The issue of consumers eventually benefiting from competition, a salient element both in the preparatory works and in the law itself, is strikingly absent in the case.
- Market efficiency as such, and the eventual merits of competition, are however not commented on much either, something thus in part explaining why customer benefit is not an issue.
- This holds, possibly, even more for customer agency (something not very much seen in the law and its formal underpinnings either). Some discussions of dominance in all three instances however slightly moderate this impression.
- The customer-induced opportunities that nevertheless are provided by antitrust legislation and practice, such as the pursuit of so-called SSNIP-tests (estimating customer reaction to a price increase) are neither commented upon, let alone performed in the case.

However, as also commented upon concerning the preparatory works, it would be inappropriate to attribute this relative invisibility of the customer in the referred case to the lack of knowledge or understanding of the courts and the parties to it in this regard. It is obvious that the case mostly revolves around the establishment of whether SJ did in fact go lower than its total variable costs in the bid, since in that case abuse is obvious. In consequence it follows that it would have been unwise for the parties, or the courts, to deploy their resources at other issues more than as a background. Also, since the first petition of KV targets BK as David fighting Goliath, it is obvious that the foremost interest of protection in the case is that of competition itself as discerned through the presence of actors other than the former monopolist. To focus small business in itself then does not rule out impact on the customer, only that this here is a secondary issue. *Still it is obvious that the overall treatment of the case displays significant signs of not really involving the role of the customer for the understanding of competition.* Consider for instance the distinct differences that prevail between two customer categories discerned in the case, regional responsible traffic authorities and consumers riding on the trains. Whereas the first category is related to in several instances, consumers are not referred to more than in passing. That is, one discusses the choice made by the public customer by means of procurement, but not really that of consumers in their daily use of transportation services.

vii. Summary and policy implications

At the outset of this chapter the Swedish mobile telecommunications market is commented upon from the horizon of an authority report (Konkurrensverket (1999a)) which pursues the claim that competition here is insufficient. This can allegedly be remedied once consumers are in the position to relate more actively to suppliers, something eventually resulting in lowered prices thus promoting the interests of said consumers.[63] That is, *agency propelling, and benefits resulting from, competition, are tightly interlinked in this reasoning thus discerning competition as a customer-induced phenomenon.* This causal linkage between agency and outcome with respect to competition is however not particularly salient when some aspects of Swedish legislation in the area are scrutinized. This holds in particular as far as the case *Marknadsdomstolen 2000:2* is concerned. Therein the arguments pursued, except for in scattered comments regarding relevant market definition from demand substitutability, hardly recognize the customer at all, more than as a detached point of reference. Not even customer benefits is an issue here, something standing out in sharp contrast to the preparatory works and the letter of the law itself where this is a recurrent, though debated, subject. This is however not to say that the agency-outcome linkage traced in the opening mobile telecommunications market scrutiny prevails in the law or in any of its preparatory works. Instead what appears here is a most unbalanced picture where the area of customers and

[63]A similar reasoning is hinted at by *Riksrevisionsverket* (The Swedish National Audit Office) (2000), looking into customer conduct in the re-regulated Swedish markets for electricity and (non-mobile) telecommunications. This report has it that even though people in general are aware of the fact that there are alternatives to the former monopolists in the respective markets, a majority also having tried to compare service providers, only some 25 (telecommunications) and 10 (electricity) per cents have in fact changed suppliers. The notion of active and passive 'consumership' is then a suitable way of grasping the situation. 'There is a distinct tendency of polarization between active and passive consumers. This is seen in, for instance, how consumers have *searched for information*, if they have *compared various offers*, if they have *changed suppliers*, and if they have *conveyed complaints*, if any. What appears is a small group of very active consumers that actively have searched for information, who have thought that it is relatively easy to compare offers from different companies and that have been early in changing suppliers. ... But the majority of consumers shares the information passively, awaits the changing of suppliers and oftentimes does not even care to compare the companies' offers' (Riksrevisionsverket (2000, p 48)).

competition is almost entirely devoted to a discourse where consumers and others are interpreted as passive recipients-only of the fruits allegedly produced by competition as a phenomenon powered exclusively by suppliers themselves. That is, *when scrutinizing the said aspects of law in relation to the two questions posed initially following the idea of Tertius Gaudens, it is only the first, the eventual reference to customers at all, that gets an answer in the affirmative, and this does not prevail in the empirical case looked into. What is particularly striking is hence that competition as a customer-induced phenomenon, seen as customer agency, is not an issue, neither in the law itself, nor in its working out in the referred case.*

According to the reasoning pursued by Simmel, and recapitulated at the outset of this chapter, this indicates two things. *In the first place* competition, from a legal horizon, is treated in a most non-social sense. Simmel claims that this is serious since a position not really recognizing the prevalence of the third party runs the risk of not being able to tame the subjective elements of competition either. That is, abuse of law following each competitor's own egotistic tendencies, that is not taken proper care of by recognizing of *how* this is detrimental to the objective outcome for third parties, runs the risk of ruining whatever societal advantages there might be as a result of competition. *Competition not explicitly recognizing third parties is then not really competition in the beneficiary sense hereof but only destructive two-party conflict. In the second place*, even when competition appears as adjacent to the activity of customers (as in parts of the preparatory works, and the commented upon law itself) *it is as a mechanism embodying only a very passive Tertius*. As seen Simmel has it that Tertius can appear in two guises, either as 'active' shaping the own destiny by purposefully invoking competitive tension between two others to own advantage. Or Tertius can be very passive, eventually benefiting only from two others holding each other in check. *It is then obvious that only a very passive Tertius is recognized by law.* This does not really have to be a problem since the positive effects of competition might accrue to this Tertius, maybe the buying public at large, anyway. What is worrying is however that this a desired outcome then seems to come true only as a result of 'windfall luck' (to speak the language of Kirzner). This does not have to constitute a market shortcoming either were it not for the fact that competition, and its desired outcome, does not really seem to prevail to the extent that is generally desirable, at least not in the case of Sweden.[64]

That is, it might tentatively be the case *that by not recognizing the difference between an active and a passive Tertius - the former impacting its own destiny, the latter being a windfall victim of the circumstances - the market and the societal institutions that foster it might*

[64]Confer the market report *Konkurrensen i Sverige under 90-talet – problem och förslag* (Konkurrensverket 2000a) and the mobile telecommunication market report accounted for at the outset of this chapter (Konkurrensverket 1999a).

deprive themselves of the opportunity to truly benefit from competition.

That is the foremost policy implication of Simmel's reasoning and also of the ideas regarding customer-geared competition being pursued in this thesis.

Does this then mean that those institutions, legislative bodies and others in the position to affect policy, are in the dark regarding the crucial impact of these ideas? Of course not, and there are several examples to the contrary thus displaying a tendency towards an explicit recognition of the active Tertius. Two of these having particular impact on Swedish competition policy are accounted for below, as they are brought forward by The European Commission and the Swedish government.

Consider first the words of Mario Monti (2000a, pp 4, 5, 6), European Commissioner responsible for competition. He starts out by recognizing, a 'traditional' passive Tertius, only thereafter to endorse an active Tertius, something then seen in an invitation passed on to consumers' organizations.

> *Whether they be consumers, savers, users of public services, employees or taxpayers, the Union's citizens enjoy the fruits of the competition policy in the various aspects of their everyday life. ... However, the Commission's competition policy is not limited to protecting consumers from the dangers that face them. It also seeks to preserve and stimulate their ability to operate on the market in such a way as to contribute to the competitive process. Ensuring that consumers are able to make choices which affect the conduct of firms is also a means of guaranteeing that markets function on a competitive basis. ... In conclusion, the Commission and its departments responsible for competition encourage the active participation of consumers and their organizations. Given their knowledge of the day-to-day functioning of markets, in particular those in mass-market consumer goods, consumer organizations are able to provide the Commission with information of interest to the Community by raising complaints or through informal contact.*

Then share the meaning of the Swedish government as discerned in the government bill *Proposition 1999/2000:140, Konkurrenspolitik för förnyelse och mångfald* ('A competition policy for renewal and diversity', pp 1, 25, 25-26, 35, 37-38, 47, author's translation, added boldface). The government here starts out by recognizing that there is more of an overall role to be taken on by consumers in issues of competition policy. This is accompanied by how market logics are transforming following societal changes, both issues of which then have to be mirrored in corresponding revisions of relevant formal institutions. *By furthering choice opportunities between suppliers, competition is then to be promoted in a manner akin to the active Tertius.* In this endeavor information is to play an important role. Finally it is touched upon how important it is, in this respect, not to lose track of the different customer categories that there are since these impact each other.

> *The opinion of the government is that there is reason to focus the consumer perspective in competition policy more than what has been the case until now. ... The mission of the state is to actively participate in the striving for a more modern society in accordance with the overarching goal of sustainable development. Technical and organizational changes create new conditions for all economic activity. The development of information technology is one example hereof, market internationalization another. The government and the parliament shall pave the way for what is new by adapting acts of law, infrastructure, education, labor market regulation and not least the rules governing competition between companies and products. ...* ***The government aims at obstructing monopolies that restrain the opportunity of households to choose supplier or technology. The purpose is to create competition between companies and between technologies. ... Increased consumer power by means of strengthened competition and enhanced information to consumers increase pressure on the companies. ... A working economy presupposes strong and informed consumers that by means of conscious and rational choices of products and purchase locations use their opportunities to impact production.*** *In consequence an important societal task is to, in various ways, create good conditions for the consumers in their role as market actors. The goals of consumer policy are, among other things, that consumers shall occupy a strong position on the market and that households shall have good opportunities to make use of their (economic) resources in an efficient manner. ...* ***Freedom of choice gives rise to increased consumer benefits. Competition often results in price pressure.*** *But consumers do not always prioritize the price at the expense of other product properties.* ***When consumers demand good service, high quality and environmental adaptations, good accessibility or more alternatives to choose from, these are also product characteristics that are propelled by a kind of competition where power resides with the consumer. It is important that consumers are given real chances to make such choices. Marketing*** [that is market communication] ***must therefore be accurate and informative.*** *... To maintain workable competition it is therefore necessary, besides competition policy measures, ...*[to impose] *strong consumer protection providing consumers with chances to exert well-pondered consumption choices. ... For the market system to work out it is necessary that consumers have an opportunity of choosing between different producers and products. ... Such opportunities of choice must be at hand not only for the final consumers, that is the households, but also for all the companies and official bodies that buy inputs, components, support services et cetera. In this way the power of consumers over concentration of production is carried backwards in the chain of distribution and value-adding.*

That is, there seems to be at least tendencies around, both within The European Commission and the Swedish government, that implicitly subscribe to the strengthening of the link between agency and outcome of competition, something then found in Simmel's idea of the active Tertius. How could this then be accomplished?

As seen from above, attributing more weight to the role of consumers is *one way*. It then however seems necessary to abandon some of the prevailing traditional aspects of consumer policy as a protection-only device, according to which the consumer cannot ever be anything else than the very, very passive Tertius. By and large such a view seems to characterize the policy goals allegedly guiding *Konsumentverket*, The Swedish Consumer Agency, outspoken as (among other things) 'to help', 'to strengthen', and 'to protect' households (Konsumentverket (2000)). The same overall attitude is also telling for an official state report on the subject, SOU 2000:29, *Starka konsumenter i en gränslös värld* ('Strong consumers in a boundless world'). An important aspect brought up by the report is however the manner in which consumer and competitive policies could act together. 'Consumer policy is also very important for a performing market, and whether customer-induced rules for company conduct contribute to efficient competition [or not]. ... A strong consumer position in markets however demands that competition and consumer policies act together. That is why a close collaboration and joint action between the [national] Consumer and Competition authorities is important' (SOU 2000: 29, p 36, 42, author's translation). That this is not something falling on deaf ears is seen in various comments provided by The Swedish Competition Authority. 'There is now a collaboration project underway between the Competition and Consumer authorities that focuses the rendering conscious of consumers that they have got a choice, that they are given the opportunities to choose, and that they shall want to choose among products and services offered on the market' (Nykvist (2000, p 3, author's translation)). 'Consumer benefits – our impetus' (Nykvist (1999, p 4)). 'Strong consumers benefit competition. ... There is a close connection between the interest of consumers and the importance of efficient competition' (Konkurrensverket (2000c)).

Another way of emphasizing the Simmelian link between the agency and benefit of competition might, tentatively, be to try to gain inspiration from the foremost legal source that there is advocating such agency. That is the Public Procurement Act (SFS 1992: 1528) which governs virtually all Swedish public procurement activities. This act is based on the European Commission directives that regulate public procurement according to the principles of 'equal treatment, transparency (openness and predictability) and proportionality' (Nämnden för offentlig upphandling (2000, p 4)). The idea underlying this reasoning is of course care about resources thus spent by public bodies. But seemingly more important is the general furthering of market competition as the lodestar, thus contributing to an efficient use of common resources. 'The starting point of all public procurements is that they shall be made in competition' (Nämnden för offentlig upphandling (2000, p 2)). This is seen to by the letter of the law.

Main clause regarding businesslike conduct

4§ Procurement shall be undertaken by using prevailing opportunities for competition and shall also in other ways be carried out in a businesslike manner. Bidders, those asking for bids, and bids shall be treated devoid of irrelevant considerations.

Figure VIId: Article 4 of the Swedish Public Procurement Act [65]

It is hence most obvious that lawful conduct according to the Public Procurement Act works out very much in the spirit of Simmel's active Tertius Gaudens. By actively choosing

[65] Excerpt from the Swedish Public Procurement Act (SFS 1992:1528) (Nämnden för offentlig upphandling (2000))

suppliers public buyers thus embody a third party who actively invokes competition by intruding between sellers. The outcome thereof is that these buyers allegedly will be in the position to enjoy the benefits of competition *that they themselves have contributed in forming*. This is of course not to say that this law in any way can be 'adopted' to competition legislation in straight terms. This is not done for an array of reason, among those its exclusive focus on *public* spending handled by *organizations* where consumers are not an issue. What one could say is however *that by infusing some of the philosophy which underlies this act of law into competition legislation there seems to be good reason to believe that some of the contemporary shortcomings that characterize Swedish markets in terms of deficient competition might be remedied*. In this way agency and benefit of competition will be combined in a manner foreshadowed in the mobile telecommunications market report which opens this chapter.

The intention of this chapter is to furnish some empirical illustration of the thoughts previously provided regarding competition as a customer-induced market phenomenon. This competition, in the essay discerned as the socio-Austrian Tertius Gaudens, is thus penetrated in a few distinct manners. <u>The first prerequisite hereof is then that the customer is attributed a decisive role as such, that is the focus of market demand. The second is that the customer is not only a beneficiary, but also an agent with respect to competition.</u> In the chapter it is then <u>first</u> recognized that, following an authority report in the area, there seems to prevail a potential for strengthening competition in the Swedish mobile telecommunications market by promoting more of an active Tertius strategy. According thereto customers themselves are given the opportunity to impact suppliers by their choices. <u>Secondly</u> some aspects of Swedish antitrust legislation are looked into. It is then found that the customer is more salient in preparatory legal works and in the letter of the law itself than in the particular empirical case, Statens Järnvägar versus Konkurrensverket, which is looked into. None of the legal works however displays an active Tertius. The customer is merely a reactive recipient of the benefits of competition. This fact does not really make sense once the original ideas of Simmel are pondered upon. <u>It can then tentatively be posited that by not really recognizing the active Tertius, customers' own responsibility for impacting the conditions subject to which competition emerges, one deprives oneself of a crucial source of force eventually fueling competition.</u> This is <u>lastly</u> pondered upon from a competition policy perspective, something of particular importance as competition, for instance in the case of Sweden, is seen as weak in many markets. Two hands-on suggestions, already discerned in ideas unfolding within some authority bodies, are then brought forward. <u>These are in essence the very policy implications of this thesis.</u> The first is to opt for a closer association between competition and consumer policies. The second is to look into, and gain inspiration from, the ideas pillaring public procurement legislation. This framework seems to foster an active Tertius much in the spirit of Simmel. This chapter also constitutes the last one of the third block of this dissertation, Analysis. This block starts out with a chapter on methodology which argues in favor of the theory-laden approach taken on in this essay. Its main content, appearing before this last 'empirical' chapter, is a pro or contra analysis where the explanatory model erected is scrutinized as to the arguments pillaring its specific agency of customer alertness and social capital impacting competition. The major outcome hereof is the strong support thus found between the posited negative association between social capital and customer-geared competition. What remains of this essay is its fourth and final block, Completion, wherein the arguments pursued are summarized and commented upon. Ideas for further research are also coming forward as well as a lengthy discussion about necessary theoretical coherence. That is what follows now.

Block 4, Completion

VIII. AUSTRIANS AND SOCIOLOGISTS: FRIENDS OR FOES?

IX. CLOSING IN AND OPENING UP

VIII. AUSTRIANS SOCIOLOGISTS: FRIENDS OR FOES?

The preceding three blocks of this thesis, opening it up, scrutinizing its subject matter competition, and providing an analysis, jointly constitute this essay's main argument concerning customer-geared competition as a social mechanism, the socio-Austrian Tertius Gaudens. Now one block, Completion, remains. It is made up of two chapters. First there will be a discussion regarding the theoretical coherence of this text given its explicit joint endorsement of economic sociology and Austrian economics. Thereafter the dissertation concludes with a chapter that summarizes what is said and recapitulates the eventual contributions of this text. This will also be tied to ideas regarding future applications thereof. The contents of the chapter now to unfold depict the relation between the two main theoretical pillars of this thesis. There are two main reasons for its inclusion in this text. The first is obvious. Theoretical coherence must necessarily be controlled for in any theory-laden project. This is called for in particular when seemingly diverging schools are tied together. The second ground for the chapter is more constructive in character as it says that the joining forces of economic sociology and Austrian economics constitutes an important step that might also guide further, outside the very area of competition. This 'reconciling' chapter is furthermore structured along three major themes. In the opening one the overall relation between economics and sociology as schools of the social sciences is commented upon. Thereafter the 'market assumptions' of this text, pertaining to how man, markets, and institutions are viewed, will be reviewed in light of the particular versions of Austrian economics and economic sociology that are subscribed to in this text. These two schools of thought are then recapitulated in brief with some particular emphasis regarding their roots as this is seen as conducive for their very presence here. The second theme revolves entirely around three particular aspects of human action, individualism, rationality, and subjectivism. By thus looking into a) the relation between the individual and her surrounding social context, b) the goal orientation of people's behavior, and c) the interpretative turn, it will be claimed that certain versions of each of these three notions are compatible with both of the schools underlying this text. That is, by reaching out for, and catching, 'social individualism', 'human purposefulness' and 'dynamic intersubjectivism', further reasons are provided regarding the compatibility of Austrian economics and economic sociology within the realm of this essay. The third theme of the chapter summarizes what will have come forward by contrasting economic sociology and Austrian economics with the ideas of Weber whose fundamental claim concerning the necessity of 'Wirtschaftssoziologie' inspires this dissertation effort in an array of ways.

i. On economics and sociology in the social sciences

Following the reasoning of Hirsch et al (1996 (1987)) there is no doubt that there is an array of factors that makes sociology very different from economics. In consequence the outcome is very intriguing when any of these disciplines sets out to apply its own research philosophy and methodology in areas traditionally studied only by the other. As cases in point, consider for instance Becker's (1993 (1964)) scrutiny of education and White's (1981) analysis of firms' behavior. Becker chooses to see formal training as an 'economic' investment whereas White alleges that supply markets can be grasped as 'social' phenomena where actors mirror each other's behavior. For various reasons this potential cross-fertilizing endeavor is not easy (confer the discourse pursued in Swedberg (1990)). One explanation for this difficulty can be traced in the advent of the marginal revolution that unifies economics in a manner not experienced in sociology. Another is the way in which sociology appears much more driven by the data it looks into, something in sharp contrast to deduction-led economics reasoning. The '*Verstehen*-oriented dirty hands' of sociology are hence so very different from the 'unrealistic but clean models' that characterize economics. This argument can be summarized by the table entries below.

ISSUE	ECONOMICS	SOCIOLOGY
VIEW OF HUMAN NATURE	Rational maximizing greed Self-interest Instrumental Fixed preferences	Complex and variable impetus Cultural Expressive Fluid preferences
MAIN UNIT OF ANALYSIS	Individual	Collectives
CONCEPT OF SOCIETY	Nominal Aggregates of individuals Hobbesian	Real Sui generis Rousseau
PHILOSOPHICAL STANCE	Behaviorist Materialist	Interpretive verstehen Idealist
MODE OF THEORIZING	Deductive Axiomatic	Inductive Data-driven
METHOD	Analytic theoretical modeling Quantitative mathematical Secondary 'abstracted' data Few elegant model variables Models are mostly predictive	Inductive, 'grounded' reasoning Qualitative and quantitative Primary 'surveyed' data Many 'messy' variables Models are mostly explanatory

Table VIIIa; Ideal-type contrasts of economics and sociology[1]

As seen, the positions taken differ considerably. This seemingly renders economics and sociology irreconcilable. There are two main dividers with particular relevance for the pursuit of scientific inquiry. The first is the assumption of man, the other is the idea of analysis per se. That is, as man is unlikely to be absent from any analysis and as that analysis must be guided by some fundamental assumptions regarding its overall strategy, main differences in these regards most likely constitute unbridgeable gaps. This is also the position of Hirsch et al (1996 (1987), pp 279, 294). 'We argue that a serious convergence of perspectives will (and should) be restrained by each discipline's fundamentally different world-views, and intellectual traditions ... [since] ... [s]ociology and economics tend, at least in their cores, to be extremist.'

The versions of economics and sociology recapitulated above are by no means odd fellows within their respective disciplines. Still they appear 'extreme' when they confront each other on a number of issues. Trying to combine the two, eventually in the formulation of an explanatory model of competition, would thus no doubt be an attempt in vain. *But must that necessarily be so? This thesis says no on the ground that there are versions of each that when compared do not display the alleged 'extreme' incompatibility.* When considering parts of new institutional economics[2] in parallel to some of (Coleman's) rational choice sociology, these are without doubt closer to each other than the standard versions of the table above are.

[1]Hirsch et al (1996 (1987), p 282 (excerpt))
[2]as discerned in transaction cost analysis

This is not to say that they are easily reconcilable but such a project is at least not entirely futile. That is, the seemingly unbridgeable gap between economics and sociology can be at least partially spanned following the drawing on particular versions of each.

In the course of the present effort lots of inspiration is gained from the words of Weber endorsing a *Wirtschaftssoziologie* where both 'economic' constrained access to resources and 'sociological' association with others are claimed necessary for the grasping of man's nature. This grand (unfinished) project of Weber's would no doubt have met with considerable obstacles had it been worked out, circumscribed by the opposition between economics and sociology as discerned by Hirsch et al above. It seems however most viable to posit that the project of his could have flourished had it been pursued along those lines of scientific inquiry that are closer to himself, that is those which are not representative for the *mainstream* of either economics and sociology. There is hence good reason to claim that such a constructive Weberian meeting between economics and sociology could have emerged as the closing in of economic sociology and Austrian economics with each other (confer Boettke (1998), Swedberg (1998), Boettke and Storr (2000)). *That is in part what this dissertation is trying to accomplish.*

The formula chosen for the eventual attainment of a socio-Austrian explanation of competition is found in the adherence to mid-range ('non-extreme') positions of each discipline. That is, the particular Austrian economics endorsed is that of Kirzner which takes on a position midway between more traditional microeconomics and subjectivism-inclined efforts (confer the works of Lachmann). This Kirzner's view has it that equilibrium matters since the market tends to move in this direction but does not ever attain it (traditional microeconomics starts out in the idea of equilibrium whereas ultra-subjectivists deny it altogether). It further says that methodological subjectivism is crucial, but only to the extent that it reflects an underlying objective reality (traditional microeconomics is mostly positivist in character whereas Austrian hermeneutics, inspired by Lachmann, rule out any notion of objectivism). The corresponding 'soft' version of economic sociology subscribed to in this text is that embodied foremost by Granovetter's, 'new economic sociology'. This stream of thought is mid-range first and foremost with respect to the relation between the individual and the social context surrounding her. That is, it is (following the reasoning of Wrong (1961)) neither 'under-socialized' (like standard economics), nor 'over-socialized' (like the functional sociology of Parsons). It furthermore denies conventional ideas of equilibrium (found in both economics and systemic functionalism) but recognizes that these forces matter for the working-out of markets. That is, had Kirzner's Austrian economics been more microeconomics mainstream, and had Granovetter's economic sociology been closer to the core of sociology, any effort trying to draw on them in parallel would necessarily have failed. Now this is not the case. That is, by drawing on two particular schools of economics and sociology, 'Kirznerian' Austrian economics and 'Granovetterian' economic sociology, it is possible to bring forward a partial reconciliation. This combination in fact promises to contribute to the overall understanding of how seemingly very different parts of social theory can be associated and thereby promote a new kind of understanding of various topics. Such an intriguing interlinkage is vividly caught in the words of Simmel (1950 (1908), p 16).

> *And if economics seems to determine all the other areas of culture, the truth behind this tempting appearance would seem to be that it itself is determined - determined by sociological shifts which similarly shape all other cultural phenomena. Thus, the form of economics, too, is merely a "superstructure" on top of the conditions and transformations in the purely sociological structure. And this sociological structure is the ultimate historical element which is bound to determine all other contents of life, even if in a certain parallelism with economics.*

ii. The interlinkage of economic sociology and Austrian economics

The traces of Austrian economics and economic sociology appear repeatedly throughout this text, most notably perhaps in the agency of the model. Nowhere is this disciplinary interplay however more central than when the assumptions of the model are accounted for (in the opening of Chapter II). They embody the particular scientific posture of this essay and as such they constitute the lens by means of which the thesis can be properly evaluated as to its weaknesses and eventual merits. The assumptions are, to repeat, divided into four complementary categories pertaining to a) the model itself, b) the view of competition, c) the market and d) the appropriate delimitations. Whereas the model assumptions and the delimitations are not directly tied to the theories relied upon, the interplay of Austrian and economic sociology thought is more discernible when competition and the market are looked into.

Consider first competition, the definition of which is derived from nine dichotomies generated by means of an extensive scrutiny of competition theory in general. The definition has it that competition is perceived freedom of entry into market relationships subject to the discretion of a third party. Both the Austrian and the economic sociology ingredients are easily recognized here. The emphasis of relationships mirrors very much sociology in general and the role of the third is a direct outcome of Simmel's reasoning in particular. And, to Austrians free market entry is the sine qua non of competition. The perspective on the market, here seen as how 'man, markets and institutions' are interpreted is more intricate and demands a different point of departure. As will be delineated below when the versions of Austrian economics and economic sociology endorsed are commented upon in separate, each of them can be summarized by means of three premises thus grasping some of their most central elements concerning human economic market action. The working-out of these two set-ups of premises is then what conditions the three market assumptions (already stated at the outset of the thesis) that hence embody both streams of thought.

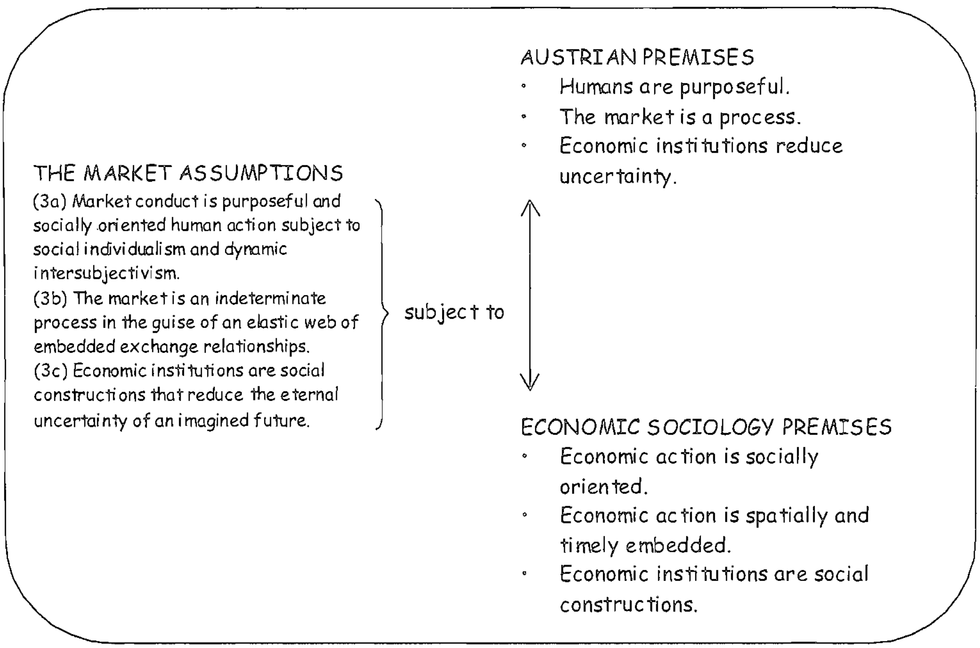

Figure VIIIa; The linkage between premises and market assumptions

The essence of the market assumptions above (first presented in section IIiii in the second chapter) is that whereas inspiration from economic sociology foreshadows what is more stable, and thus 'embedded' in character, Austrian economics represents that which is more dynamic and thus 'entrepreneurial'. This holds both for the characterization of the market and for behavior herein unfolding. That is, whereas economic sociology brings forward relationship networks as the structural feature of the market, Austrian economics subscribes very much to the dynamics endemic to this structure. And, whereas Austrians choose to emphasize the purposeful facet of human action, to economic sociologists it is more important to penetrate its overall social orientation. Finally, institutions are 'sociological' since they are perceived as endemic to society and as orchestrated by people jointly formulating them via their action patterns. They are furthermore Austrian as they are seen as the outcome of spontaneous social order. Institutions then make up an uncertainty-reducing device by means of which the future can be imagined with a little bit more of accuracy. *The two schools merely render salient different aspects of the market phenomenon but are in no direct opposition to each other.* To say that markets are spontaneously enacted is a statement that meets with the approval of both disciplines. Since so much of the preceding discourse in fact focuses the market, mostly by scrutinizing competition, *there is an obvious risk for circular reasoning if this is to be relied upon for the eventual establishment of a reconciliatory linkage between economic sociology and Austrian economics. Instead it is more apt to turn to another feature thus identified in the premises / the market assumptions that hitherto has been less penetrated.*

That is the issue of actor conduct which in consequence will guide the rest of this chapter's argument.

How can market behavior then be framed? The most exhaustive concept encountered so far in this text is the idea of human action posited by Mises (1963 (1949)). This is also the subject matter of the market assumption above ('3a') which relates market conduct. As noticed earlier there are two major dimensions of human action, social exchange and entrepreneurship. It is here obvious how more of a stable / social aspect is put beside what is dynamic and more autonomous in nature. To avoid yet another risk of circular reasoning (on the verge of the discussion pursued concerning the model explanans) it is necessary to reach out for a slightly more abstract (and thus more general) angle of human action when the 'socio-Austrian' reconciliatory project of this chapter is entered.

This angle is readily discerned in the market conduct assumption of above subject to Austrian and economic sociology premises. It appears as a trichotomy made up of, on the one hand, the general character of human action as purposeful and on the other, the methodological corollaries of individualism and subjectivism. That is, once humans are seen as purposeful it also follows that, from a methodological standpoint, they are interpreted here via individualism and subjectivism.[3] This entails in brief that human actors have goals that they aim at reaching and that this striving of theirs can only be understood by starting out in the individuals themselves as beings that shape their own subjective social context. This argument can, and will, be clarified according to the below.

1. The manner in which human action results from actor purposefulness connecting means to ends, via rationality.
2. The eventual primacy of the actor over her social context, via methodological individualism.
3. The way in which the actor transgresses the borderland between herself and the environment, via subjectivism.

Accordingly, *the case for theoretical coherence of the two schools to come forward below is to be anchored in the interrelation of a 'social individualism', a 'human purposefulness' and a 'dynamic intersubjectivism'.*

Before this commences, it is however necessary to color the background hereof a little bit

[3]The choosing of these three parameters is somewhat justified by a similar argument of Granovetter (1992 (1988)) that contrasts sociological and economic approaches to labor market studies. It is also very much endemic to the Weberian understanding of markets that, as alleged by Swedberg (1994, p 265), starts out in the notions of methodological individualism and subjectivist *Verstehen*. Weber's emphasis of rationality hardly deserves an explicit comment in this regard.

more by recapitulating the essential features of economic sociology and Austrian economics, a discourse that will be illuminated also by relating in brief the historical roots of each.[4]

iii. On economic sociology

Economic sociology is an emergent research tradition in the borderland between sociology and economics. This makes it somewhat opaque for at least two reasons. *Firstly*, as an area of inquiry it comes forward in several schools of thought and in consequence it does not carry any distinct label over the years. Its roots and path of development are hence hard to trace. What is more, located somewhere in-between two major social science disciplines, what economic sociology *is* depends very much on *who* is looking into it, and from which angle. Is, for instance, Becker's (1993 (1964)) economic analysis of human behavior 'more' economic sociology than the cultural sociology of Abolafia (1998)? Or is the rational choice sociology of Coleman (1990))? That is, is the adjective or the noun what really counts, and which of economics or sociology has the right of first refusal? This text does not set out to elaborate this issue. Instead it subscribes to an interpretation wherein human economic action is subject to the concrete social context surrounding it. That is, an economic sociology wherein the noun sociology thus has primacy over the adjective economic. This view constitutes a refinement of Weber's original works and is manifest in the contributions of Granovetter and Swedberg (confer Swedberg and Granovetter (1992)). It is at times labeled 'new economic sociology' and, as far as markets are concerned, emphasizes their network-like character.

A most general definition of economic sociology is that furnished by Smelser and Swedberg (1994, p 3). '[Economic sociology is] the sociological perspective applied to economic phenomena'. This clearly tells about 'economic phenomena' as the arena of interest and sociology as the approach thus adapted, something coming forward clearer in the elaborated definition.[5]

> [Economic sociology is] *the application of the frames of reference, variables, and explanatory models of sociology to that complex of activities concerned with the production, distribution, exchange, and consumption of scarce goods and services.*[6]

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[4]It is important to observe that since this text does not focus interdisciplinary cross-over per se, this chapter does not carry any pretension to scrutinize in full the areas of compatibility between economic sociology and Austrian economics. Instead it merely sets out to reconcile the manner in which the two disciplines respectively revolve around the three issues mentioned. It furthermore goes without saying that since all three of these issues (rationality, individualism and subjectivism) are most central to the social sciences in general the following has no pretension to try them out exhaustively. They will merely be brought up in light of their respective relevance for Austrian economics and economic sociology.

[5]The same type of reasoning holds for the identification of a market sociology as an area where a sociological approach is adhered to in the understanding of the market. See Chapter I.

[6]One short remark is called for here. Following much of the Austrian criticism of neoclassical economics, one could question the rather static interpretation appearing in Smelser and Swedberg's view. The pinpointing of scarce resources gives the impression that dynamics and entrepreneurship have no place in economic sociology. This is doubtful, at least to the extent that the entire workings of markets are to be understood.

The present paragraph now turns to the emergence of economic sociology and thereafter continues by telling about a few parallel contemporary definitions. Finally, a brief framing of the particular view adopted in this text will be presented, by way of three premises,.

The roots of economic sociology[7]

When political economy in Europe evolves as a separate area of social science inquiry in the seventeenth and eighteenth centuries alongside philosophy and politics, the social analysis of the economy is a sub-entity thereof. This is but obvious following the by then absent sharp division of labor among social scientists.[8] As for economics (political economy) in general, a critical point of distinction is the advent of *der Methodenstreit* and the subsequent transition of classical into neoclassical economics.[9] This is also to have a crucial impact on the coming into being of economic sociology. A social view of the economy continues to prevail for some time within (neoclassical) economics in general (confer the Spencer–inspired argument of Jevons on the evolution of social relations, Wieser's Social Economics, Pareto's 'transformation' to a sociologist and Mises' account of the human society). It is also possible to discern four relatively separate pillars that to varying extents inspire today's account of economic sociology. These are the German, the French, the American, and the economist traditions in the area.

The German account of political economy, towards the end of the nineteenth century, is more or less equivalent to the German Historical School. This stream of thought is inherently inductive, comparative and typically features broad historical accounts of particular industries in light of economic development and the role of the state in the economy. As such it is also very much reminiscent of the de facto industrialization of the German society at the time (both of which inspire Karl Marx). Its key figure towards the turn of the century is Schmoller who, together with Menger of the Austrian School, personalize *der Methodenstreit*, the battle on methods, that is to have such a decisive impact on the social sciences. This is the background against which the German idea of economic sociology is to come forward. And it is also within this realm, claims Swedberg (1996 (1989), p 131), that economic sociology as known today is 'invented'. One consequence of this intellectual heritage is the emphasis of cultural understanding, *Verstehen*, in the subjective approach of Weber. He is the most influential character in the emerging economic sociology in general and in its German version in particular. Among other things he occupies a key position in trying to span the chasm between deductive and inductive approaches to economic problems as discerned in the battle fought between Schmoller and Menger. But Weber is not alone. Another key character is Simmel who is far less pretentious than Weber in finding an overarching coherent framework.

[7]This passage mainly draws on four sources, Swedberg (1987, 1991), Granovetter (1990a) and Steiner (1995).

[8]The development of sociology from the 1830s and onwards owes its debt to August Comte. Later on he initiates a *Methodenstreit* of his own directed towards the field of (British) political economy.

[9]See below under 'On Austrian economics' for a separate account of this divider in economic thought.

Contrary to its German counterpart, early French economic sociology is for obvious reasons very much inspired by 'pure sociology' as brought forward by Auguste Comte in his interest for the industrial society. This implies more of an aggressive stance towards the political economy of the time, a position hence void of any Weberian bridging aspirations. This position is discerned in the writings of Emile Durkheim. The basic idea is then to replace political economy altogether by a radically different interpretation of society. But, as claimed by Swedberg (1987, p 33), Durkheim is not as radical as Comte in that he identifies the need for a separate idea of economic sociology and not only the full absorption of political economy into sociology. As noted by Granovetter (1990a, p 90), '[to Durkheim] when objects of study have both economic and sociological significance, the former might be more transparent but the latter are more interesting'. The primacy thus assigned to sociology is seen as more apt in coming to grips with the problems which inhere in the emergent industrial society enmeshed with anomie and alienation but void of social regulation. And to do this one cannot possibly refrain from focusing the interconnection of actors instead of singling them out as isolated individuals. A typical observation by Durkheim in this context is the 'non-contractual properties' of the contract. The French emphasis of institutions in a comparative-historical manner is close to much of the German thought in the area. This is also the case of Durkheim's idea of 'collective representations' that is similar to *Verstehen* in underlining the cultural impact on economic understanding. The French however seem to stretch this line of reasoning much further in conceiving of anthropology as a close neighbor that is necessary to involve for an overall understanding of society.

The overt hostility displayed by economists towards sociology makes economic sociology, as a distinct area of analysis, appear much later in the United States than in Europe. An additional explanation is the American tradition of institutional economics that appears around the turn of the century thus occupying some of the ground that early European sociologists claim. The industrial sociology which subsequently comes forward within sociology towards the 1950s mostly seizes in on *intra*organizational phenomena (such as the Hawthorne Works study), typically outside the core economic sphere.[10] Works within economic anthropology (confer Polanyi on the embeddedness of the economy in institutions) and behavioral economics (confer Simon on bounded rationality) however contribute to the subtle formation of a separate field of economic sociology. An additional stream of work with some relevance in the area is that associated with Parsons' structural functionalism. The fundamental idea here is that society is seen as a system and for this whole to work out it depends on the functions performed by its substructures. The economy is but one of these structures. A lack of theoretical framework, mostly scattered contributions, and a failure to reach out towards other disciplines however result in 'the two most promising traditions in

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[10]today's 'organizational studies'

economic sociology, industrial sociology and the structural-functional "economy and society" perspective ... [to] become effectively defunct' (Granovetter (1990a, p 93)).

Apart from the social elements of classical political economy, curtailed by the taken-for-grantedness of existing economic institutions and an inclination towards utilitarian values (Swedberg (1991, pp 253-254) referring Schumpeter), it is not until the advent of Marx's *Das Kapital* that what is to become economic sociology is really nourished by *economic* intellectual insight. There are two main contributions that stem from Marx, the concept of social class and the idea of a process through which social structure and attitudes are subject to economic phenomena. The second major source of inspiration for economic sociology from economists is the emergence of American institutionalism. A little bit like Weber, but from the opposite perspective, this stream of thought takes some pains in bringing forward a broad theoretical framework which encompasses several disciplines within the social sciences. This enables a dynamic analysis of empirical data and means that action is subject to the ever-changing institutional context. The epitome of this movement, and without doubt the fiercest criticizer of the neoclassical mainstream at the time, is Thorstein Veblen and his broad evolutionary approach. Herein the historical coming into being of institutions allegedly explains economic behavior which accordingly will change over time. Some of these early American institutional works live on through the works of Galbraith (confer American Capitalism: The Concept of Countervailing Power) and Gunnar Myrdahl (confer An American Dilemma). A diverging contemporary approach is 'new institutional economics' that seeks to understand the development of efficient economic institutions by adhering to mostly neoclassical reasoning (confer transaction cost analysis).

Contemporary economic sociology

In accordance with Martinelli and Smelser (1990) it is possible to position contemporary economic sociology within the broad area of 'economy and society' studies. Herein sociology and neoclassical economics meet in the scrutiny of both 'economic' and 'non-economic' phenomena such as the family, the state and the market. These authors (Martinelli and Smelser (1990, pp 28-49)) identify five kernel themes of this overarching frame of inquiry. Each of these entails a particular impact for the pursuit of societal study.

A. The idea of the economic actor

   An acting individual is at the outset driven by the type of rationality that underlies much of classical utilitarian ideas inclusive of utility maximization within the realms of fixed means-ends frameworks imbued with the spread of perfect knowledge. This is the world of economic man where peaceful exchange rules the market. However, since there is every reason to believe that this model does not correspond to actual arenas, a modified contextual version, where rationality is treated as a variable and not a fundamental assumption, is needed. Herein, not ideas about pre-programmed tastes and preferences, but more of accommodation and synthesis as to societal development in general, inspire a modified view of the actor.

B. The ideas of exchange and the market

From the above idea follows the notion of exchange as the act by means of which markets work out through human interaction. The full clearing of such markets attaining a macro supply and demand equilibrium is however doubtful. Exchange is the predominant market governance principle thus outperforming other viable logics (reciprocity, status expression, redistribution and charity). In addition, a behavioral perspective to exchange emphasizes learning, roles, and power in a manner not seen in the conventional rationality-induced type of exchange. The stance ultimately taken here, according to Martinelli and Smelser, results from ideological concerns as to the true viability of the laissez-faire mechanism.

C. The structuring of economic activity

To come to grips with economic activity as such, Martinelli and Smelser subscribe to 'the conventional economic categories' of production, distribution and consumption. As for the initial entrepreneurial acts undertaken in a market, prior to any exchange, it is allegedly necessary to open up the black box of the firm. That is, to look inside this box and not only conceive hereof by means of a production function where capital and labor as inputs by a certain efficiency logic are jointly transformed into an output. A sociological alternative here is to scrutinize production from the perspective of the labor market, where family and education render this market culturally embedded in a way which directly impacts production. The institutional setting, subject to which trade of exchange objects (distribution) unfolds, is comprised by both informal (custom and habit) and formal (contract and property law) regulation. Finally, Martinelli and Smelser emphasize the challenge to sociology in coming up with a reasonable alternative to economics' focus on tastes, which results in various standardized consumption functions. When thus transforming the underlying assumptions here into societal demand variables, four types thereof are discerned, a) cultural patterns, b) class stratification, c) education, d) family. All of production, distribution and consumption are further subject to various degrees of informality of the particular economy looked into.

D. State and societal modes of regulation and legitimization

All of the above depends on the role of the state, of significance also in the case where a pure laissez-faire setting is analyzed. The role taken on by the state in the economy is both that of an economic actor and an encompassing regulator of economic activity. The increased interaction between various nation states further renders the role of the state all the more complex by adding an international dimension to its operations.

E. The impact of economic processes on the larger society
The final thread of Martinelli and Smelser's argument is about the way in which broadly conceived of economic activity affects society at large. 'Society' thus subject to this impact is here seen as a) social classes and inequality, b) the mobilization of economic interests ('It is the dynamics of the formation and behavior of economic groups and classes in interaction with other groups and classes, in relation to the strategies and tactics of the state, that constitutes the main focus for economic sociologists' (Martinelli and Smelser (1990, p 47)), c) economic development and structural change and, d) the international dimension.

As seen this view is partially Marxist and influenced by an economics way of reasoning, but from a sociological angle. Its most distinct characteristic is however its explicit concern with society at large, something which necessarily entails a rather aggregate way of expression. More of a distinct market perspective is that of Swedberg et al (1990, p 61) and Smelser and Swedberg (1994, p 4) that sides with Martinelli and Smelser in highlighting action and the actor herself but then goes on to penetrate what is relevant for a market arena in somewhat more detail. A few issues here stand out in particular.

- The economic actor ... is a social creature who is influenced by others via groups and society as a whole.
- Economic action ... is of many different types *not only* entailing maximization, is guided by rationality as a variable, and results in institutionalized but tension-filled interest struggles.
- The economy ... is an integrated part of society as a whole which serves as the firsthand frame of reference for any understanding.

In the spirit thereof, and as noted by Swedberg and Granovetter (1992, p 2), it is furthermore possible to distinguish five distinct streams of thought which aim at 'restructuring the relation between economics and sociology' from the 1970s and onwards. A) rational choice sociology (traditional sociological topics such as family and education are subject to neoclassical modeling by for instance Coleman and Becker), B) socio-economics (the call for a very broad interdisciplinary approach in order to solve the societal shortcomings of today, expressed by, among others, Etzioni), C) PSA-economics (the direct integration into neoclassical models of findings within psychology, sociology and anthropology as pursued mostly be Akerlof), D) new institutional economics (a transaction cost perspective applied to the emergence of economically efficient institutions such as law and the organization of markets pursued by Williamson and others) and, E) new economic sociology (economic problems scrutinized with the help of sociological tools, found in the contributions of Granovetter, Fligstein and others).[11] That is, each of these five schools, to the extent that they are truly separable, could claim to represent contemporary economic sociology to a more or less considerable degree.

This text sides with the last class of contributions as manifest in Granovetter's (1985) notion of embeddedness that embodies both spatial and temporal social interdependence. The agenda can be recapitulated by way of three premises inspired by Granovetter (1990a), Gerlach (1992, pp 15, 50), Swedberg and Granovetter (1992, pp 6-19), Portes (1995a, pp 3-19), and, Swedberg (1998, p 166). As observed by Gerlach (1992, p 50) this reasoning, which focuses relationships as a social cement, is 'mid-range' in the sense that it is neither neoclassical nor institutional, neither atomistic nor oversocialized (confer Wrong (1961), Macaulay (1963)). The shadow of Weber (1968 (1922)) is furthermore hard not to distinguish.

1. *Economic action is a form of social action as it is socially oriented*
   Economic action is partially governed by value introjection and is oriented towards goals that seize on both pure self-interest and approval of others. It is further subject to reciprocity expectations inhering in any social interaction. Choosing between alternatives is important, but this choice depends also on noneconomic motives such as the quest for approval, status, sociability and power.

2. *Economic action is socially situated and contingent on the past via network embeddedness*
   The form and outcome of market transactions are subject to encompassing social structures inclusive both of an actor's immediate personal relations and her somewhat more distant surrounding web of affiliations. This aggregate network of exchange relationships is a) enabling in the sense that it entails both direct and indirect access to market resources and, b) constraining in that 'the unrestricted pursuit of personal gain' is effectively hampered. All action is embedded in 'ongoing networks of actual, concrete personal relationships'. That is, neither a pure bottom-up aggregation of individuals, nor the complete top-down internalization of norms et cetera, is at hand. The timely embeddedness of economic action is discerned in 'cumulative causation' which corresponds to the path-dependence of economics. Whereas the latter does not take the social context into account it is crucial to the former by way of certain social timely lock-in effects as seen in unintended social consequences of individual action.

3. *Economic institutions are social constructions*
   Economic institutions, such as markets, are not the anonymous outcome of non-social

[11]As noted by Granovetter (1990a, p 95) contemporary, as opposed to 'old', economic sociology is more apt to deal with economic problems thanks to the mathematically sophisticated, and often individualistic, perspective taken in social network studies.

forces such as aggregated supply and demand. Instead they are a joint construct by real live actors, situated in dynamic networks of like others, that cooperate and struggle with and between each other.

iv. On Austrian economics

What actually is the Austrian school of economics? Kirzner (1987, pp 149-150) argues that the 'Austrian School' in our days generally is associated with one of the following five notions.

1. The 'historical' contributions of (first and foremost) Menger, Böhm-Bawerk and Wieser ranging up until the early 1930s[12]
2. A Böhm-Bawerkian non-subjectivist capital-and-interest theory[13]
3. A libertarian laissez-faire ideology promoting the idea of free markets[14]
4. The mostly United States-based revival of Mengerian ideas through the works of Mises and Hayek adhering to a theory-laden view of the market as a process not ever attaining equilibrium[15]
5. A somewhat theory-alien ultra subjectivist approach emphasizing foremost radical uncertainty[16]

This thesis sides with Vaughn (1998 (1994), p 10) in endorsing the fourth of these interpretations. Its main features can be related by way of eight ideas on economics, the last two of which clearly distinguishing Austrians from today's neoclassical mainstream thinking (Kirzner (inspired by Machlup) (1987, p 148, 1997b)).

A. methodological individualism
B. methodological subjectivism
C. decision-making subject to marginalism
D. marginal utility influence on market price by way of demand characteristics
E. relevance of opportunity cost

[12]This is the view of Streissler who today holds the chair in economics at the university of Vienna once occupied by Menger and subsequently Wieser (confer Streissler (1969, 1972, 1990)).

[13]Kirzner (1998b) here relates the contribution of Hicks dating back to the early 1970s labeled Capital and Time: A Neo-Austrian Theory.

[14]Confer the San-Fransisco based organization Laissez-Faire Books (www.laissezfaire.org) that explicitly draws on Austrian contributions in promoting its libertarian ideology. Among the works featured in this tradition, confer Rothbard (1962, p 766). 'Intervention is the intrusion of aggressive physical force into society; it means the substitution of coercion for voluntary actions... Empirically, the vast bulk of interventions are performed by States, since the State is the only organization in society legally equipped to use violence and since it is the only agency that legally derives its revenues from a compulsory levy.' This work is by Vaughn (1998 (1994, p 99) singled out as a contribution which is truly representative for such an ideology-laden Austrian view.

[15]Confer Kirzner (1973) and O'Driscoll Jr and Rizzo (1996 (1985)), contributors closely connected to the Austrian Economics Program at the Department of Economics at New York University.

[16]Confer Shackle (1969, pp 1-7).

F. time structure affecting how production and consumption relate to each other
G. the market as a causal-genetic process
H. ignorance and uncertainty as decisive for market outcomes.

An additional characteristic which sets the Austrian agenda very much apart from the mainstream account is its explicit recognition of its roots (something also characterizing sociology in general, confer Alexander (1988 (1987), p 11). These fundaments do not live on as ornaments but as natural points of reference for contemporary scholars. It is hence most apt in several instances to sketch a relatively coherent thread of reasoning that starts out in Menger and then continues with Mises and Hayek only then to end up in Kirzner's (1973) book on entrepreneurship and competition. To understand contemporary Kirznerian thought it is then but natural to expend a few words on how it all starts out.

On Carl Menger, der Vorvater of Austrian economics[17]

The particular version of Austrian economics endorsed in this text relates with the mostly United States-based alternative that steadily emerges ever since the early 1970s as the works of Menger are rediscovered. Most seem to have it that the igniting spark of Austrian economics is to be found in 1871 with the publication of Menger's *Grundsätze der Volkswirtschaftslehre* (Principles of Economics). Together with Jevon's The Theory of Political Economy, which appears in that same year, and Walras' *Eléments d'économique politique pure*, that follows in 1874, it represents the 'marginal revolution'.[18] The very idea of this epithet is the radical way in which the emergent stream of thought breaks with most of the past, 'classical', political economy. Instead of the objectiveness of value based on supply considerations such as past production cost and general long-run wealth, what now emerges in economic thought is the focus of a theory of value in terms of subjective demand-related future utility and specific short-term satisfaction.[19] The unifying theme here is the notion of marginal utility.[20]

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[17]Where not explicitly stated otherwise, the following reference sources are drawn upon. Blaug (1997), Endres (1997), Jaffé (1976), Kirzner (1987, 1992a, 1994d, 1997a, b, c, 1998a, b), Streissler (1969, 1972, 1990), Vaughn (1998 (1994)).

[18]The coinage of the term in this use is by Jaffé (1976, p 511) attributed to Schumpeter (1997 (1954)).

[19]See Chapter III.

[20]These first statements deserve (at least) two qualifications. The more general one has got to do with the very reason for, and sanity of, lumping Menger, Jevons and Walras together and the more specific with the common use of treating Menger as the Austrian father with no roots that inspire *him*. That is, was there also a pre-Austrian school of thought?

It is only a very shallow analysis that equalizes the three marginal revolution contributions but it is nevertheless important to draw into the light some of the unifying and dividing themes most often referred to. They meet in emphasizing the importance of a theory-laden deductive type of analysis which opposes the highly influential German Historical School. But the three contributions clearly diverge as to the methodology then adhered to. Whereas both Jevons and Walras draw heavily on a mathematical type of reasoning, numbers are hardly distinguished in The Principles of Economics. The Austrian contribution is furthermore radical in the sense that it explicitly focuses demand whereas the other two lean more towards the joint market outcome of demand and supply. Jevonian hedonism-induced reasoning that emphasizes 'pain and pleasure' is further at odds with Menger's *Bedeutung* ('significance') as regards the-coming-to-grips-with utility. Mengerian notions of the

In sharp contrast to Ricardian classical thinking, Menger lays ground for the principle of human action that is to be *der Leitmotif* for generations of Austrians. The subjective theory of value then pertains not uniquely to the demand of consumers but to the entire field of economics. Diminishing marginal utility is only one feature hereof. Or, as it is articulated by Kirzner (1992a, p 73), '[t]his perspective transmutes all the phenomena of the economy from being simply physical transformations, relationships or ratios into direct or indirect expressions of human valuations, preferences, expectations and dreams'. In consequence economics is about the satisfaction of consumer needs.[21] Among other things this implies that production processes are of interest only to the extent that they are seen as derived from the consumer demand in which they originate. *Die Bedeutung* (the 'significance', Menger's term for measuring utility) of coal, its economic value, is hence nothing in itself apart from its *significance* as an input to a process that ultimately will satisfy some consumer need.

A further facet of Menger's writings is his focusing of the individual. 'Menger was a champion of methodological individualism, the rule of taking as one's analytical starting point the decisions of the individual' (Streissler (1990, p 171)). So already here the two methodological principles (subjectivism and individualism) that are to serve as lodestars for writers in the Austrian tradition, can be discerned. Another facet of Menger's writing is that emphasizing the role of knowledge and information. Someone's knowledge of the causal connection between a thing and the need satisfaction it eventually may entail is one of the ideas which defines something as a good in the eyes of that someone. More of this kind of knowledge promotes the well-being of humans in general by way of an increased satisfaction

ordinality of utility in relation to which choice is discrete further stands out against cardinal utility induced by a continuous interpretation of choice. Whether to emphasize the similar or dissimilar aspects between the contributions seems to be a matter of taste more than anything else. Interpreters here lie in the range from the 'homogenizing Schumpeter' (1997 (1954), pp 891-920) to the 'heterogenizing Jaffé' (1976).

In the spirit of Blaug (1997, pp 289-291), Streissler (1990, pp 154-158) is eager to de-revolutionize the impact of Menger in light of the historical and contextual embeddedness of his writings. This claim is firmly rooted in the evolutionary spirit of Menger's efforts. Three marginalistic features, to be drawn upon extensively in the post-1870 writings are allegedly already promoted within the realm of the 'protoneoclassical' German economics in the mid-1800s. These are a) a subjective interpretation of value, b) an open opposition to Ricardian objective cost theory of value and c) a unified price theory. Menger hence does not break with a tradition but merely develops thought, something readily seen in him dedicating The Principles of Economics to Roscher (the by then leading character of the German Historical School) and him welcoming Menger in his appraisal of the work. This friendly and coordinative atmosphere is however soon to vanish in the strife on methods, *der Methodenstreit* that arises between Menger and Roscher's successor, Schmoller, henceforth heading the younger German Historical School. Streissler (1990, pp 159, 162) seems to downplay the scientific substance of this battle as well as its magnitude by referring to it as a *controversy* mostly attributable to social issues in terms of search for academic influence. This in its turn is connected to the rise of the German state in those days when it allegedly is not always easy to come forward as an Austrian. Vaughn (1998 (1994), pp 31-32) takes a stance very opposite to that of Streissler (1990) in relating the *war* of methods which results in Menger's status as persona non grata in the German economics discourse. She further narrates some of the insulting characteristics that seem to have been part of the polemics and touches upon the irony inherent to it given Menger's original evolutionary aspirations. Kirzner (1992a, p 59) similarly underlines the bitterness of the conflict and argues that one side effect is that it actually comes to serve as a market communication device for Menger, making the uniquely Austrian contribution well known within the international community of academic economists.

[21] This foreshadows much of modern marketing theory, a point of Austrian reference made clear by Wärneryd (1988, p 6).

of needs (confer Vaughn (1998 (1994), p 22)). A logical consequence of focusing knowledge is further to acknowledge the role of time and uncertainty which Menger hence fits into his analysis. This comes about by way of his discussion of higher- and lower-order goods where the former has to be produced earlier in time than the latter which ultimately leads to consumer satisfaction. 'Until ... [goods of lower / first order] finally bring about the state called the satisfaction of human needs, time is an essential feature of our observations' (Menger (1994 (1871), p 67)). And due to time the relation between these two kinds of goods, the time-structure of production, is characterized by uncertainty. This insight subsequently gives rise to much of Austrian capital theory that is to form.

Menger's recognition of error and uncertainty in parallel to his firm belief in a unified view of the economic system leads Kirzner (1992a, pp 78-79) to interpret the world of Menger as one where '[t]here is room for both a theory of the equilibrating process and the theory of equilibrium itself'. Streissler (1972, pp 438-439) sides with this opinion and is even more explicit in emphasizing that 'Menger wanted to sketch the forces leading towards equilibrium while leaving it undecided how quickly equilibrium tends to be approached and how closely it is approximated'. The determination of prices is then, following bargaining, inherent to the process of the market tending to approach certain states. The bargaining element of Menger's is also stressed by Streissler (1990, pp 169-170) who relates this to the development of the modern theory of games promoted by Morgenstern and others. As noted by Vaughn (1998 (1994), p 30), not even the spontaneous emergence of social institutions escapes the attention of Menger.[22]

Kirzner's economics

In delineating his own position Kirzner (1997b, p 61) identifies the 1930s of Mises and Hayek as the period when Austrian economics explicitly steers away from *neoclassical* microeconomics. As already noted, Mises furnishes the pillars of the market as an entrepreneurially driven process and Hayek those supporting the importance of knowledge. The resulting Austrian stance denies adherence to 'pure standard' Arrow-Debreu-Hahn neoclassical analysis. What Austrians oppose is the logic of this latter approach, most readily seen in the feasibility of general equilibrium. Instead they endorse a stance where actors are 'makers' and not 'takers' of price, quality, et cetera. In consequence the 'constrained maximizing individual' and the mathematics endemic to the simultaneous solving of supply and demand equations which result in a set of prices / quantities, are likewise of minor interest. Kirzner sees his own microeconomic contribution as the 'dynamic competitive

[22]An evident weakness of Menger's argument (as noted by Kirzner (1992a, p 75)), almost a contradiction, is the relation between the free will of humans, following subjectivism, and the mastery exercised upon that will by the set-up of commanding needs. Another ambiguity (brought up by Streissler (1990, p 170)) pertains to the measurability of utility where Menger obviously does not realize that his scales of satisfaction demands cardinality and renders impossible the ordinality otherwise adhered to by him.

process'. This is systematic market equilibration that follows knowledge gained by entrepreneurial discovery. It is different from conventional assumptions of imperfect information in the sense that it embraces ignorance which results from uncertainty. What is not known is not known. This given, learning is a way of discovery that entails also some unpredictable surprise as ignorance is dispelled.

Most of those labeling themselves 'Austrian' today subscribe to the eight general features recapitulated above (individualism, subjectivism, et cetera).[23] But, as with all 'schools' where a few common denominators are found, this is where consensus ends. Thereafter almost any path could be chosen in order to distinguish one sub-school from the other. In the Austrian case most controversy seems to prevail in relation to the issues of individualism, subjectivism, the causal-genetic character of the market, and the role of ignorance. One could thus ask a) just how radical an individualism / a subjectivism is feasible?, b) is there a causal 'direction' towards market equilibrium to be discerned or is that an entirely futile idea?, c) are there any limits to the prevailing ignorance and uncertainty? A fundamental and far-reaching divider that cuts through the three questions is how Austrians position themselves in relation to the neoclassical mainstream in economics (confer Vaughn (1998 (1994), p 162). Two 'positions' can here be discerned, one that is closer to neoclassical economics and another that sees itself as a radical alternative hereto. Whereas the former is relatively *more individualistic, less subjectivist and closer to the idea of equilibrium*, the latter is relatively *more inclined to genuine ignorance and radical uncertainty combined with an outright skepticism to the idea of equilibrium*.

Kirzner can here be singled out as representing a line of thought somewhat closer to the neoclassical mainstream. This is easily distinguished in his first chapter of Competition and Entrepreneurship (1973, pp 1-29), presented as a clear-cut alternative (that is, not a 'pure' substitute) to 'the orthodox theory of price'. This alternative comes about as the conventional state of market equilibrium is replaced by the process leading thereto. That is, the very idea of equilibrium is not denied. In a more recent contribution Kirzner (1997b, p 62) explicitly argues that '[my Austrian view,] while sharply differing from the mainstream competitive equilibrium model, does not necessarily see that model as totally irrelevant ... the standard, competitive equilibrium model may be seen as *more* plausible as an approximate *outcome*, in the Austrian theory'. 'For the Austrian view ... entrepreneurship emerged not as the foe, but as the indispensable friend, of the notion of equilibration' (Kirzner (1992a, p 13)). On the 'other side', thus favoring more of a subjective stance, are contributions which emanate mainly from the works of Lachmann. Here (as argued by Vaughn 1998 (1994) pp 150-154), it is instead the interpretative and thus 'extremely' subjective view of the 'kaleidic society',

[23]Following Kirzner (1998b, 'I would certainly not call myself that') and given his primacy in this group of scholars, the term 'neo-Austrian' or 'new-Austrian' (confer Vaughn (1998 (1994), p 10) is not used in this text.

void of any meaningful notion of market equilibrium, that is at the forefront. O'Driscoll Jr and Rizzo (1996 (1985), pp xvii-xxix) are closer to the latter view. They list four paths of development that Austrian economics experiences in the last few years.

- More genuine recognition of disequilibrating market forces
- More interest paid to the institutions that condition equilibration
- More devotion to market-endogenous change
- More of a realization that equilibrium and unpredictable change must be reconciled

This dissertation, which constitutes a complement to conventional neoclassical thinking on competition, mostly sides with the view subscribed to by Kirzner. It is hence telling to notice that Kirzner (1992a, pp 3-37) devotes the lion's share of his 1992 introductory chapter to come to grips with the Austrian divider of above. He does this by relating the so-called 'Garrison Thesis'. This idea implies that Kirzner's own stance occupies a midrange economics position right between two more extreme stances as regards the interpretation of market equilibrium. In relating the own view, knowledge (neoclassical perfect knowledge vs Shackle's impenetrable uncertainty), the fixity of data (neoclassical status quo vs Shackle's flux rendering science close to meaningless), and entrepreneurship (seen as neoclassical frictionless market response vs Shackle's anarchy-laden imagination) are drawn upon. The clue of the reasoning is that Austrian economics traditionally mostly fights the neoclassical front but that henceforth the other extremely subjective adversary will also have to be taken into account, albeit with a different way of counter-arguing. An additional important feature of Kirznerian thought is its adhering to *Wertfreiheit*, the pursuit of a scientific discourse void of direct personal (id est ideological) implications (confer Kirzner (1994b, p 313)). This position of Kirzner's can be summarized by way of three premises that embody the manner in which Austrian economics inspires this essay on competition.

1. *Humans are purposeful.*

   Market actors purposefully attempt to reach their goals and are rational in the sense that the ever-changing frameworks of market knowledge are recognized and learned from. This knowledge is dispersed but communicated by way of the momentary constellation of variables regarding price, quality et cetera.

2. *The market is a process.*

   The market, however institutionally conceived of, is a causal-genetic process that tends towards, but does not attain, equilibrium (the simultaneous coordination of actor plans). It will constantly be in equilibrating flux, the dynamics of which are brought about by both endogeneous ('supply and demand') and exogeneous (for instance preferences) change.

3. *Economic institutions serve to reduce uncertainty.*
   Institutions unfold as a consequence of actors that try to reduce uncertainty and serve as lighthouses in the darkness of ignorance. They result not from human design but from human action and their prevalence is crucial as the future cannot ever be predicted but only envisioned.

This brief discussion covering the main characteristics of economic sociology and Austrian economics is by now complete. These characteristics are most readily seen in the recapitulation of the respective major premises concerning man, market, and institutions. It is now time to scrutinize how the two schools can be partially reconciled with respect to three distinct aspects of human action. That is, through a discussion of individualism, rationality, and subjectivism.

v. Methodological individualism, the whole of the parts

As humans all people are individuals. But as humans all people are also part of an array of larger social wholes. When trying to understand humans and the society they make up, one can assign primacy either to the individual herself, or to one of the aggregated wholes whereof she is a part. This is the core problem of the discourse on methodological individualism. Whether one subscribes hereto or to its counter-concept methodological holism has got a decisive impact for how society is understood.

Some roots of methodological individualism

The earliest proponents of individualism in western thought are the sophists of ancient Greece who combine this position with an outspoken subjectivism. It is however not until the 19th century, with the formal foundation of the social sciences (separate from philosophy), that methodological individualism emerges as a general principle of inquiry. As for the actual term 'individualism', Hayek (1948c (1945/1946), p 3) traces its common use to the Saint-Simonians, the first socialists, that herein allegedly see the antithesis of their own preferred society. Early adherents to this individualism are among others Mandeville, Ferguson, A Smith and de Tocqueville. A sort of individualism (explicitly refuted by Hayek because of its alleged 'social engineering' aspirations) is also discerned in the writings of Mill within the then field political economy later to emerge as economics. Mill argues in favor of the reducibility of social laws into psychologism, the inner workings of the individual. This step foreshadows an overt opposition to the ruling positivism later to be replaced by subjectivist *Verstehen* (understanding). This denounces the *Erklärung* (explanation) which characterizes the natural sciences of the time and is (as seen earlier in this text) one of the key ingredients of the marginalist revolution and *der Methodenstreit* towards the end of the 19th century. The transformation from classical to neoclassical economics thus occurring implies that the individual's subjective interpretation, and not any aggregate objective fact, is to constitute the cornerstone of social analysis.[24]

One of the early adherents to an outright methodological individualism is Menger, founder of the Austrian school, who claims that the exactness required in a deductive science calls for individualism on the verge of atomism. Apart from in the opening of his path-breaking book Principles of Economics, Menger devotes his entire second work, *Untersuchungen über die Methode der Sozialwissenschaften und der politischen Ökonomie inbesondere*, to the issue of method. His position is, as related by Christainsen (1994, p 11), seen in the following.

> [T]*he phenomena of 'national economy' are by no means direct expressions of the life of a nation as such or direct results of an 'economic nation'. They are, rather, the* ***results*** *of all the innumerable individual efforts in the nation, and they therefore are not to be brought within the scope of our theoretical understanding from the point of view of the above fiction. Rather the phenomena of 'national economy', just as they present themselves to us in reality as results of individual economic efforts, must also be theoretically interpreted in this light.*

This is however not to say that wholes do not exist. But that they have to be analyzed through the sub-entities that make them up. Even more wary hereof is one of Menger's disciples, Wieser, who calls for a halt to a naive kind of individualism that interprets humans as independent atoms (Rutherford (1996 (1994), p 48)). Methodologically close to the early Austrians in explicitly adhering to both methodological individualism and subjectivism is Weber. This might to some seem particularly striking as Weber, (mostly) regarded a sociologist, hence chooses to take on a position in part similar to economists. In the light of the subjectivist *Verstehen* view of sociology as an area of study he (Weber (1968 (1922), pp 13, 18)) says that '[a]ction in the sense of subjectively understandable orientation of behavior exists only as the behavior of one or more *individual* human beings. ... This [to consider collectives of individuals] is never the road to interpretation in terms of subjective meaning'. Given that action only matters in a subjective sense, the analysis must then necessarily be directed towards the individual, the only 'actor'. The latter is then a precondition for the former. That is, subjectivism has only got a role to play once the individual is given primacy. The anonymous mass is simply not very relevant. This stance of Weber's is further clearly discerned in a letter (related by Swedberg (1998, p 214)) of his. 'In other words, sociology itself can only proceed from the actions of one ore more separate individuals and must therefore adopt strictly individualistic methods'. Udéhn (1987, p 11) argues that Weber directly 'takes on' the methodological individualism as framed by the Austrians, something taken issue with by Swedberg (1998, pp 176, 184-185, 186-187, 190-191, 293) who nourishes a view that development of Weberian and Austrian thoughts if anything unfolds in parallel subject to some minor *direct* mutual inspiration in a variety of areas. As noted earlier in this text, the manner in which Weber takes in 'social economic action' is however far from ultra-

[24]This passage is in part inspired by Udéhn (1987, pp 7-10)

individualistic. That is, Weber clearly assigns particular weight to the individual actor, who also takes others into account as far as her goals of action are concerned (confer Swedberg (1998, p 24)). Hence, the methodological individualism of Weber's is not more individualistic than also realizing that social wholes, such as 'others', impact the individual.[25] This is also commented upon by Udéhn (1987, pp 13-15), who recapitulates how Weber, despite his methodological individualism stance, subscribes to a view where there is a place for more of a holism approach in sociology. This in part unravels the ambiguity of Weber's 'mixed' position that later on leads Udéhn (1987, pp 151-157) to label him as unfaithful to the initial methodological position taken.[26]

Identifying methodological individualism

How can methodological individualism then be defined? On a most general level, Elster (1990a, p 87) sees methodological individualism as 'the doctrine that all social phenomena (their structure and their change) are in principle explicable only in terms of individuals – their properties, goals, and beliefs'. Here, explanation as such is thus the focal issue. More of an institutional perspective is that of Rutherford (1996 (1994), pp 27-37) who sees methodological individualism as 'the reductionist claim that all theories of social science are reducible to theories of individual human action, ... [the main concern being] how individual action gives rise to institutions and institutional change'. There are three propositions that according to Rutherford pillar this claim. The first of these statements is allegedly accepted by most except for really ardent holists whereas those who side with the last one cannot be anything else than true believers in an extreme form of individualism.

- 'Only individuals have aims and interests.'
- 'The social system, and changes to it, result from the actions of individuals.'
- 'All large-scale sociological phenomena are ultimately to be explained in terms of theories that refer only to individuals, their dispositions, beliefs, resources, and interrelations.'

To better understand what methodological individualism is, one can also allude to what it is not. Its antithesis is mostly labeled methodological holism, a concept that Rutherford (1996 (1994), pp 28-31) in a similar manner frames in three propositions. The last of these is the most extreme whereas most subscribers to an individualist point of view could probably accept the first one, at least to a certain minor degree.

- 'The social whole is more than the sum of its parts'.

[25]According to Boettke and Storr (2000, pp 13-14) Weber's view comes forward via the adherence to a 'treble ['the economy, the society, the economy'] notion of embeddedness' thus promoting an intermediate 'sophisticated form of methodological individualism'.

[26]Udéhn identifies this as one of many compelling pieces of evidence that methodological individualism is not possible given the chasm prevailing between the idea and practice of methodological individualists.

- 'The social whole significantly influences and conditions the behavior or functioning of its parts.'
- 'The behaviour of individuals should be deduced from macroscopic or social laws, purposes, or forces that are *sui generis* and that apply to the social system as a whole, and from the positions (or functions) of individuals within the whole.'

The crucial aspect of holism, according to Udéhn (1987, p 86) is however not really any of the above. Instead, it is all about the manner in which any whole's sub-entities are *internally* related, thus making up a non-mechanical composite. That is, the focusing of internal micro-relations instead of only that between micro and macro. In trying to reconcile the chasm that from time to time allegedly prevails between methodological individualism and holism, Udéhn (1987, pp 92-93) does away with either extreme position, a) the 'absurd individualism' explanation of social phenomena via action of isolated individuals or b) the 'absurd holism' explanation of individual action via some sort of 'super-individual'. Instead the zone of demarcation between individualists and holists reportedly is that between the interacting individuals of methodological individualism and the social structure of methodological holism. In this way *it is more the primacy of social interaction or structure in regard to the other than the individual as opposed to the entire surrounding social context* that is the main concern.

There is no doubt that methodological individualism carries major weight within the social sciences. *As* undisputed should however also be that it is subject to a substantial amount of criticism, and not only from holists. Why make a halt at the individual level? That is, what is the reason for not trying to explain also the underlying causes that propel individual action?[27] These could be institutions and culture that in their turn are affected by other individuals that are subject to the influence of yet other institutions, et cetera. There seems to an 'infinite regress' here. 'Such an analysis never reaches an end, and it is just as arbitrary to stop at one particular stage and say *it is all reducible to individuals*, as it is to stop and say *it is all social and institutional* (Hodgson (1994, p 62)). In consequence it does not seem just to argue that *either* the individual *or* institutions have any primacy over the other.[28]

An intermediate version of methodological individualism

A particularly interesting aspect for the present 'socio-Austrian' effort is that of Udéhn (1987) and Rutherford (1996 (1994)) who try to come to terms with less extreme versions of methodological individualism. They set out to position it closer to holism and thus make it

[27] Hodgson (1994, p 62).

[28] An additional line of criticism is that of Udéhn (1987, pp 151-264). As a case in point he asserts that, from an ontological perspective, the de facto reality of social entities (Ronald Reagan would mean nothing at all, and would not induce awe, to a Swedish sociologist in the late 1980's had he not been fulfilling the role of a United States president) renders methodological individualism superfluous.

less of a target for criticism.[29] In this way the 'infinite regress' of the individual and the whole referred to earlier can be overcome. These attempts are part of a broader agenda in social theory related to by Coleman (1986, pp 1321-1322). The argument here is that macro and micro levels in social explanation can be discerned through the causal relations which prevail between them. A macro-macro level explanation (such as Weber's 'the protestant ethic inducing the spirit of capitalism') thus entails methodological holism which according to Coleman displays an array of shortcomings. Instead, a methodological individualism explanation would shift from the macro- down to micro- and then back up again to the macro-level after having paid due attention to micro-level relations.

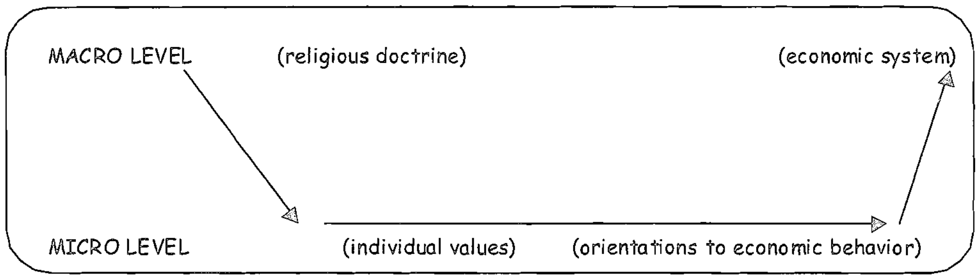

Figure VIIIb; Methodological individualism and macro-micro-macro relations[30]

That is, Coleman accepts the macro level as a point of implicit departure but then focuses the micro level of the individual. The crucial step is however the third and last one. How can the 'final' macro level be explained in terms of micro level developments? This is where methodological individualism runs into problems.[31] Coleman thus explicitly ties the micro-macro discourse to that of methodological individualism and also recognizes the necessity of an individualistic methodological position inspired by certain holism features (although he does not elaborate on any of this).

In part echoing these ideas Udéhn (1987, pp 3, 33-39) acknowledges the advent of a myriad of intermediate, 'situational', or 'structural' forms of methodological individualism. He however instantly turns to criticizing these for mostly still labeling themselves individualistic in the strict sense. 'Methodological individualism and [Popperian] methodological institutionalism are irreconcilable doctrines. ... Since institutions are social wholes, even according to the methodological individualists themselves, to admit of them in the situation is to smuggle in holism through the backdoor' (Udéhn (1987 pp 33, 41)). Instead he argues in favor of a continuum that ranges from strict methodological individualism to pure holism

[29]To juxtapose these two contributions is further enlightening in that the former is a sociologist and the latter a (let alone somewhat unorthodox institutional) economist.

[30]Coleman (1986, p 1322)

[31]This is allegedly seen in both Weber's sociology of religion and Marx's idea about how the consciousness of individuals result in social classes.

wherein these mixed forms could be positioned. In the blurred zone between individualism and holism the social relation has got a key role in that it in parallel embodies both 'individualistic interaction' and 'holistic structure' (Udéhn (1987, p 259)). That is, methodological individualism does not deny interaction between individuals or the social realm in which it occurs as such. The social situation is here furthermore seen as made up of other individuals and not as a sub-entity of any social structural system based on institutions (Udéhn (1987, pp 139-140)). To overcome the alleged incompatibility of methodological individualism and institutionalism, Udéhn (1987, pp 38-39) proposes a conceptual dichotomy between a *strong* and a *weak* version of methodological individualism. The former of these is an orthodox individualism whereas the latter 'admits of explanations in terms of social institutions'. In this borderland the issue of primacy turns to the prevalence of *social relationships* (more individualistic) which result from interacting individuals *versus social structure* (more holistic), a consequence of relations. Udéhn (1987, pp 47-48) further identifies three versions of the former 'weak methodological individualism'.

- 'Half-way explanations' drawing on relations between aggregates devoid of microfoundations, as discerned in macroeconomics (that is, a macro-macro relation in Coleman's (1986) vocabulary of above)
- The recognition of collective actors such as families, firms and regions in addition to individual human actors, as found in much of microeconomics
- The prevalence of 'social institutions as part of the situation in which the individual (or collective) acts'

All of these are allegedly jointly found in Marxian methodological individualism. Udéhn concludes that weak versions of methodological individualism are 'more viable and less vulnerable' than strong ones. On the other hand they run the risk of becoming too attenuated as the very idea of distinguishing between individualism and holism here loses much of its reason for being.

Rutherford (1996 (1994)) takes on much more of an appreciating position towards 'weak individualism'. He recognizes that the 'supposed dichotomization' of methodological individualism and methodological holism is beginning to fade and identifies a (holistic) 'conditional disposition' on the part of individuals to follow social rules as a case in point (Rutherford (1996 (1994), pp 28, 30, 32-33)). This is recognized in the term 'supervenience', 'the priority of the individual over the social while allowing for the social conditioning of individuals'. The position then taken is reminiscent to that of Elster (1990a, p 87) who says that even though individuals 'rule' from a methodological standpoint, they have goals and beliefs related to others, and many of their personal properties ('powerful' et cetera) are only grasped via how they relate to these others.

The foremost pioneering effort as to a reconciliation of individualism and holism (refuted by Udéhn (1987) on grounds of inconsistency and appreciated by Rutherford (1996 (1994))) is without doubt that of Joesph Agassi (1960). What he does is to assert that there is not really a need to make an exclusive choice between 'Freud and Marx' since individualism is not necessarily psychologistic. An 'institutional individualism' is conceivable. In order to illuminate the futile endeavor of individualists and holists respectively in promoting their own positions, Agassi (1960, p 252) furthers the analogy of a painting depicting a flower. One might thus conceive of a flower either as a flower or as a pointillist painting of that same flower. The former then corresponds to the institutionalist view ('the drawing is nothing but its whole') whereas the latter would be accepted by the psychologist ('yes, by imagining lines between the dots the flower can be envisaged but this is only an illusion given that details are not taken into account'). Agassi (1960, p 246) goes on to identify four different 'isms' that can be combined along two axes, each of which represents a dichotomy between the 'individual' and the 'whole'. On the one hand there is either 'individualism' (only individuals have power to decide and thereby to act) or 'holism' (individual ends and decisions are created by social forces). On the other there is 'psychologism' (every social theory is reducible to psychology)or 'institutionalism' (every social theory is autonomous and social entities exist on their own).

	INDIVIDUALISM	HOLISM
PSYCHOLOGISM	Individualist mainstream tradition (Freud)	Rare psychologism samples (Plato / Jung)
INSTITUTIONALISM	Rare institutional individualism (Weber)[32]	Holism mainstream tradition (Marx)

Table VIIIb; The individual or the collective as the preeminent molder of society?[33]

By cross-tabulating these 'isms' Agassi (1960, p 246) comes up with four different alternatives regarding the relation between the individual and her social context. Leaving 'Freud' and 'Marx' aside and focusing a sociological, and not a psychological, agenda, there is 'institutional individualism'. The claim pursued by Agassi (1960, pp 261-262) is that this position avoids the obvious traps that are easily run into once one opts for either individualism (/ psychologism) or holism (/institutionalism). Whereas the latter has got a major problem with the notion of individual / collective aims, the former cannot properly handle the fact that there are in fact social 'set-ups'. Institutional individualism does not have to deal with these issues since social aims are deemed non-existent whereas social institutions as such are.

> *An institution may have aims and interests only when people* ***give it an aim****, or act in accord with what* ***they consider should be its interest****; a society or an institution cannot have aims and interests of its own. Yet, both the individual and society are now taken as primary, at least in the sense that we cannot reduce*

[32]Confer the argument of Boettke and Storr (2000, pp 14-18) on Weber's 'sophisticated form of methodological individualism' in this regard.
[33]Agassi (1960, p 246)

psychology into sociology and we cannot reduce sociology to psychology.[34]

The rendering viable of institutional individualism has got implications in particular for the interpretation of human conduct as 'the unintended social consequences of individual actions'. This term very much akin to the idea of (Menger and) Hayek on the spontaneous rise of social institutions as the outcome not of (human) design but of (human) action. As a case in point Agassi (1975, pp 153-154) relates how people's conduct, intended to benefit their own aspirations, in fact contribute to the coming into being of institutions by way of social dynamics. He mentions how the creation of a trade union by a few individual workers in the first place 'start[s...] a social avalanche' as others subsequently join in provoking the emergence also of employers' organizations and governmental legislation in the area. That is, 'individuals are affected by social conditions, and in their turn affect them.'

To summarize, there is fair reason to believe in the feasibility of an intermediate position between methodological individualism and holism. Following Coleman (1986) and Agassi (1960, 1975) such a position starts out in the conviction of the individual as acting, but only subject to her social context that however is influenced by this acting. In terms of interpersonal relations this means that interaction, giving rise to relationships, is assigned some primacy relative to the structure that such relationships jointly make up (confer Udéhn (1987, p 259)).

Austrian methodological individualism

The coming into being of Austrian economics via Menger is characterized by methodological individualism and subjectivism.[35] That is, methodological individualism inspires the Austrian agenda from its inception in a manner not really found in mainstream neoclassical thinking. The present account will start out by recapitulating the manner in which Hayek and Mises try to come to grips therewith. This is but natural following their respective central position within the Austrian discourse, linking its past to the contemporary version hereof. The paragraph concludes by telling about how present-day Austrian economics relates to the emergence of intermediate forms of methodological individualism inspired by the works of Agassi delineated above.

To Hayek (1948c (1945/1946), p 6), individualism is more than anything else a '*theory* of society, an attempt to understand the forces which determine the social life of man'. Individualism is in this vein explicitly tied to the notion of a social whole and Hayek very

[34]Agassi (1975, p 152)

[35]Confer Smith (1994, pp 33-35) for an overall argument on methodological individualism in Austrian economics as a feature of Aristotelian methodology (this allegedly implies description by way of laws which unveil the association between essences as opposed to a Galilean ditto entailing the formulation of hypotheses subject to formal testing).

much targets and vehemently criticizes the view that (his) individualism is equivalent to 'the existence of isolated or self-contained individuals'. Society can then only be grasped through individualism by way of 'our understanding of individual actions directed toward other people and guided by their expected behavior.' This is, to say the least, very much reminiscent of the Weberian notion of 'taking others into account'. To Hayek this argument is further very much tied to the spontaneous and non-orchestrated emergence of order by way of social institutions. This is also the passage where he makes his famous and often-alluded-to quote of Ferguson's 'nations stumble upon establishments [institutions], which are indeed the result of human action but not the result of human design' (Hayek (1948c (1945/1946), p 7)). What is more, he (Hayek (1948c (1945/1946), pp 8-13)) also links this to a non-rationalistic view of man as an error-ridden creature, a position that he eagerly defends while taking some pains in deploring its antithesis. He thus attributes the 'false, rationalistic individualism' to the 'design theories of social institutions' as allegedly found in the heritage of Descartes and Rousseau. That is, economic man as appearing in the 20th century is not the intellectual offspring of Adam Smith, the very same representing what to Hayek is 'true' individualism. As noted by Christainsen (1994, p 12), one of the most salient areas where Hayek's individualistic (and hence microeconomic) stance can be discerned is in monetary theory as the antithesis of Keyne's (holistic) macroeconomics.

> *If ... monetary theory still attempts to establish causal relations between aggregates or general averages, this means that monetary theory lags behind the development of economics in general. In fact, neither aggregates nor averages do act upon one another, and it will never be possible to establish necessary connections of cause and effect between them as we can between individual phenomena, individual prices, etc.*[36]

The opening programmatic statement of Mises (1963 (1949), pp 41, 43) on methodological individualism is somewhat similar to the ideas of Hayek and reads as follows.[37]

> *Praexology deals with the actions of individual men. It is only in the further course of its inquiries that cognition of human cooperation is attained and social action is treated as a special case of the more universal category of human action as such. ... It is illusory to believe that it is possible to visualize collective wholes. They are never visible; their cognition is always the outcome of the understanding of*

[36]Hayek in 1931 ('Prices and Production') cited by Christainsen (1994, p 12))

[37]Udéhn (1987, pp 15-16, 18-22) acknowledges the parallelism between Mises and Hayek in this regard but attributes to Hayek more of an affiliation with Mandeville and associates Mises closer to Weber. The latter connection is particularly salient as it features the narrow axis of methodological individualism-subjectivism, even though Mises here, according to Udéhn, seems to further more of an overall pure subjectivist stance than what Weber does. As seen from the contributions by Hayek and Weber it is obvious how both explicitly deny the viability of an individualistic stance *à la extrème*. That is why it is confusing to share Udéhn's (1987, p 105) assertion that Austrian economics is more individualistic than other economics in that it hosts the most ardent defenders of methodological individualism. Even though there surely are those adhering to positions that are only 'individually' articulated this is by no means the case for Hayek and Mises, the central inspiring figures of current Austrian thought as found in the works of Kirzner.

the meaning which acting men attribute to their acts.

Mises goes on to assert that the search for primacy of the sub-entity over the whole or vice versa is futile given that they necessarily must be looked upon in parallel. His argument then to unfold fully recognizes the prevalence of social wholes in light of (individual) human action. He is here most Weberian in stressing that once action is emphasized it is mandatory to relate the individual given that only individuals can act. Ends can only exist when related to action, and the means for the attainment of individual ends is society. But this action does not come about in a vacuum, but within the realm of connected individuals. And it is precisely these social wholes that Mises claims is subject to the methodology of individualism. That is, to grasp the whole, for instance the emergence of language (the tool of an interpretative individual), human action must necessarily be adhered to. 'The hangman, not the state [the invisible collective whole], executes a criminal'. That is, collective life is lived by way of individual human action, 'a social collective comes into being through the actions [and interpretations] of individuals'. Mises further chooses to focus 'purposeful cooperation' in thus tying individual human action (giving rise to cooperation) to social wholes (depending from cooperation). A different stance immediately runs into insurmountable trouble says Mises. How would it for instance (in case of outright and decisive holism) be possible to discern exactly to *which* particular whole (out of an array of possible alternatives) that a specific individual belongs? (Mises (1963 (1949, pp 42-44, 143-145, 165)). Threads of holism are ridiculed by Mises who attributes to them some kind of mysticism ((Mises 1963 (1949, p 166)). He further takes explicit issue with any vulgar interpretation of the individualism subscribed to by himself in emphasizing that man per definition is a social being and that its antithesis, '[t]he isolated non-social man is a fictitious construction' (Mises (1963 (1949), p 165)). With particular reference to the market institution Mises (1963 (1949), p 315) further takes some pains in explaining the futility of referring to some sort of *impersonal* automatic market mechanism.[38]

Austrian economics obviously positions itself within the realm of an intermediate form of methodological individualism according to which also the social whole has got a crucial role to play. This is readily conceived of in the writings of Mises and Hayek. This is of course not to say that Mises and Hayek are not methodological individualists. They sure are. But they represent an intermediate and non-atomistic version of methodological individualism. Rutherford (an institutionalist) (1989, pp 160-164) supports this view by acknowledging that Austrian and (new) institutional economics have several areas of interest in common and that these (non-extreme) strands of thought are methodologically compatible. He thus chooses to focus Agassi's institutional individualism as a viable middle ground hold of reconciliation that also encompasses the embeddedness argument as found in economic sociology (!).

[38]See for instance Mises' claim as to the market as 'the foremost social body' (Mises 1963 (1949), p 315).

Rutherford considers Hayek and Wieser the foremost representatives of such a 'sociological' Austrian position. 'The Austrian emphasis on the individual acts that give rise to institutions is not necessarily in conflict with the institutionalist emphasis on the social conditioning of individuals' (Rutherford (1994, pp 530-531)). A similar position is that taken by Samuels (1989, p 57). He looks into the work carried out by present-day Austrians and institutionalists and finds no serious chasms since both allegedly are inspired by individualism *and* collectivism. That is, there seems to be no real ground for the claim made by Hodgson (1994, p 61) that 'philosophical atomism is necessary but not sufficient for methodological individualism.'[39]

The claim by Rutherford is confirmed by the work of Boettke (1989, 1995) and Prychitko (1994, 1995a, b) who both argue in favor of an Austrian intermediate position. Boettke (1995, pp 26-28) alleges that atomistic individualism is *as* inadequate in coming to terms with human actors as is standard accounts of rationality based on optimizing individuals. Austrian methodological individualism, with its roots in Weberian interpretive sociology, is here allegedly very different. This methodological position thus recognizes the way in which 'social customs are mediated through the actions of individuals.' That is, there are social habits, but they prevail as an outcome of human individual action.

> *Individuals and their choice-making serve as the beginning of the Austrian analysis not because of a rejection of collective entities, but because **it is only by interpreting such social entities as the composite outcome of individual activity that we can come to understand their meaning and significance.***[40]

Social phenomena then have meaning only at the level of the individual since it is only individuals that choose, something closely linked to the Misesian view of human action. The social world can thus only be understood via the meaning that individuals attach to it. *It is the intersubjective, yet individualistic, meaning that matters since individual action is embedded in a web of social meaning.* This argument of Boettke's is very reminiscent of early Austrian thought wherein individualism and subjectivism explicitly go close together. Atomism, to Boettke (1989, pp 76-77) is a naive non-viable version of methodological individualism, the creative counterpart of which is a position in-between sophisticated versions of individualism and holism respectively.

Prychitko (1994, p 268) draws on the same kind of vocabulary and asserts that any claim saying that the 'social' methodological individualism of Hayek's implies the abandonment of individualism altogether is false and necessarily anchored in a naive conception thereof (that Hayek himself vigorously tries to fight off). Prychitko's position is deepened as he elaborates

[39] For an explicit account of 'Austrian institutionalism', see further below.
[40] Boettke (1995, p 27)

on the thinking of Boettke's above by relating the Austrian methodological stronghold as one where neither isolated atomistic actors, nor physics-like features can possibly constitute the pillars of economics analysis. Austrian economics then becomes a phenomenological science which emphasizes the *Verstehen* of actions by way of mutually grasped subjective meanings. It follows (following Hayek) that human individual action takes place within social institutions that assist in coordinating mental plans. These social institutions (which amount to more than pure mental constructs) are the outcome of spontaneous, possibly conflicting, action, not purposeful design (Prychitko (1995a, pp 11-13)). As seen Prychitko explicitly allures to subjectivism to legitimize the Austrian standpoint. That is, a phenomenological position requires an individualist stance, but a very deliberate one that can come to grips also with *inter*subjectivism.

In sum, following its roots, its methodological vicinity to institutionalism, and its *Verstehen* intersubjectivist conception of man, it is most legitimate to position the Austrians somewhere in the neighborhood of an intermediate methodological individualism. This stance on the one hand embodies the progressive blend of methodological individualism and holism and on the other forcefully denies atomistic individualism as found elsewhere within economics. This position regarding individualism is understood much better when the prevalence of Austrian institutions are considered. This follows below.

Austrian institutions

> *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.*[41]

At first sight, and on the same grounds, institutions may seem as irreconcilable with Austrian thought as do any 'holistic' versions of methodological individualism (confer Langlois (1992, p 165), Gloria-Palermo (1999, p 149)). But just like the case of individualism, when superficial interpretations are put aside Austrians have a lot to say also in this field. There are two main, partly intertwined, threads to the reasoning, both of which trace their roots to the early contributions of Menger by way of Hayek's ideas. On the one hand there is the conviction that the coming into being and development of institutions can be seen as the emergence and transformation of social order and on the other there is a belief that institutions are tightly interwoven with the reduction of uncertainty via knowledge.

The first and main argument is more fundamental in character since it looks upon institutions like a social order which arises spontaneously as the outcome of non-deliberate collective human action. That is, what is purposeful though not intentional at the level of the individual

[41] O'Driscoll Jr and Rizzo (1996 (1985), p 34)

is only non-orchestrated and spontaneous at the level of the social whole. This represents a 'causal-genetic' process recognized early on in Austrian thought which places it firmly outside the equilibrium realm.

The idea of spontaneously emerging institutions has ... been advocated by Carl Menger ... in considerations of his "causal-genetic" method of analysis. Menger submits that regularities in social interactions may be constituted by the individual choices of all participants without anybody having intended or even understood this effect. All individual actions, taken together, spontaneously establish mutually coordinated behavior. Through habit formation, this comes to be taken for granted. Manifest institutional regularities emerge in this way.[42]

That is, '[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)). As noted by Vaughn (1998 (1994), p 30), such Mengerian institutions, be they money, law or language, are a function of generally beneficial spillover effects which originate in the striving of each individual when seen in separate. Such institutions are effective.[43] This in its turn means that institutions (or social order) as such 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.

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.[44]

If now the light is turned from the kernel social order nature of institutions and their emergence to their position vis-à-vis knowledge, there is one main lesson to be learned. Institutions act as a the device by means of which ever-prevailing uncertainty is 'shouldered aside'. Institutions do not convey a right answer but they assist in overcoming the effects of what is not known. '[I]nstitutions reduce, but do not eliminate uncertainty … ' (O'Driscoll Jr

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[42]Witt (1992, p 226)

[43]Confer 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.'

[44]Hayek (1948c (1945/1946), pp 6-7), as commented upon also earlier

and Rizzo (1996 (1985), p 32). This is the well-known position of Lachmann.

> *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.*[45]

There is however, says Lachmann (1971, pp 51-52), a major problem attributable to the issue of change and stability in light thereof. That is, to serve their main 'rule-influenced' purpose, institutions must display stability. Still it is well known that some of them on the contrary embody very much of change, something thus curtailing their main reason for being. Too elastic a handrail is hardly a handrail anymore.[46] What is more, institutional order 'should' per definition favor integration, but how could that ever have any pretensions to work out if institutions, obeying the prevalence of general change, are not really stable?[47]

Despite the somewhat underdeveloped character of the Austrian treatment of institutions Kirzner (1979, p 12) has it that '[this] approach to the theory of the market ... 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'. His own stance accordingly revolves around the Hayekian types of knowledge that are endemic to various kinds of potential discovery of opportunities (Kirzner (1992a, pp 163-179)). The rise of social institutions is hence explained as a function of the two-faceted knowledge problem brought forward by Hayek. To Kirzner 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, whereas the 'A-problem' revolves around expectations of others' behavior 'which will in fact not occur', the 'B-problem' pertains to the situation where a potential is in fact 'overlooked', a promising 'move is not made' (Kirzner (1992a, pp 167-169). What is crucial, says Kirzner, for the rise of institutions, is the solution of the 'A-' but not of the 'B-problem'. That is, for stable social

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[45]Lachmann (1971, pp 12-13, 49-50)

[46]Confer 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.'

[47]The points raised by Lachmann are furthermore particularly intriguing as they come forward within a most subjective ontology that is in bad need of at least some explicit pillars not to run the risk of losing itself in the sea of relativism. 'From an analytical viewpoint, the theory of institutions developed by Lachmann 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).

institutions to emerge it is necessary that people 'do tend to learn correctly to expect what other people will do' whereas they are not compelled to act entrepreneurially as such. For relatively 'superior' institutions to arise it is however crucial that also the 'B-problem' of knowledge (thanks to exerted entrepreneurship) is solved. This can only occur only in a market context because of the externalities involved in the process (Kirzner (1992a, pp 172-174)). As noted by Loasby (1992, p 149) it is however entirely viable 'that a particularly powerful set of institutions may coordinate the members of a market so effectively that they all decline together'. That is, 'A-' but not 'B-problems' are solved meaning that the superiority of emerging institutions can be questioned (Loasby (1992, p 149) mentions the case of British 'cotton textiles, shipbuilding, motor cycles and machine tools').

> *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.*[48]

To summarize, there are two distinct but related aspects of the Austrian approach to institutions, both of which are discernible already in the works of Menger. There is first the idea, deeply rooted in the dictum of human action, that social institutions are 'causal-genetic' outcomes not of design but only of spontaneous non-orchestrated conduct of individuals. There is then the crucial role of uncertainty for the coming into being of these institutions, and their own subsequent impact for the reduction of this uncertainty. This is carefully articulated by Lachmann as the 'orientation map' character of institutions.

From the immediate above also follows that institutions constitute the manner in which social relationships can be understood. As argued elsewhere, human action has got two dimensions to it, entrepreneurship and social exchange, the latter of which gives rise to interpersonal ties – relationships. These bonds are by no means at the center of the Austrian discourse. This in part stems from the fact that they are implicitly assumed to prevail anyway (Kirzner (1997c)). In part it depends on the fact that they are seen as endemic to the type of sociological works that are so alien to most Austrians.

> *In our situation it might be tempting to invoke the support of one of the many "social system" theories which now abound in the field of the social sciences. It would seem that if the network of social relationships is to lend itself to description in terms of a "system" at all, institutions will largely have to provide its structure and thus have an important part to play in it. And since institutions have an important function in guiding social action, do they not thus lend themselves readily to treatment in terms of the "structural-functional" variety of social-system theories? There are* [however] *a number of reasons why we should not rely on such support, and why we are compelled to seek to establish the*

[48]Kirzner (1992a, p 165)

existence of an institutional order by our own efforts.[49]

What Lachmann thus turns against is the functionalism which characterizes Parson's sociology.[50] One of several reasons for this is its negligence of the individual, something making it easy to support Lachmann's (1971, p 75) assertion, '[t]he fact that each institution denotes a recurrent pattern of conduct does not by itself entail the existence of an over-all institutional order.' That there still is a place for social relationships (as uncertainty-reducing institutions) within the Austrian agenda is however obvious once Hayek's stance on competition and overall societal order is looked into.

> *Especially remarkable ... is the explicit and complete exclusion from the theory of perfect competition of all personal relationships existing between the parties. In actual life the fact that our inadequate knowledge of the available commodities or services is made up for by our experience with the persons or firms supplying them. ... ... Though not a single economy, the Great Society is still held together mainly by what vulgarly are called economic relations. ... It is of course true that within the overall framework of the Great Society there exist numerous networks of other relations that are in no sense economic. But this does not alter the fact that it is the market order which makes peaceful reconciliation of the divergent purposes possible – and possible by a process which redounds to the benefit of all. That interdependence of all men, which is now in everybody's mouth and which tends to make all mankind One World, not only is the effect of the market order but could not have been brought about by any other means. What today connects the life of any European or American with what happens in Australia, Japan or Zaire are repercussions transmitted by the network of market relations.*[51]

Despite the intuitive appeal of this interpretation of relationships as uncertainty-reducing institutions of the Austrian agenda there are one or two issues that have to be handled when contemporary Austrian thought, in its Kirznerian guise, is to be put closer to an overall sociological agenda. As a case in point, consider the manner in which Ricketts (1992, p 82) chooses to highlight relationships within the realm of entrepreneurship.

> *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.*

Methodological individualism in economic sociology

Methodological individualism is obviously an integral part of the Austrian agenda, from its inception in the works of Menger and onwards. This is not really the case for economic

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[49]Lachmann (1971, p 73)

[50]This school of thought is however by no means necessarily endorsed once relationships are at the fore of analysis. Confer the 'embedded network' sociology subscribed to by Granovetter and others.

[51]Hayek (1948d (1946), pp 96-97, 1978, p 112). Confer Boettke et al (1994, pp 70, 75).

sociology. There are *two major reasons* for this.

The first is related to the very reason for being of sociology itself. Ever since it emerges as a distinct area of social science its position vis-à-vis methodological individualism is definitely more problematic and ambiguous than what is the case for political economy / economics. The foremost reason for this is that sociology comes forward in part *as opposed to* economics, to deal with what economics does not do. And since economics (at least ever since the marginal revolution of Menger, Jevons and Walras) is preoccupied with the individual and her subjective evaluation of alternatives of choice et cetera, it has been but natural for sociology to focus what is *not* the individual, that is the *collective*.[52] This is obvious in the following phrase by Swedberg (1993b, pp 45, 57) who comments on Schumpeter, an economist with some interest for sociology.

> *Schumpeter also insisted that, while it was necessary always to start with the individual in economic theory, this was unsuitable in sociology since its basic unit is the group. ... This focus on the family, as opposed to the individual, was finally a further reason why conventional economic theory could not be used to analyze social classes. Methodological individualism had a place – but not in sociology.*

In consequence sociology *in general* mostly takes on a stance of methodological holism since this epitomizes its own very reason for being as a separate branch of the social sciences.[53]

The second reason for the uneasiness of economic sociology with methodological individualism stems from the path of development that this branch of sociology takes in the 20th century. One line hereof is the structural functionalism of Parson's, a research program that proves futile but still epitomizes what economic sociology there prevails for some time. That is, the turn that economic sociology takes after Weber is definitely towards a holism understanding away from methodological individualism.

The one notable exception is hence (as briefly alluded to earlier, the sociology of Weber). There are two distinct facets to this claim. *The first* is the most explicit one according to which Weber openly takes on a position of methodological individualism.

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[52] Confer Udéhn (1987).

[53] This is of course very much an oversimplification but there is no doubt that ever since the collective spirit of Durkheim ('suicide as a social fact very much in its own right' et cetera), as seen in the rise of functionalism, methodological individualism is not part of the main agenda. Udéhn (1987, pp 98-99) and Hirsch et al (1996 (1987), 279) however recognize that sociology is much less homogeneous than economics as there is not really such a thing as marginalism, that is a unifying principle, to cling to. In the extreme one could thus argue that there is only 'one' sociology which must be functionalistic, then endorsing holism, according to its very reason for being. But there are also other positions. One holds that there are 'two sociologies', one focusing the social system and the other social action and in that case the latter is, according to Udéhn, individualistic. He however endorses more of a programmatic view where three 'basic paradigms' are identified. That two of them, functionalism and neo-Marxism are holistic, and thus outnumber the third, individualistic interaction analysis, all but confirms the fundamental sociological stance.

> *Action in the sense of subjectively understandable orientation of behavior exists only as the behavior of one or more* ***individual*** *human beings. For other cognitive purposes it may be useful or necessary to consider the individual, for instance, as a collection of cells, as a complex of bio-chemical reactions, or to conceive his psychic life as made up of a variety of different elements, however these may be defined. ... [F]or the subjective interpretation of action in sociological work these collectives [states, foundations and other associations] must be treated as* ***solely*** *the resultants and modes of organization of the particular acts of individual persons, since these alone can be treated as agents in a course of subjectively understandable action. ... Even a socialistic economy would have to be understood sociologically in ... "individualistic" terms.*[54]

What Weber says is that given that action in its subjective sense is what counts, the analysis must necessarily be directed towards the individual. The latter is thus a precondition for the former. When interpretation matters it is simply not possible to deal with 'collective actors' as anything else than a certain number of distinct individuals. The anonymous mass is far away. Weber is, hence, most individualistic and what is more, he ties this *individualism* very tightly to the *subjectivism* of his (to be further related below).[55] They are two parts of the same coin. It must however be observed that Weber is keen to emphasize that an individualistic method per se, within the realm of scientific analysis, does not necessarily entail an individualistic value system. *The second* facet of Weber's methodological individualism is discerned in his view of action. As elaborated at some length in Chapter II Weber, also in the case of 'social action', starts out in the individual who allegedly, in parallel to others, also orients towards own 'intended goals' (confer Swedberg (1998, pp 23-25)). This implies an intermediate individualism that also is discerned in his notion of 'economic social action'. '[T]his methodological individualism is of a social rather than an atomistic nature, as in economic theory. In other words, individuals do not just happen to interact when it suits their interests, but consciously orient their behavior to one another in such a way that it affects their behavior' (Swedberg (1998, p 164)).[56]

As noted earlier, one particular version of contemporary economic sociology has it that man acts subject to his network-like social context (Granovetter (1985)). This means that he is neither under-, nor oversocialized (confer Wrong (1961)). An undersocialized, atomistic view is reminiscent of what Udéhn (1987, p 92) labels an 'absurd' form of methodological individualism whereas its antithesis holism is very much distinguished in an oversocialized conception of man. The mid-range position of being 'embedded' is thus reminiscent of Weber's account of economic social action where an individual, driven by her own interests

[54]Weber (1968 (1922), pp 13, 18)

[55]Confer Gerth and Wright Mills (1991 (1948), pp 55-61)

[56]A similar position is discerned in the works of Simmel. As a case in point he (Simmel (1990 (1907), pp 283-354, 1950 (1908), pp 78-84, 1971 (1957), pp 217-226)) tells about how the individual relates to the idea of freedom, for instance via the manner in which the notion of 'individuality' does not really exist prior to the Italian Renaissance and how it gradually develops ever since. Simmel (1950 (1908), pp 28-33) does this, it seems, by taking on a stance according to which the individual while forming a mass does so only at a price of sacrificing certain individual qualities.

and socially induced habits acts in her own interest while, *in parallel*, taking others into account. As observed by Smelser and Swedberg (1994, p 5), '[m]ethodological individualism is not logically incompatible with a sociological approach, as the work of Max Weber indicates.' That is, methodological individualism is compatible with economic sociology *provided that some weak, non-extreme version* is at hand. Three main premises of the referred mid-range position of spatial and timely embeddedness further have it that

a) 'economic action is a form of social action since it is socially oriented'
b) 'economic action is socially situated and contingent on the past via network embeddedness'
c) 'economic institutions are social constructions'

How do these premises match the account of a 'weak' version of methodological individualism? One way of finding out is to draw on the three plus three principles aligned above by Rutherford (1996 (1994), pp 28, 31-32). In his view the most extreme positions of individualism and holism respectively are a) that '[a]ll large-scale sociological phenomena are ultimately to be explained in terms of theories that refer *only* to individuals' and b) that '[t]he behaviour of individuals should be deduced from macroscopic or social laws, purposes, or forces that are *sui generis* and that apply to the social system as a whole'. It goes without saying that neither position is compatible with the three economic sociology premises a-c of above. Rutherford's other principles are 'paler' and in this sense more reconcilable. They can be combined in the following manner through the furthering of a combined individualistic-holistic stance (Rutherford (1996 (1994), pp 36-37)).

- The social whole, being more than the sum of its sub-entities, *conditions* these entities.
- The social whole *results from* individual action, propelled by aims and interests.

That is, *the whole, resulting from the individual, in its turn conditions the individual.* This is a mixed position with a slight bias toward the individualistic. 'Resulting from' is definitively stronger than 'conditions'. Is this position acceptable in light of the premises a-c? This seems to be the case since these premises fully recognize the existence of a whole but still regards it as secondary to individual economic action. That is, the particular economic sociology represented by these premises seems very much to be in the vicinity of an intermediate position of methodological individualism.[57] This is very much discerned in the seminal article (Granovetter (1985, p 487) that epitomizes this economic sociology agenda.

> *A fruitful analysis of human action requires us to avoid the atomization implicit in the theoretical extremes of under- or oversocialized conceptions. Actors do not behave or decide as atoms outside a*

[57]Hedström and Swedberg (1998, pp 11-13) recognize the presence of such a 'weak' individualism which implies that only intended *and* unintended consequences of individual human action can explain social institutions (as seen this is most reminiscent of the Austrian discourse on the subject).

social context nor do they adhere slavishly to a script written for them by the particular intersection of social categories that they happen to occupy. Their attempts at purposive action are instead embedded in concrete, ongoing systems of social relations.

A social individualism

Time has now come to conclude this section on methodological individualism by turning to the manner in which Austrian economics and economic sociology, as conceived of in this text, can be reconciled within the realm of a version of methodological individualism here labeled *social individualism.*[58] There are *three bricks* to this idea.

The first is how the discourse in general chooses to position itself in regard to intermediate versions of methodological individualism on the verge of some non-extreme accounts of holism. This pillar is inspired by the works of Agassi (1960, 1975), Coleman (1986), Udéhn (1987), Elster (1990a), and Rutherford (1996 (1994)). The fundamental source is the contribution of Agassi who argues in favor of an intermediate stance of individualism that relates the parallel primacy of the individual and the whole. This is discerned as social institutions evolve from 'the unintended social consequences of individual actions'. That is, the whole only has a meaning to the extent that it is assigned this via individual conduct. This is rendered more precise in the discourses of Elster and Rutherford that mirror the fact that individual action, though central, is mediated by social conditions. Thus 'supervenience' as primary individual conduct is 'socially conditioned'. By focusing the explicit linkages between two main societal levels, via a macro-micro-micro-macro loop, Coleman further depicts how individual values, though reflecting macro doctrines, also frame these doctrines after having been molded by micro entities. This argument is in part taken up by Udéhn who chooses to see holism as the impact exerted *among* micro level actors rather than as a sharp macro-to-micro type of conditioning. He seems to accept an intermediate position of individualism when the social relationship is taken on as a key construct via the manner it embodies in parallel the overarching 'holistic' structure and 'individualistic' interaction. By finally putting the six propositions brought forward by Rutherford (three plus three describing methodological individualism and holism respectively) next to each other, it is feasible to say that when one stays out of the two extreme positions, the remaining four can appear together. That is, whereas it is out of the question to combine assertions concerning the ultimate primacy of either the individual or the social whole it seems acceptable to do this with statements like 'only individuals have aims and interests' and 'the social whole is more than the sum of its parts'. More of a deliberate issue is then whether 'the social system, and changes to it, *result from* the actions of individuals' is seen as possible in parallel to 'the social whole significantly influences and *conditions* the behavior or functioning of its parts'.

[58]There is a corresponding term appearing in Udéhn (1987, p 123) referring to the social psychology of Mead's *not* corresponding to its use here.

The second brick that assists in the erection of a social individualism derives from Austrian economics. It is first and foremost nourished by the claim of Hayek regarding a 'non-atomistic' individualism subject to which individual behavior orients to others, something eventually found in the spontaneous rise of social institutions. A related claim is that of Mises which recognizes the individual as a necessarily social creature whose cooperation with others is endemic to human action that makes up social wholes. The viability of such intermediate stances taken is further discerned in the feasibility of Austrian institutions. As argued by both Boettke and Prychitko this social type of individualism is further endemic to an intersubjectivist interpretation by means of a method of *Verstehen.*

This methodology is very much part of *the third brick* of a social individualism, as found in an economic sociology inspired by Weber (1968 (1922)). Herein action is grasped from the view of the individual and this conduct, although individualistic, is furthermore social as it orients towards others. In consequence the individual is, with respect to her social context, neither under-, nor over socialized in the Wrong (1961) sense of the word. Instead she is embedded (Granovetter (1985)). This means that the whole, emanating from the conduct of individuals, 'conditions' their behavior. That is, action is 'subject to concrete social relations'.

> *Embracing* ...[Weber's] *form of methodological individualism reveals the theoretical shortcomings of both standard economics and sociology. ... Individuals are* [here] *neither disembodied from the institutions that shape and influence individual choice nor are institutions dissociated from the* ***web of meanings*** *that give them life.*[59]

methodological individualism ⟷ methodological holism

isolated individuals ------------interacting individuals------------social structure------------super-individuals

SOCIAL INDIVIDUALISM

- the relationship as the core social feature
- spontaneous interaction giving rise to social institutions
- the embeddedness of the individual

Figure VIIIc; Social individualism as residing in-between individualism and holism

Social individualism is then an intermediate methodological individualism akin to a weak version of methodological holism. Its main feature is the weight it assigns to social relationships that emerge within the realm of face-to-face interaction between individuals. These relationships make up a social structure and they emerge as the outcome of individual interaction. Hence, *they result from non-orchestrated individual human action but are conditioned by social structure.* Social interaction is thus somewhat more pronounced than the

[59]Boettke and Storr (2000, pp 29, 30)

social structure that it gives rise to. But the two are tightly intertwined. Social individualism is hence close to the 'supervenience' identified by Rutherford (1996 (1994), pp 32-33) as 'the priority of the individual over the social while allowing for the social conditioning of individuals'. The very idea of social individualism further pays a significant debt to Agassi's (1960, 1975) formulation of an institutional individualism. It coincides with Agassi's notion of this intermediate form as foremost individualistic but diverges from there since it pays significantly more attention to the connection between interaction that emerges in the form of relationships which result in an overarching structure. An additional difference is that it constitutes an example of Weber's *Verstehen* intersubjectivism, 'relationships to the extent that they are perceived by individuals' as opposed to Agassi's more objectivist way of reasoning. As for the relation between micro and macro level explanations, social individualism is reminiscent of the argument of Coleman's (1986) related above where the crucial explanatory step takes place at the individual level (by way of interaction between individuals) following some overarching conditioning macro level. The subsequent challenge is thus to connect this micro level (back) to the macro level as interaction results in a structural pattern (such as a market-as-a-network).

vi. Rationality, the reason for reason

> *A Hungarian coffee shop begins to offer customers high-quality coffee to customers who are willing to pay a bit extra. As the shop has a limited quota of coffee beans, each customer who pays the high price creates an externality for the customers who pay the official price. The official cups of coffee being increasingly diluted, more and more customers are willing to pay the premium. Yet, as more and more do so, the quality of black-market coffee approaches the initial quality of the ordinary coffee. In the end, everybody pays the higher price for coffee of ordinary quality. It would appear, therefore, that everybody has lost, in a standard n-person prisoner's dilemma. The twist to the story is that because of cognitive dissonance nobody experiences any subjective loss. Since they are paying more for the coffee, it must be better than it used to be. The prisoner's dilemma yields a Pareto-improvement: the shopkeeper gains more and the customers are happy.*[60]

But, are they rational?[61]

Roots of rationality

Unlike methodological individualism that is inherent to the very transformation of classical into neoclassical economics, rationality does not come forward as a separate subject matter until later in the development of economics. This is no surprise given that the notion of methodological individualism reaches out much further. Whereas *that* issue really is at the core of how man should be treated within the social sciences, rationality is 'merely' an

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[60]Elster (1990b, pp 34-35)

[61]No, according to Elster (1990b, p 35), since desires here are framed by the striving for dissonance reduction in the 'a-higher-price-paid-necessarily-implies-that-something-is-better' mode of *irrational* reasoning.

applied issue where reasons for action within a theory of value are depicted more in detail.

As said, the gradual appearance of neoclassical thinking from the 1870s and onwards entails the focusing of market demand, as opposed to supply. A consequence thereof is more attention being paid to the individual and the manner in which she, by way of desires and action, can be linked to the supply side of the market via demand for goods. As noted by Coleman (1986, pp 1309-1310) this is of course not to say that fragments of a 'single theory of action' (allowing for the connection of individual intentions with 'macrosocial consequences') which encompasses purposefulness and goal orientation of individuals, is completely absent earlier. But it exists more like bits and pieces that are not unified within the realm of a coherent theory. This step is not taken until the advent of the neoclassical agenda whereby the theory of value, endemic to any understanding of action, is entirely reformulated. As emphasized by Kirzner (1998b), classical economists discern value as *objective cost*, something that is understood from the supply side of the market as past production expenditures are taken into account. Endemic to the marginalist revolution is then how value instead becomes interpreted in terms of *subjective utility*, a concept that apart from being derived from demand conditions is forward-looking. As a consequence it embodies also fragments of a theory of action. Kirzner (1998b) distinguishes four separate steps in the development of neoclassical utility theory. *The first*, manifest in the works of Jevons, is hedonistic in the sense that is sees utility as pure *pleasure* ('a psychological sensation following physical joy'). Subject to diminishing marginal utility an individual is then better off the more utility she gets, something that however renders the understanding of someone who goes to the dentist (and pays for being exposed to pain) difficult to justify. This is however grasped within *the second* stage of development identified by Kirzner (1998b), that of utility as *satisfaction* subscribed mostly to by the 'late' Marshall. Utility is here no more about pure physical enjoyment but it revolves instead around a mental process grounded in experience wherein some predefined goal becomes fulfilled. It is then perfectly viable to experience some initial pain while visiting the dentist as the long-term goal of good dental status is achieved. *The third* step, endorsed by Pareto, is that of utility as *ophelimity* according to which the value of an object 'a' can be grasped via the extent to which it is more or less desired than object 'b'. Hence, *relative desirability* in a particular situation devoid of both temporal and psychological considerations concerning own experience. Someone is prone to pay for something because it provides utility in the sense that it is desired more than something else. *The last* step brought forward by Kirzner (1998b) is that of utility as *preferability*. This inheres in the view of economics as a 'pure logic of choice'. According to this way of reasoning ophelimity is pushed even further in that utility is *exclusively* found in the 'relative ranking position' of a particular object in the sense that the object itself carries no value whatsoever when it is isolated. The understanding of utility then necessarily starts out in preferences that by themselves inform how the choosing among alternatives will come about.[62] This last stage of utility theory development obviously owes a major debt to the introduction of indifference curves as their coming into being shows the irrelevance of any value tied to isolated objects. What is more, the original marginalism is not seen anymore as utility and now becomes an 'index of preferability'. It is a way of organizing choice in consistence with the goals subscribed to. The cornerstone of this pure logic of choice is the publication of Robbins' An essay on the nature and significance of economic science. Herein Robbins (1984 (1932), pp 12,14, 15, 16, 30) establishes that an individual's choice of time spending between income and leisure (both of which are in under-supply with respect to the individual's wants) tells about what is economics – the need to economize by way of choice concerning how resources are used to fulfil wants.

> *The ends are various. The time and the means for achieving these ends are limited and capable of alternative application. At the same time the ends have different importance. ...* [W]*hen time and the means for achieving ends are limited* ***and*** *capable of alternative application,* ***and*** *the ends are capable of being distinguished in order of importance, then behavior necessarily assumes the form of choice. ... Scarcity of means to satisfy ends of varying importance is an almost ubiquitous condition of human behavior. ... Economics is the science which studies human behavior as a relationship between* [given] *ends and scarce means which have alternative uses* [in an exchange economy]. ... *Economics is not concerned at all with ends* ***as such****. It is concerned with ends in so far as they affect the disposition of means. It takes the ends as given in scales of relative valuation, and enquires what consequences follow in regard to certain aspects of behavior.*

The roots of rationality can furthermore (according to Kirzner (1976 (1960), pp 157-159)) in parallel be found in the emergence of Weber's sociology of *Verstehen* according to which he sets out to distinguish *die Geistwissenschaften* (the social sciences) from the natural sciences. A key role is then played by the way in which purpose is tied to action. Weber here draws upon 'the ideal-type of rational action, the model of a coldly calculating human being conscious of ends and means.' As noted by Kirzner this ideal-type does not imply that action actually unfolds, but merely that action under certain conditions *can be understood* as tending or not in this direction (confer Weber (1968 (1922), pp 5-7, 9)). This idea is then endemic to the subsequent formulation of economics as the choice of means for the attainment of ends within the realm of economizing invoked by Robbins. That is, *Weber's reasoning on rationality is one of the main sources of the neoclassical view of rationality that ever since inspires the social sciences in this regard.* This is not to say that all economists of the time converge in endorsing the steps thus taken. A different stance is (far from surprising) taken by early adherents to institutional economics. Habits here plays a crucial role in inspiring rationality. That is, economic rationality is fostered by the way in which adjacent social institutions appear.

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[62]This is in fact a rather circular reasoning that does not carry very much explanatory power since the preference of 'a' over 'b' is only justified as 'a' is chosen over 'b', something attributed to the preferences at hand.

Rationality occupies a central position in Weber's discourse, and it is particularly relevant to consider as market action is scrutinized. He ties it to on the one hand action in general and on the other to economic action in particular. The argument goes that any action can be 'oriented' in four major, at times interrelated, ways. A) Instrumentally rational. B) Value-wise rational. C) Affectual. D) Traditional. Whereas the last two of these are imbued with 'emotion-laden reaction' and 'reactive habituation' respectively (something making it questionable whether they in fact represent the kind of 'meaningful orientation' that is endemic to action), the situation is very different for the first two.

> *Action is instrumentally rational (**zweckrational**) when the end, the means, and the secondary results are all rationally taken into account and weighed. This involves rational consideration of alternative means to the end, of the relations of the end to the secondary consequences, and finally of the relative importance of different possible ends.*[63]

As seen this rationality, given the elasticity of ends, is however not a predetermined schedule wherein it only remains to chose between means in the light of a given end. The non-fixed nature of ends is in fact what distinguishes economic action from technology, says Weber.

> *Economic action is primarily oriented to the problem of choosing the **end** to which a thing shall be applied; technology, to the problem, given the end, of choosing the appropriate **means**.*[64]

Action is further said to be 'economic' as 'it is concerned with the satisfaction of a desire for "utilities"'.[65] And, given the prevalence of 'planning', there is a distinct instrumental character to this 'rational economic action'. This kind of action further displays marginal utility and a 'systematic allocation ... between present and future utilities' as two core characteristics. *Wertrational* (value-rational) action follows from the value, be it ethical, aesthetic, religious et cetera, that is *explicitly*[66] attributed to a certain behavior irrespective of its consequences (Weber (1968 (1922), pp 24-26, 63)). In the second part of the argument Weber (1968 (1922), pp 85-90) identifies two main types of rationality which are endemic to economic action. Whereas 'formal rationality' is a technical term relating 'quantitative calculation or accounting', 'substantive rationality' tells about how people in general become in possession of goods under the regime of economic social action subject to some 'ultimate values. This last rather opaque concept then furthers the idea that rationality might still prevail even in the case where it is not formal but more inclined towards values-as-ends. As noted by Swedberg (1998, pp 163-164, 167), the essence of Weber's argument is that all economic

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[63]Weber (1968 (1922), p 26))

[64]Weber (1968 (1922), pp 66-67)

[65]Utilities are 'the specific and concrete, real or imagined, advantages of opportunities for present or future use as they are estimated and made an object of specific provision by one or more economically acting individuals' (Weber (1968 (1922), p 68).

[66]This sets it apart from affectual action.

action is presumed to be rational until it is proven that it is instead grounded on traditional and / or emotional reason. To act rationally in the Weberian sense is then, continues Swedberg, to undertake action in a conscious manner in order to realize what is a subjective (either material or ideal) interest. In sum, to Weber rationality becomes a 'heuristic tool' that can work out both as an assumption and a variable.[67]

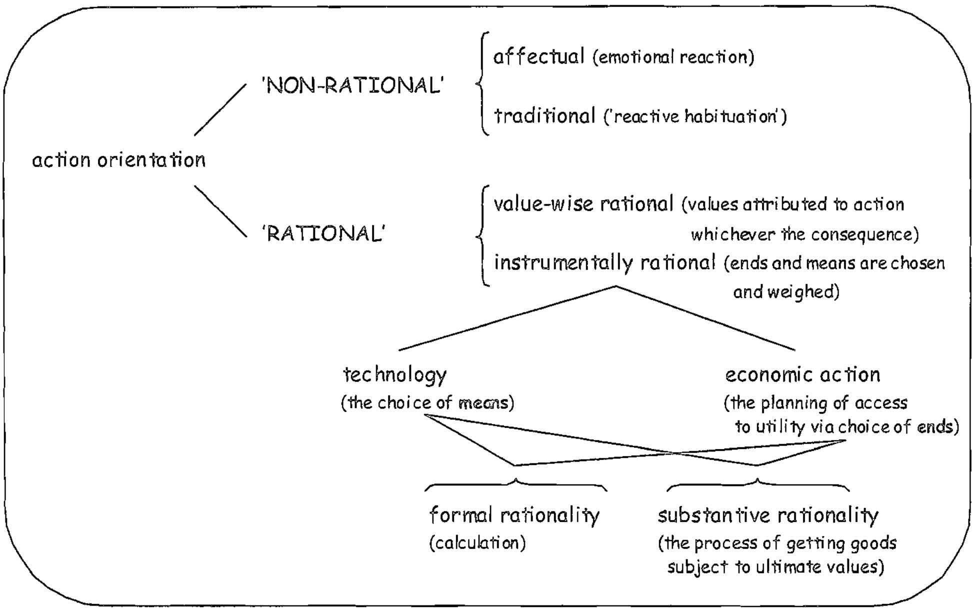

Figure VIIId: An illustration of Weber's conception of rationality[68]

Identifying rationality

Levi et al (1990, pp 2, 3-4) claim that contemporary rationality theory has got three main sources of inspiration, a) utilitarianism (how is social welfare to be achieved?), b) neoclassical economics (models and methodologies), c) game theory (strategic behavior which follows the interdependence of choice). Whereas the first, and to a certain degree the second, of these can be traced within the development of utility theory as described above, game theory is more recent. Stemming from these three pillars of reasoning it is further said that rationality theory currently is elaborated within two slightly different programs. The first of these, 'the normative tradition' implies that the very notion of rationality enables individual goal achievement. This stream of thought pays interest to which institutional arrangements, among many possible, that are best suited to promote the attainment of *given* ends. The second present-day approach tries to *describe* rationality. Herein choice is *predicted*, provided certain

[67]As observed by Swedberg (1998, p 171) what sets Weber apart from most other commentators on rationality is that he also uses it as a macro phenomenon by means of which also entire societies can be understood, something very much seen in his seminal work on The protestantic ethic and the spirit of capitalism.
[68]Weber (1968 (1922), pp 24-26, 63, 66-67, 68, 85-90)

knowledge regarding alternatives et cetera is at hand.

What is then the reason for the massive general adherence to rationality theory as an anchor for discourses on choice as seen in, for instance, neoclassical economics? Tversky and Kahneman (1990 (1986), p 60) list three major arguments.

1. As people most of the time prove effective in the pursuit of goals it seems reasonable to conceive of choice as maximization process.
2. An omnipresent competitive environment favors rational, to irrational, actors.
3. There is a distinct intuitive appeal to rationality thinking that makes it mirror choice conduct in a 'reasonable' way.

That is, people's behavior displays certain characteristics which reflect that more of what is appreciated is preferred to less thereof, a tendency propelled by a certain societal shake-out mechanism.[69]

How can then rationality be defined given these contemporary assertions? A most straightforward and generic conception is that of Elster (1990b, pp 242-243). He underscores its 'simplicity' by asserting that 'rationality means using the best means to realize your ends.' The 'only' thing then to be scrutinized, provided that ends are somehow taken as given, is which means are 'best' in relation to each and every end. What connects means to an end is then *the rational choice of means* undertaken in the light of several feasible courses of action. As noted by March (1978, p 589) this choice involves two types of guesses. The first pertains to the unknown future consequences of a particular action. And the second to the uncertainty that is endemic to someone's future preferences. That is, as a choice of action undertaken today necessarily affects the state of affairs tomorrow, it is impossible to safely predict a) the consequences hereof as such, and b) how such consequence in fact will be interpreted by the actor tomorrow. 'We try to imagine what will happen in the future as a result of our actions and we try to imagine how we shall evaluate what will happen.' In partly echoing Weber, Elster further says that human conduct (the striving for ends attainment) is driven by two separate things, a) instrumental rationality and, b) non-instrumental social norms. Whereas the first of these is most cognitive and deliberate in terms of outcome-orientation, the second (combining habits, affection and values) is not. It can still however be conceived of as a sub-entity of rational conduct. An obvious risk of this 'all-inclusive' label is of course that

[69]The authors (Tversky and Kahneman (1990 (1986), p 61)) further identify four principal assumptions that underpin applications of rationality. 1) Cancellation (of any world states that give the same outcome regardless of choice, something underlining the crucial impact of choice). 2) Transitivity (of preferences). 3) Dominance (of best option over others). 4) Invariance (of choice representations, the same preference results from differing representations of one choice situation). Whereas the first two assumptions allegedly often are questioned and sometimes rejected, the last two are mostly endorsed as they are essential for the very idea of rationality.

anything in the end can be taken as rational given the extensive way in which the concept is defined. In consequence one could posit that the idea of rationality loses much of its meaning as it simply encompasses too much.[70]

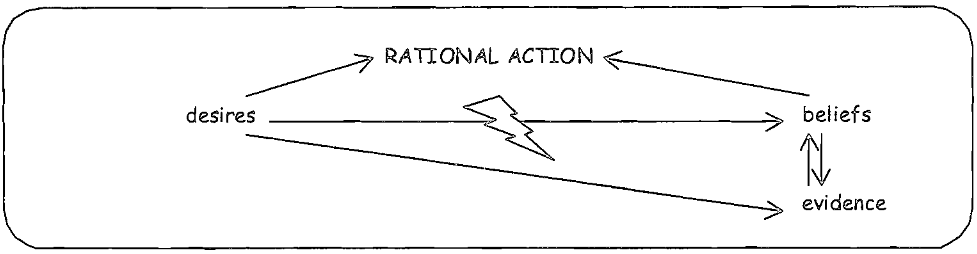

Figure VIIIe; Rational action as propelled by desires and beliefs[71]

In light of the three-level sketch above, Elster (1990b, p 21, added italics) further argues that '[r]ational action, then, involves three optimizing operations: finding the best action, for *given* beliefs and desires; forming the best-grounded belief, for *given* evidence; and collecting the right amount of evidence, for *given* desires and prior beliefs.' Rationality can go astray at each level concerning 'finding, forming and collecting' respectively. Wishful thinking can furthermore not be since desires are not allowed to affect beliefs. As seen each causal relation is further subject to the presence of *given* wholes. If this assumption is broken, Elster's rationality breaks down like a deck of cards in the wind. The fragility of the model means it is not robust. The 'givens' assumed then serve as the joint anchor thanks to which the model does not dissolve. What is more, the de facto correctness of beliefs is crucial as these are, and desires are not, totally immune to instrumental manipulation over time.[72]

[70]This last argument is obvious when the reflections of March (1978, pp 591-593) upon contributions of others are looked into. He identifies four major types of *calculated rationality*. 1) 'Limited rationality' tells about how actors simplify decision-making by way of, for instance, step-function tastes, and search rules. 2) 'Contextual rationality' shows how conscious calculation takes place within the realm of other 'social and cognitive relations' as the opportunity cost of the action pattern eventually to be undertaken also is taken into account. 3) 'Game rationality' brings up the idea that the plausible conduct of others can act as a guiding device. 4) 'Process rationality' discusses how it is that decisions are justified not according to their intended consequences, but with reference to their intelligent relation to some decision process 'attributes'. In addition there is, says March, *systemic rationality* which recognizes that conduct deemed sensible unfolds devoid of complete cognitive justification. Instead there is an almost institutionalized meaning system that supports and legitimizes decisions taken in a semi-automatic manner that does not depend on the sort of conscious calculus identified above. There are three kinds of rationality found here. 1) 'Adaptive rationality', is seen when a context is perceived as if being stable over time and actors in possession of close to perfect knowledge reacts hereto in their behavior by paying due respect also to relevant experience. 2) 'Selected rationality' is endemic to population ecology approaches and entails that acts of choice are subject to modes of 'standard operation' and social role regulation that ensures survival and growth. 3) 'Posterior rationality' tells that intentions of action are interpretations of conduct according to which evaluation unfolds in relation to preferences brought about by an action *already* undertaken. This implies that the justification of choice comes about in light of goals that that choice itself produces.

[71]Elster (1990b, p 21)

[72]As observed by Levi et al (1990, pp 4-5) this argument only recognizes rationality when there is consistency between on the one hand beliefs and desires and on the other between them and how the environment is perceived via evidence.

If one unique characteristic is to be singled out as characterizing rationality in general it is *that reason is seen as intentional deliberation* on the part of an agent. Or, as argued by Brennan (1990, p 58, confer Elster (1990b, p 23)), '[t]o claim that agents are rational is to claim that they act purposefully. A purpose is, here, something that is important to the agent that she fulfill'. This is also the cornerstone of the Udéhn (1987, pp 112-113) allegation that Elster opposes functionalist explanations because of them assuming 'purpose without a purposive actor'. *Someone must intend something for rationality to prevail.*

Why is it that credit card companies pursue the policy that any retail price differences between cash and credit card purchases are to be presented to the consumer as a cash discount rather than an extra fee put on top of prices once the credit card is used? The reason is that gains and losses are subjectively evaluated differently by customers even though the absolute pecuniary amount involved is the same. That is, the way in which the situation is presented to the customer matters for how it is perceived.[73] This is an example of a problem that rationality theory struggles with for some time, something inducing Tversky and Kahneman (1990 (1986)) to come up with what they label prospect theory. Their argument is that there are two steps in the choice process undertaken by an actor that faces a particular problem. A phase of framing-editing which subsequently turns into a clear-cut evaluation phase. The core idea here is that the first step acts as a screening device where the mode of presentation, norms, habits and expectations jointly filter out a 'feasibility' set. This set is made up by the remaining alternatives only later to be evaluated in terms of 'values assigned'. As observed by Levi et al (1990, p 5), this two-step view challenges standard conceptions of rationality. According to these more conventional alternatives 'framed' choices are not rational. This property they have in the prospect approach since alleged cognitive limitations of actors give rise to psychological consequences which in their turn affect how choice is undertaken.

Just like methodological individualism, ideas of rationality face several criticisms. Those who criticize seem to do so from two distinct angles. Either it is held that human cognitive limitations precludes rational choice / action. Or one claims that decisive impact of institutional factors must be recognized in a way not handled by most ideas of rationality.[74] That is, people can hardly be labeled rational in the conventional sense since their cognitive limitations on the one hand, and the institutional impact upon own decision-making on the

[73]A similar non-business example is the so-called Müller-Lyer Illusion (confer Tversky and Kahneman (1990 (1986), pp 76-77)) where the length of a line that an observer perceives is subject to whether it is presented as a double-ended arrow or not.

[74]The former criticism is found in the works of Simon (on bounded rationality, inducing 'satisficing' instead of optimization) and Tversky and Kahneman (on framing, as discerned in the previous paragraph) whereas the latter is dealt with in part by versions of institutional economics. Confer Levi et al (1990, p 8), '[w]e argue for a theory of rational choice that includes the context of decisions as well as the decisions themselves. In particular, while acknowledging cognitive limitations, we wish to focus on the norms and institutions that constrain behavior'.

other, both render standard versions of rationality non-viable. As two cases in point consider voting behavior and lottery (Boudon (1998, pp 179-182)). None of them can be understood by means of conventional rationality theory since a) the costs of voting to the individual will always outperform the advantages and b) less is preferred to more in lotteries since games are assessed below their expected value as they stretch out infinitely.[75]

To summarize, rationality theory is intimately linked to the concept of reason embodied in the deployment of alternative means in order to attain certain *given* ends. What is considered as rational is then to choose to use the 'best' means given a predefined end. That is, choice is constrained, subject to utility maximization. In accordance with the argument of Kirzner it is possible to distinguish two main sources of inspiration behind the emergence of contemporary notions of rationality as the 'pure logic of choice'. On the one hand there is utility theory which is closely associated with the advent and development of neoclassical economics. On the other there is Weber's conception of *Zweckrationalität und Wertrationalität* where the latter entails also values, not found in the former instrumental type of rationality. In the current discourse a normative as well as a descriptive account of rationality, mostly envisaged as 'utility maximization by way of choice', coexist. They converge in depicting the purposeful choice / action of rational agents. That is, *intentions in terms of purposefulness is the main brick of rationality*. One way to scrutinize rationality is to focus the manner in which desires and beliefs jointly inform rational action. Another is to discern a two-step process where decisive choice comes about only after a choice set is generated via some sort of initial (id est norm-related) screening (as seen in prospect theory). Some of these thoughts mirror criticism of conventional rationality theory that tends to fall in two categories. One is more psychological and discusses how costs to the individual of gathering and processing information is affected by constrained human cognitive capacity. The other is institutional in nature and relates the manner in which the social context via norms et cetera tends to play a substantial role. An alternative way of phrasing this, following March (1978), is that there are 'alternative rationalities', some of them 'calculative' in character (thus expanding upon the 'cognitive problem'), others more systemic with regard to their nature (then displaying more of 'institutional' properties).

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[75]This is akin to what Elster (1990b, p 31) labels the fallacy of hyperrationality, 'the failure to recognize the failure of rational choice theory to yield unique prescriptions or predictions ... [t]he irrational belief in the omnipotence of reason'. An additional example that Elster (1990b, p 36) attributes to the 'motivational basis of cognitions ' is the deliberate adjustment of beliefs which follows dissonance reduction on the verge of wishful thinking. That is, desires, and not evidence, informs beliefs (as seen in the crossed arrow in the figure above this is not supposed to occur under rational behavior). This is the case when one intentionally avoids stepping on the bathroom balance after having indulged in an excess consumption of doughnuts and M&Ms. There are however both psychological (id est prospect theory) and sociological (id est the taking of norms, explaining for instance voting behavior, into account) theories of rationality that seem more promising than others in coming to grips with some of these shortcomings according to Elster (1990b, p 42, 40).

There is no 'there' there, on Austrian rationality[76]

Some Austrians claim that rationality hardly merits any attention in its own right. Since reason is endemic to humans it follows that action per definition is goal-oriented and hence 'rational' (confer Mises (1963 (1949), pp 13, 19).

> *Action means the employment of means for the attainment of ends.* ...[In consequence, h]*uman action is necessarily always rational.*

Most of those who contribute to the formulation of rationality in economics as the pure logic of choice adhere to a market view the foremost characteristic of which is the idea of equilibrium. The consequence thereof for individual choice is that the relevant means-ends framework must necessarily be *fixed* in the sense that ends aimed at are *given*. It is only the means, by way of 'maximizing choice', that are allowed to vary. This is readily discerned at the outset of this paragraph, also in those contributions that (like Elster (1990b)) take some pains in coming up with a viable alternative to the predominant interpretation of rationality.[77] *That is, the assumption of given ends is the anchor void of which an equilibrium perspective cannot come to terms with rationality at all.*

These 'givens' cannot ever be part of an Austrian argument. Why is that? It here suffices to single out one of the Austrian premises featured earlier. 'The market is a process'. This means that the market is imbued with causal-genetic dynamics. It tends towards, but never quite attains, equilibrium.[78] This is so since equilibrium is the joint coordination of actor plans, something constantly subject to both endogeneous and exogeneous change. In this market realm uncertainty is most salient since the future cannot ever be known, only imagined. This also stems from the assumed character of knowledge, as discovery that is widely dispersed and continuously transformed. Everything else aside, these few but crucial market features render the notion of 'givens' incompatible with Austrian reasoning. That is, choice cannot be maximizing unless there is a benchmark against which maximization can be reflected (there must be some fixed variables put into the utility function). In case alternative non-Austrian conceptions of rationality are reached out for those that focus individual decision-making (such as the idea of 'bounded rationality') mostly seem irreconcilable with Austrian thought. This is so since they presume that there is in fact some 'known lack of knowledge'. One knows what is not known, a claim not accepted by Austrians. The other principal non-Austrian alternative to conventional rationality theory is to reach out for the social context

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[76]Gertrude Stein allegedly expressed the 'there-statement' concerning the nature of Oakland, California, some though claiming that it is more valid for Los Angeles.

[77]The optimizing operations claimed necessary by Elster rests on a) action subject to *given* beliefs and desires, b) belief subject to *given* evidence, and, c) evidence subject to *given* desires and earlier beliefs. That is, the account fails entirely if the 'givens' are taken out since in that case there are no steady points of reference to which subsequent reasoning can be attached.

[78]As said there are versions of Austrian economics that instead endorse more of market disequilibration.

that somehow informs an individual's choice. As discerned above in the discourse on social individualism this is a perspective which intuitively is closer to the Austrian standpoint.

This said, what is the Austrian alternative? Mises and Kirzner both elaborate at some length on the subject whereas Hayek is on the verge of denying individual rationality altogether.[79]

> *The exclusive reliance on rational insight as sufficient ground for human action is a grave intellectual error to which those secondhand dealers in ideas who regard themselves as intellectuals seem to be particularly prone. One might almost define them as those who are not intelligent enough to recognize the limits of reason and who in consequence can deprive us of the only guide that has enabled us to produce order by structures based on more information than any human agency can use.*[80]

As already referred in the opening of this paragraph, to Mises the very idea of human action implies rationality as means are deployed to attain ends.

> *Human action is purposeful behavior. Or we may say: Action is will put into operation and transformed into agency, is aiming at ends and goals, is the ego's meaningful response to stimuli and to the conditions of its environment, is a person's conscious adjustment to the state of the universe that determines his life. ... Conscious or purposeful behavior is in sharp contrast to unconscious behavior, ie, the reflexes and the involuntary responses of the body's cells and nerves to stimuli.*[81]

Hence, since human conduct is considered deliberate (in the sense that it is not merely an automatic physical response that follows a likewise physical stimuli) it is purposeful and thus rational. That is, *rationality equals purposefulness.* There are further three distinct parts to the argument of Mises (1963 (1949), pp 19, 20). *Firstly,* his stance is reminiscent of Weber's distinction between *Zweckrationalität und Wertrationalität* in asserting that the aiming for 'ideal or higher satisfactions' (videlicet ends) is *as* rational as more tangible striving. *Secondly,* Mises takes pains in laying bare (individual) *subjectivism* inherent to human action as connected to purposefulness. When considering means in relation to ends, purposefulness or not is 'a judgement about the expediency and adequacy of the procedure employed'. This implies that rationality cannot be 'grasped from the outside'. It only exists within the individual reflecting human being. *Thirdly,* Mises is keen to point out that purposeful human action does not in any way imply that such conduct is void of error. Instead it is allegedly common that man acts in a 'wrongful' way in the sense that chosen means do not attain the intended aims and thus fail in terms of assigned expectations. For instance, says Mises, the

[79]Hayek (1948c (1945/1946), pp 11, 15) is hence very critical to the 'false, rationalistic individualism attributed to Smith' and (going against a naive version of atomistic individualism) asserts that 'human Reason, with a capital R, does not exist in the singular, as given or available to any particular person, as the rationalist approach seems to assume, but must be conceived as an interpersonal process in which anyone's contribution is tested and corrected by others'.

[80]Hayek (1984c (1983), p 326)

[81]Mises (1963 (1949, p 11))

action pattern of a doctor who does her best, but still fails to cure a particular disease, is purposeful even though it does not succeed. The doctor's undertaking points in the (subjectively interpreted) 'right' direction but never quite accomplishes what it sets out to do. It is a 'reasonable', though 'ineffectual attempt' at meeting a particular aim. A crucial conclusion drawn by Mises is thus that '[t]he opposite of [purposeful, and thus 'rational'] action is not *irrational behavior*' but *reacting behavior* in the physical stimulus-response sort of way.

Kirzner (1976 (1960), pp 161-162, 163, 165-166) chooses to position his version of human action in direct opposition to 'economizing' reasoning (confer Robbins (1984 (1932))). The latter (allocation of scarce resources among competing ends) implies that a 'mechanical' means-ends trajectory is automatically imposed upon conduct in a constraining manner at the outset of choice. This is alien to the claim of Kirzner who instead posits that 'conduct [is] directed at the achievement of a purpose' which is void of any *originally* imposed constrains. Action is here to choose a conduct pattern intended at purposes without initially being subject to constraining factors. That is, resources may be scarce, but that is not what shapes behavior in the first place. More important are those constraints that are imposed by the actor herself as (supposedly scarce) means are only distinguished once they have *already* been turned towards a particular purpose. Kirzner here sides very much with Mises in pointing to the crucial role of *purpose*, the expression of which is human action and also, relating an outside-inside perspective to rationality, subscribes to subjectivism in connecting this to the individual herself. The consequence of such an inside perspective will necessarily be that the orthodox ('objective' outside) stance on rationality is simply not viable since it entails only a *certain* (thus restrained) resource allocation pattern.

Kirzner (1976 (1960, pp 168-169, 170)) also sets out to grasp the omnipresence of human purposefulness when the original course of action is alternated. That is, he introduces dynamics into the agenda of reason. It all comes down to understanding how a directional change of action, following the occurrence of a particular event, can be considered purposeful. The claim made by Kirzner is that with the advent of the event *the actor alternates her entire means-ends framework.* That is, an 'updated' version of the original, now 'reselected' ends, unfolds and in consequence a revised pattern of action constitutes purposefulness *to the actor in light of the new situation.* To an outsider this may of course seem completely irrational in the sense that the course of action *now* undertaken seems awkward once related the *original*, now 'outdated', purpose. The clue of the reasoning is hence which 'program of purposefulness' that is in fact the appropriate (means-ends) framework to relate. And this is only subject to interpretation of the actor herself. She is *the sole judge* concerning what is purposeful (and thus rational) concerning her own action, says Kirzner. Despite the thus unorthodox way in which Austrians approach rationality Kirzner

(1985, pp 47-48) is however keen to emphasize that there *is* room for human reason *but not in a constrained, fixed means-ends framework way.* That is, man is neither subject to impulsiveness nor to habit bondage. Reason prevails, but only in parallel also to non-foreseeable spontaneity which follows imagination that develops in the very name of reason itself. '[R]eason serves the chosen purposes, not performs the selection of them'.[82] The deliberation necessarily implied by choice itself is *creative*, and that is why it cannot ever be understood by the standard version of rationality alone.

> *One may always distinguish, within each human decision, an element into which thought enters in self-aware fashion from an element into which thought enters without self-awareness. ... No matter how calculative a man's behavior may be, it seems impossible to avoid having accepted, without calculation, some framework within which to self-consciously engage in cost-benefit calculations. ... This extra-Robbinsian aspect of human action, the aspect which involves the creative, unpredictable selection of the means-ends framework, can also be usefully stated in terms of knowledge. ... Given his knowledge of the relevant ends-means framework, man's decision can be predicted without doubt; it is simply a matter of computation. To the extent, however, that man must 'decide' what it is, so to speak, that he knows, and that this determination is not in general based ineluctably on other knowledge unambiguously possessed, man's behavior is not at all predictable. What a man believes himself to know is not itself the result of a calculative decision.*[83]

So, creativity and imagination means that uncertainty is endemic to this perspective, something in its turn rendering knowledge, to 'know what one actually knows' a particularly intriguing issue. As noted by Kirzner (1997b, p 65), not to know what one does not know ('ignorance') is completely different from orthodox imperfect information. The latter entails the viability of traditional rationality based on fixed means-ends calculation. The former embodies eternal uncertainty. Human error must in consequence always prevail. *The purposefulness that epitomize human action however ascertains that this is error in a 'mistake-' and not 'failure-mode' of the word.* Hence, error is learned from in a creative manner which means that subsequent means-ends frameworks will take this into account through a revised purposefulness thus unfolding. As a case in point, 'Crusoe' allegedly realizes that the ends achievable with a certain labor input (the amount of fish caught using a net, the manufacture of which he has used his labor for) have a higher value than a former end (the amount of fish caught with this bare hands) aimed at with the same amount of devoted labor. That is, Crusoe *discovers* the error made in the first place and sets out for a new course of imaginative deliberation by manufacturing a net instead of catching fish only with the help of his hands. He acts purposefully in an entrepreneurial way and will continue to do so which means that the world of his and Friday's cannot ever be grasped in an equilibrium-manner of thinking. Without this kind of 'scope for the discovery of error', asserts Kirzner, human action 'collapses into Robbinsian allocative activity' (Kirzner (1985, pp 51-52)). The position taken

[82]Shackle cited
[83]Kirzner (1985, pp 48-49)

on by Kirzner can thus be summarized as that there are two distinct aspects of (purposeful) human action. There is a) the choosing of an open – ended means-ends framework via *imagination*, and, b) the recognition of earlier error wherefrom entrepreneurial discovery henceforth 'provides protection' via *learning*.

The Austrian position on rationality can be summarized as follows. Human action is per definition rational since it is purposeful. As opposed to mainstream economics' adherence to a fixed means-ends framework where the 'givenness' of ends is a crucial feature, the Austrian overall view of human market action implies that the entire framework of reason is constantly subject to change. This is so since the future cannot be known, but only imagined. There will hence be genuine omnipresent uncertainty. As the purposeful individual is her own judge only *she* can realize errors committed and thus learn from them as new means-ends frameworks continuously evolve via her action. It is then, asserts Kirzner (1992a, pp 201-202, 203, 204) the presence of systematic market forces that epitomizes this 'spontaneous process of learning' as seen in the continuous disappointments and discoveries of actors. This learning is further 'driven by *the alertness of individuals' intent on achieving their purposes*', that is their (Austrian) rationality.

> *Economics depends, for its understanding of market processes, upon the alert purposefulness, the purposeful alertness, of human beings. In these processes the controlling principle is goal-motivated discovery.*[84]

Rationality in economic sociology

Endemic to the discipline of sociology is a problem of coming to terms with the idea of rationality.[85] This follows very much from the discourse above on individualism versus holism. That is, as most of sociology has a tendency towards holism, any orthodox concept of rationality becomes by necessity ambiguous since it entails the analysis of *individual* optimization of decision-making. Intersubjective, 'social' rationality is an area hardly touched upon except under specific circumstances.[86] There are arguments which say that social aggregates will always be more rational than spontaneity-ridden individuals. But as long as the understanding of an individual's rationality is blurred (according to sociology), it seems all too presumptuous just to continue by aggregating parts that by themselves are far from straightened out.[87]

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[84]Kirzner (1992a, p 208)

[85]Confer Abercrombie et al (1994, p 346), Baron and Hannan (1996 (1994), p 534).

[86]There are of course institutional approaches that discuss the manner in which individual behavior is guided by internalized social norms. The adoption of such norms can then be considered 'rational' and these norms themselves can serve as a device by means of which future conduct can be 'rationalized' (Levi et al (1990, p 9)).

[87]Confer the Weberian twist of Stinchcombe (1990, p 288-289). He argues that '[t]he more socially organized something is, the more closely it approximates the presuppositions of the economic paradigm [id est rationality]'. That is, a rationally acting individual only responds to a rationalized society. 'It is because individuals are embedded in social systems that they maximize profits and so on, and not because they naturally want to

Despite the conceptual challenges it entails, Himmelstrand (1987, p xi) asserts that there is a scope for rationality in the social sciences. He takes some pains in emphasizing that what might render such an analysis progressive is however the taking into account, and not the assuming away, of (as traditionally interpreted) irrational factors. Void of these considerations he says, the concept of rationality 'remains empty'. This means that the 'social' and 'rational' aspects *in* man are by necessity intertwined. This is readily discerned when both norms-related *and* cognitive ('the social and psychological options and constraints') aspects of rational choice are considered. 'The social is involved in the rational; and the rational in the social.' Himmelstrand also notes that this is in part what inspires economic sociology as an area of inquiry. This argument is further reminiscent of that pursued by Hirsch et al (1996 (1987), p 281) who claim that rational action is not to be overlooked in sociology, but integrated in a way that maintains a sharp eye towards culture and values. In fact, asserts Swedberg et al (1990, p 70), a progressive sociological treatment of rationality might even help sociology in coming to terms with a classical problem of its agenda, the simultaneous taking into account of actor autonomy and the social context influence thereupon.[88]

It hence goes without saying that the idea of rationality cannot be dispensed with within economic sociology. Whatever stance is taken has to be explicit also concerning how it positions itself towards the notion of rationality. In light thereof Smelser and Swedberg (1994, p 4) clarify that whereas an economist perceives rationality as equivalent to efficient use of scarce resources, the sociologist must by necessity take on a much broader view. This difference is easily seen in Weber's notion of *Zweckrationalität und Wertrationalität,* the former of which suffices for economics whereas both apply in any account that to some extent at least is informed by sociology. Such a 'sociological concept of rationality', says Swedberg (1990, p 41), encompasses an outside-inside view of a social situation wherein something that from the former, outside perspective, seems irrational, can turn rational once scrutinized from the inside. As seen this reasoning is very much reminiscent of that brought forward by Kirzner above. An additional dimension to focus is the micro-macro level. For instance, as noted by Granovetter (1995 (1974), p 96), what at first sight might seem as 'rational' at the individual micro level might have macro level outcomes which are far from those 'individually' intended in the first place. That is, quite the same case alluded to by Swedberg, but from the reverse angle. The most dense manner of laying bare rationality in economics versus rationality in sociology is probably the way it is put by Stinchcombe (cited by Swedberg (1990, p 338)). In economics rationality is then a taken-for-granted assumption whereas in sociology it is a variable to be decomposed and thus understood. In consequence, economic sociology must on the one hand have it as a fixed point of reference and on the

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maximize profits'.

[88]As a case in point these authors refer to an idea by Elster which involves the separation of *parametric* (an initial screening of possible courses of action) from *strategic* (the application of game theory to finally find out which action will in fact be adhered to) rationality.

other make it an area of inquiry in its own right.

There are nevertheless a few areas on the verge of economic sociology where rationality is explicitly relied upon. One of these encompass contributions where structural ties to others is subject to a sort of rational behavior since these bonds are seen as a strategic asset to the individual. These ties to others then constitute capital both directly by themselves (in enabling evaluated exchange) and indirectly as they open up for yet other relationships to be established. For instance, Lindenberg (1997) comments on 'the active side of people's pursuit of social ties' as 'creation of solidarity' by way of 'the engineering of trust' et cetera. Coleman (1994, pp 175-177) follows this thread of reasoning by arguing that issues surrounding social capital are particular apt for rational choice analysis. This is allegedly so with reference to the public goods character of this form of capital and the strategic nature of actors' striving to impact their immediate environment by means thereof. A similar notion on the collective actor level is that of Gerlach (1992, pp 15, 2, 22) who comments upon bonds between Japanese corporate actors as an outcome of *relationship strategy*. This implies that there is some *intended deliberate conduct* endemic to the creation and maintenance of intercorporate ties which constitute a market position. Gerlach is however keen to emphasize that such a position does not result only from the organizational self-interest but is also shaped and conditioned by the institutional context.

Apart from the 'social engineering'-inclined contributions of the immediate above, 'sociological rationality' also appears in works inclined towards culture. Abolafia (1998, p 74) thus asserts that rationality, like nothing else, cannot ever be 'culturally universal'. Rationality is 'local'. It can be seen as 'a community-based, context-dependent cultural form'. This means that any analysis thereof must reach out for on the one hand cognitive limitations and on the other social constructions that apply in a *particular cultural context*. So once again both the cognitive and the institutional have got roles with regard to rationality. As a consequence not even financial markets can be understood by adhering to a general conception of rationality void of cultural specificity. A similar line of reasoning is that of Dobbin (1997 (1994), pp 12, 218, 228) who assert that 'rationality is essentially cultural' in the sense that it 'has a *semiotic* dimension that social scientists have neglected because they have presumed rationality to be transparent and self-evident rather than meaningful'. The idea of meaning cannot ever be universal and void of 'collective meaning' (as seen in the notion of 'culture') no institutionalization of whatever kind can occur. '[A]ctors reproduce practices only when they apprehend the purposes of those practices. Hence, all structure, or regularized social practice, has meaning'.[89]

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[89]Confer Callon (1998, p 48), 'rationality is always situated and the anthropologist strives to explore decision-making in natural settings'.

As purposefulness on the individual level is a prerequisite for any explanation at the overarching social level there is both room for and necessity of a 'theory of purposive action' according to rational choice sociology (Coleman (1986)). It is then crucial to find out the way in which *society* is influenced by *individual* human will. The idea of purposive action where 'individuals ... [are] ... seen as purposeful and goal directed, guided by interests (or 'values' depending on the theorist) and by the rewards and constraints imposed by the social environment' must not be lost, says Coleman (1986, pp 1309-1311, 1312)). He however does not allow this idea to stretch out beyond the level of the individual actor. In this manner he handles one of the problems of economic sociology, that of rationality possibly found at the level of the social whole. This is however not to fully deny the existence of some sort of rationality at a super-individual level. 'Corporate actors' are thus related to by Coleman as eligible for a rationality analysis, the (market) system however is not.[90]

Recognizing some of the deficiencies inhering in standard rationality theory, and acknowledging the value of deepening insights of both cognitive *and* normative aspects, Boudon (1998, pp 190-191) also puts forward a few ideas constituting a framework for a sociological treatment of rationality. The main of these is that, 'until the proof to the contrary is given', humans, as social actors, are to be considered rational. As seen this is very much akin to Weber's reasoning. That is, there are well-grounded reasons for beliefs, actions et cetera. These reasons can however not always be conceived of in terms of costs and benefits to the actor herself. This is so in particular when the decision that informs a specific course of action is grounded on either cognitive or normative *beliefs* since a) 'beliefs are not intentional' and b) 'normative beliefs are not always consequentially grounded'. It is crucial, says Boudon, to recognize that even though the actor herself is not in the position to clearly identify the exact reason for an action, her 'intuitive impression' of it being grounded on reason is enough to make sense. She is purposeful as she perceives herself to be that. This means that Boudon takes an utmost subjectivist 'inside' perspective to rationality.[91] Once again a sociological way of reasoning owes a debt to Weber as Boudon (1998, p 199) here distinguishes between 'cognitive' and 'axiological' reasons in addition to instrumental (cost-benefit grounded) dittos. The former of these pertains to what someone believes 'is likely or true' following a causal way of reasoning (for instance a medical diagnosis performed by a physician). The latter 'axiological' category relates the case where a 'nonconsequential' way of reasoning, grounded on a belief of fairness, goodness et cetera (for instance not disregarding panhandlers, 'every human deserves a certain respect') underlies the decision to act.

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[90]This seems to be a position which challenges new institutional economics in the sense that the market (= the system) never can be efficient, videlicet rational.

[91]The risk is of course that the idea of reason could be extended to cover everything and nothing so that once something 'feels' grounded on reason, it always is, whatever the other surrounding circumstances.

To summarize, even though sociology in general experiences significant challenges in coming to terms with the idea of rationality there seems to be compelling reason for the viability thereof. This holds in particular for economic sociology. Such a position however rests on the assumption that there is room also for the individual in sociological analysis. Sociological rationality furthermore depends on an individual that reflects upon and thus interprets her course of choice. This is so as what might seem irrational from outside might very well be the reverse once seen from the subjective position of the individual. That is (as a fundamental dictum) human action, also in a sociological context, *is* informed by purposeful reason, something holding in particular as subjectivism is highlighted. It is then but natural to view rationality as variable and not as a fundamental assumption. An additional 'sociological quality' of rationality is the 'local' character thereof following it being culturally embedded. It is further obvious that both cognitive and socio-institutional factors must be part of such a sociological version of rationality. Finally, this rationality is most likely informed by some version of the founding Weberian notion of instrumental and value- rationality respectively. In this manner neither the generic cause for reason, nor the spirit of sociology is lost.

A human purposefulness

The Austrian and economic sociology discourses above further two views on rationality that are far from internally uniform. Among the Austrians Hayek is close to dismissing the *individual* version thereof altogether whereas Mises' introductory claim is considerably expanded upon by Kirzner.[92] Within sociology there is (in a manner akin to parts of the Austrian agenda) an outright skepticism to the neoclassical conventional idea of rationality. But, in contrast to what Kirzner presents, the sociological alternatives that come forward are less distinct. They do not seem to work out within the means-ends framework that economics, however conceived of, mostly adopt. This is so since they choose to emphasize other aspects of the rationality issue, such as its 'local' character and how macro and micro interrelate. An alternative conception of 'intermediate' rationality thus tying Austrian and economic sociology thought together can be framed by means of the pillars below.

Within *the mainstream agenda* there is, already through its roots, Weber's conception of instrumental rationality and value rationality. Whereas the first of these is somewhat akin to the pure logic of economizing choice, the second is more encompassing in relating also someone's value-system as a ground for reason (confer Elster (1990b, pp 42-43)). It shall however be observed that Weber's instrumental rationality is rather 'elastic' when it comes to the means-ends framework. Something the standard neoclassical version is not. That is, he speaks (like the Austrians) about how both means *and* ends are subject to scrutiny as rational choice. This attitude is also discerned through the manner in which he observes a difference between 'economic action', the choice of *ends*, and 'technology', the choice of *means*. An

[92]This is in part but a logical consequence of Kirzner's position somewhat closer to neoclassical thought.

additional progressive facet of the general discourse on rationality is the prospect theory of Tversky and Kahneman (1990 (1986)). By presenting a two-step process they manage to make do with both institutional features such as norms, and more individual cognitive representations of choice. Somewhat reminiscent thereof is the reasoning by Rutherford (1996 (1994), pp 51-54) who draws on (old) institutionalism and its adherence to 'socially imposed and constructed' following of rules. Whereas this is close to the taking into account of norms, his acknowledgement of 'adaptive rationality' mirrors conventional 'atomistic' rationality, however with much less of imposed demands to it. What is more, this adaptation also encompasses learning and imagination to an extent not seen in the traditional view of rationality. The issue is then *not whether human conduct is somehow guided or not, but what kind of guidance is at hand.*

The Austrian discourse teaches (in the words of Mises (1963 (1949), pp 13, 19)) that human action is always to be considered rational since rationality equals purposefulness. Since the market here is a process it follows that both means and ends are subject to consideration of choice. Kirzner (1976 (1960), 1985, 1992a) elaborates upon the position taken by Mises, in part by emphasizing how subjectivism, as individual interpretation, is endemic to rationality. He further recognizes the crucial role played both by *experience* (learning from the past), and the ability of *imagining the future.* It is then claimed that rationality (as purposefulness) cannot possibly prevail unless both of these are taken into account. This means that errors and discovery of thitherto unknown opportunities also are part of a purposefulness that in this regard only can be reconstructed ex post.

The most succinct contribution to an alternative stance on rationality from *economic sociology* is Stinchcombe's observation that rationality is in fact to be treated as a variable and not as a fundamental assumption. Another crucial insight is that of Granovetter (1995 (1974), p 96) regarding the social constructionist character of rationality. What might appear rational at the macro level could be the reverse once interpreted from a micro perspective. Similar to this is Boudon's (1998) claim as to the subjectivist nature of rationality. As a case in point several contributions (for instance Gerlach 1992) render rationality empirically accessible from a sociological angle by relating the manner in which actors strive to develop ties to their environment. This might amount to the engineering of social capital. Whereas the argument of Coleman's (1996) is on the verge of conventional neoclassical reasoning it recognizes the fact that it is essential to take into account the fact that micro and macro level considerations must necessarily both be related for a viable concept of rationality to work out.

As seen there are instances where the mainstream, the Austrian, and the economic sociology accounts converge regarding the articulation of an intermediate position of rationality. The most crucial of these is no doubt the fundamental assertion that there is a place for rationality.

Another implicit one is the acceptance of social individualism. That is, the particular version of rationality to come forward must be firmly based in the individual who at the same time is conditioned by her social context. In addition the subjective character of rationality seems necessary to include. This position of an intermediate rationality will in the following be labeled 'human purposefulness'. This is meant to convey that a) social interaction, and b) individual goal orientation both are endemic to an elastic means-ends framework that in its entirety is subject to the discretion of a socially informed individual. As two specific cases in point (representing Austrian economics and economic sociology) that both tentatively could endorse the furthering of human purposefulness, consider the ideas of Granovetter and Hayek.

> *I suggest, ... that while the assumption of rational action must always be problematic, it is a good working hypothesis that should not easily be abandoned. What looks to the analyst like nonrational behavior may be quite sensible when situational constraints, especially those of embeddedness, are fully appreciated.*[93]

> [A spontaneous order can be understood as either] [a] *static system of rules in which people act to achieve their goals ...* [or as] [a] *process of systematic, ordered change in either the formal or informal rule structures by which people attempt to achieve their purposes. ...* [Within the former 'static' alternative] [t]*he specific actions they take depend upon their perception of opportunities and their own preferences, but the process for taking these actions depends upon the legal and informal rule structure in which they operate, a rules structure that includes rules of business trading as well as of cultural norms and legal prescriptions.* [Within the latter] *the spontaneous order is the unplanned and often unconscious changes in rules and institutions that occur as the by-product of purposive actions.*[94]

Whereas the view of Granovetter is readily accessible this is less so as regards Hayek. His most unorthodox way of coming to terms with rationality, exclusively so in connection with the idea of social order, hence builds upon the idea of social rules that inform goal-oriented behavior. Hayek thus recognizes individual purposeful considerations but never lets go of the manner in which these *are conditioned by, and condition*, the overarching institutional whole. This way of translating and integrating positions akin to social individualism into the domain of rationality is further recognized by Levi et al (1990, p 15) who assert that 'an adequate explanatory theory must begin with individuals whose choices, even within a given set of rules, affect the choices of others and, often, have unintended consequences. ... [R]ational, strategic actors both create and are constrained by the societal rules that are embedded in norms and institutions.' Starting out from less of a 'rational', but more of an institutional, perspective, Rutherford (1996 (1994), p 80) argues in the same vein by asserting that 'the traditional dichotomy between rationality and rule following' is overcome 'by the generation of a broader conception of human motivation that can encompass both those aspects that respond to self-interest as narrowly defined and those that are driven by other ideals or

[93]Granovetter (1985, p 506)

[94]Vaughn (1998 (1994), pp 124-125) commenting upon Hayek's understanding of spontaneous social order.

psychological needs.' Human purposefulness accomplishes this by articulating rationality as a two-step process wherein individual consideration of the entire means-ends framework is preceded by 'social filtering' that reflects the embeddedness of human action. In summary, human purposefulness can be identified by means of the following features.

- Humans are subjectively purposeful to varying degrees and strive actively, until the contrary is proven, to attain goals in an intelligent manner by drawing on experience.
- There is both a forward- and a backward-looking aspect of purposefulness, the former seen as intentionality, the latter as purposefulness can be 'reconstructed' in light of errors and 'alert' discovery endemic thereto.
- The entire means-ends framework is elastic, meaning that not only are means, in light of a given end, subject to scrutiny, but so is also this very end itself.
- The choosing of ends is guided by an individual's values including also social norms and is subject to economic social action.
- To select a particular means implies, given the embedded nature of human action, that alternatives are first screened by a social filter, and only thereafter cognitively scrutinized on an individual level. Whereas the first of these steps is a satisfying process, the second is closer to outright maximization of thus conditionally generated alternatives. This latter rationality is however adaptive in the sense that it recognizes also own learning and imagination of an uncertain future.

'cognitive' rationality ⟷ internalization of social norms

atomism----------embeddedness----------over-socialization

HUMAN PURPOSEFULNESS

- the means-ends framework is elastic
- social filtering precedes individual subjective calculation
- the learning from errors of the past and the intentionality towards the future

Figure VIIIf; Human purposefulness as an intermediate position of rationality[95]

In drawing on Rutherford (1996 (1994), p 78) this a position on human purposefulness can be discerned according to the above continuum. As seen, the core characteristic of human purposefulness is the inclusion of the entire means-ends framework in the pondering of choice. This means that both the framing of ends, and the two-step screening of means, are subject both to the individual and her social context via embeddedness. As with social individualism it is however clear that if anything, the individual is assigned a slight primacy over the social.

[95]In Rutherford's (1996 (1994), p 78) vocabulary human purposefulness corresponds to 'adaptive rationality'.

vii. Subjectivism, the meaning of meaning

> [S]*omething is a screwdriver only relative to the fact that conscious agents regard it as a screwdriver; but the fact that conscious agents have that attitude is itself an intrinsic feature of the conscious agents. ... Intrinsic features of reality are those that exist independently of all mental states, except for mental states themselves, which are also intrinsic features of reality.*[96]

Whereas issues related to *individualism* treat humans in a rather 'from outside' manner the immediate above concerning *rationality* is *also* concerned with how the individual interprets things *as seen from her own perspective*. The discourse on rationality thus foreshadows the present paragraph which is entirely devoted to this 'from inside'-view of human action. The issue of subjectivism hence discusses the relation between the individual and her environment, be it other individuals, artifacts or physical objects of nature never touched by man. That is, whereas *individualism* is mostly about how someone relates to *specific others* in terms of general primacy, *subjectivism* tells about the recipe for how that *particular someone* herself perceives *the environment in general* to be. What is 'general' in the former case of individualism is that it does not pertain to the very interpretation of the individual (but of someone else observing her) in how she relates to others and what is 'general' in the second case of subjectivism is that it discusses the environment as such, not only the specific part made up of other human beings. Similarly, the 'specific' of individualism is its recapitulation of the *social* context whereas the 'specific' character of subjectivism is *its starting point in a de facto human being*. In the quote above it is then obvious how individualism is simply not an issue since this is not of any *direct* relevance when the nature of a screwdriver is considered.[97]

What is subjectivism?

Subjectivism is a relevant area of inquiry concerning both how world reality is seen, as ontology, and how this reality is understood via the furthering of knowledge, as epistemology.[98] In the first sense it represents *a non-concrete imaginative construction of the world* and in the second it stands for *a non-positivist constructed insight of a particular phenomenon*. In both senses it prevails in an array of versions from the moderate to the extreme.[99] Its obvious antithesis is in any sense an objectivist approach according to which reality typically is seen as a machine-like hands-on concrete feature that is understood by

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[96]Searle (1995, pp 11-12)

[97]As will be seen below the fact that several interacting individuals perceive it in a similar way, as a screwdriver, is however a crucial feature of the intersubjective everyday world of the social individual.

[98]One could also add an additional application, that regarding the specific relation prevailing between the observer and what is observed (sometimes by some interpreted as a sub-aspect of epistemology).

[99]Burrel and Morgan (1979, pp 235-255) have it that interpretive theory at large includes four main categories ranging from hermeneutics (the least subjective one) to solipsism (the most extreme version on the verge of metaphysics), passing ethnomethodology (for instance Wittgenstein's language philosophy), symbolic interactionism (à la Mead), and phenomenology (of Husserl and Schutz) on the way.

means of a positivist measurement thereof (Morgan and Smircich (1980)).[100] That is, whereas ontology here refers to the relation between a human being and another object, epistemology relates the manner in which *insight* about this relation can be gained via 'judgement'[101] so as to further knowledge regarding the nature of the reality made up by this human-object relation. A subjectivist position in both senses thus encompasses both the nature of the human-object relation as such and the tool for how more can be learned hereabout. It is possible to add that an object *per se* could, eventually, be either intrinsic (such as a stone) or observer relative (such as love).

Consider ontology first. 'K2 is more difficult to climb than Mount Everest' could thus be put to contrast the statement 'Mount Everest is higher than K2'. The fact described concerning relative altitude is then an *objective* judgement in the sense that its eventual truth does not depend from anybody's perception of the number of meters from sea level to the summit of Mount Everest and K2 respectively, whereas the alleged relative easiness of the two climbs in relation to another reasonably can only be derived from the interpretations of those that have experienced successful montaineering on both peaks. It is a *subjective* judgement. *Then consider epistemology.* In order to learn about altitude and relative climbing difficulty it is likewise possible to take on either an objective or a subjective stance. An objectivist could thus trace altitude by applying a technical measuring device whereas a subjectivist (theoretically) could estimate height with the naked eye in the same manner as relative climbing difficulty both can be ('objectively') 'measured' (for instance via number of injuries incurred during the climbs) or ('subjectively') 'estimated' (maybe via the thoughtful mental pictures drawn by climbers in retrospect). The objects Mount Everest and K2 themselves can furthermore be regarded 'intrinsically' as pieces of stone (and snow and ice) and in the observer relative sense as mountains (as opposed to hills). 'We can see the distinction between distinctions clearly if we reflect on the fact that we can make epistemically subjective statements about entities that are ontologically objective [id est a non-measured estimate of relative mountain altitude], and similarly, we can make epistemically objective statements about entities that are ontologically subjective [id est the counted number of climbing casualties]'. ... [There are, then] three distinctions [that] cut across each other: the distinction between the intrinsic and the observer relative, the distinction between ontological objectivity and subjectivity, and the distinction between epistemic objectivity and subjectivity' (Searle (1995, p 8)).

A most generic definition of subjectivism (tied to the issue of choice) posited by O'Driscoll Jr

[100]Whereas *positivism* refers to a philosophical scientific approach that endorses 'objective inquiry' via concrete observation, *objectivism* is the corresponding overall ontological stance which says that there are in fact universal and objective truths and values (confer Nordstedts (1990)). In this paragraph they will be drawn upon interchangeably to denote *what is not subjectivist* in character.

[101]This is the term of Searle (1995, p 8)

and Rizzo (1996 (1985), pp 1-2, 17-18) is that it entails what is not 'rigidly determined by external events' in someone's mind. That is, an individual is here in some sense 'autonomous', something providing the opportunity for human creativity and downplaying the role of others for this subjectivism. It is not subjectivism as such but 'subjective meaning' that makes a difference, meaning thus perceived by human actors to prevail in their everyday lives. These authors further have it that subjectivism can be discerned in two dimensions. 'Determinate subjectivism' is the traditional (neoclassical) concept closely associated with the theory of value according to which a human mind mostly appears as a 'passive filter'. This is alien to a truly 'active' mind endowed with imaginative properties that does not suffer from determinism. Such a mind is instead closely tied to how expectations result from learning, something which embodies 'dynamic subjectivism' (O'Driscoll Jr and Rizzo ((1996) 1985, pp 22, 24-25)).

A plausible way of coming to grips with the true character of subjectivism is furthermore to associate it with the perceived difference between nature and culture. The former is, *in terms of scientific inquiry*, then seen as associated with the objective and the latter as connected to the subjective. This is the position of Hayek who takes particular pains in tracing the necessity of subjectivism as endemic to the social, as opposed to the natural, sciences. In his view the social sciences devoid of subjectivism simply cannot be.

> [T]*hings must then not be defined in terms of what we might find out about them by the objective methods of science, but in terms of what the person acting thinks about them. A medicine or a cosmetic, for example, for the purposes of social study, is not what cures an ailment or improves a person's looks, but what people think will have that effect. ... What is relevant in the study of society is not whether these laws of nature are true in any objective sense, but solely whether they are believed and acted upon by the people. ... All this stands out most clearly in that among the social sciences whose theory has been most highly developed, economics. And it is probably no exaggeration to say that every important advance in economic theory during the last hundred years was a further step in the consistent application of subjectivism.*[102]

This 'thinking about' and 'acting upon' objects are furthermore structured by a sort of classification scheme, a subjective construction which stems from 'sense qualities' that hence serves to guide behavior. Human conduct is in this sense subjectively mediated no matter what is the object of action, says Hayek, be it physical things, other humans or social institutions. A necessary consequence hereof is that different objects can mean the same thing to different people that however at the same time might consider one and the same object in a variety of guises (Hayek 1979 (1952), pp 57, 80). The parallelism to his conception of (market) plan framing along certain potential action patterns should be obvious. The problem, according to Hayek, is that 'mental phenomena' endemic to the social sciences by some are

[102]Hayek (1979 (1952), pp 51, 52)

treated in the same way as 'material phenomena' of the natural sciences. That is, they are grasped by means of the 'objectivist approach' wherein the human mind is absent regarding the definition of true object character. His reasoning goes that since there is always a 'contrast between facts and opinion', this contrast must be recognized by any observer. Within the natural sciences this is not too much of a challenge, but it might constitute a major problem if it is not explicitly recognized by the social sciences adhering to subjectivism. That is, in case social science adapts the objectivism of natural science there is a major risk that the sharp line between opinion and fact, so crucial for analytical insight, gets blurred with devastating consequences. This is most intriguing since in the realm of social science *facts are most often opinions*. Whether these facts~opinions are 'true or false' cannot really be established and 'we cannot directly observe [them] in the minds of the people but ... we can recognize [them] from what ... [people] do and say merely because we have ourselves a mind similar to theirs' (Hayek (1979 (1952), pp 47-48)). That is, whereas an objectivist perspective works out well within the natural sciences where 'a fact is a fact and an opinion is an opinion', it is much less apt to handle the case where 'facts might be facts but also opinions'

> *The special difficulties of the social sciences, and much confusion about their character, derives precisely from the fact that in them ideas appear in two capacities, as it were, as part of their object and as ideas about that object. While in the natural sciences the contrast between the object of our study and our explanation of it coincides with the distinction between ideas and objective facts, in the social sciences it is necessary to draw a distinction between those ideas which are constitutive of the phenomena we want to explain and the ideas which either we ourselves or the very people whose actions we have to explain may have formed about these phenomena and which are not the cause of, but theories about, the social structures.*[103]

The roots of subjectivism

Prior to the formal coming into being of the natural sciences there does not seem to be any real need for distinguishing between the objective and the subjective understanding of the world. Other lodestars such as authority and religion take care thereof by means of providing 'true' accounts of how reality 'is'. Given subsequent prevalence of permissible reflection, it is also not uncommon for natural phenomena to be looked upon through the lenses of a *designed* human mind via adherence to so-called 'antropomorphic' and / or 'animistic' thinking. Such stances are obviously by no means acceptable for the subsequently emergent 'scientific' natural sciences that in consequence launches '[t]his process of reclassifying "objects" which our senses have already classified in one way, of substituting for the "secondary" qualities in which our senses arrange external stimuli a new classification based on consciously established relations between classes of events...' (Hayek (1979 (1952), pp 29, 32-33, 37). What happens is however that the 'objectifying activities' of the natural science project in part

[103]Hayek (1979 (1952), pp 61-62). A yet more pregnant way of stating something similar is that of Searle (1995, p 193). 'Any statement is a representation and therefore to be understood as a statement must be understood as a representation.'

come to be seen as equal to science per se with the rather awkward consequence that what is not handled in an objectivistic manner is not considered as scientific. This process implies some sort of 'natural science imperialism' into the areas of the social sciences and is found from the 18th century and onwards. There is, then, some sort of evolutionary dialectics in place where an initial general emphasis of the overall primacy of the mind (via 'animism' and similar), also within natural science inquiry, is opposed by a 'scientific wave of (objective) positivism', something then spilling over to the inquiry also of social facts. This is however not entirely unproblematic.

> [The social studies] *deal not with the relations between men and things or the relations between man and man. They are concerned with man's actions, and their aim is to explain the unintended or undesigned results of the actions of many men. ... The social sciences ... are concerned with man's conscious or reflected action, actions where a person can be said to choose between various courses open to him ...*[104]

As a force which opposes the tendency of rendering positivist the social sciences in the 18th and 19th centuries (something thus deplored by Hayek) there is however an independent stream of 'scientific subjectivism' (other than animism and similar) on the way. This 'interpretive turn', the understanding of 'the social world primarily from the point of view of the actors directly involved in the social process', is originally inspired by the tradition of German idealism nurtured by the a priori reasoning of Kant. Its early version thus posits that the 'spiritual idea' is always primary to any empirical sensitive perception, something seen in the romanticism of Schiller and Goethe among others. According to this perspective applied positivism suffers from major weaknesses. And not even the inquiry into nature can be accomplished void of human culture-imbued value impact, something that necessarily inheres in the pursuit of social studies that cannot ever reach out for the kind of general laws found in nature. Sociological positivism is thus strongly objected against. It is however obvious that this position runs an obvious risk of getting lost in the spiritual realm of non-science and extreme relativism devoid of truly intellectual foundations. This risk is lessened as the 'objective validity' of the social sciences is ascertained by means of the concept of *Verstehen* ('understanding') which is to constitute the main ingredient of *scientific* social inquiry's inclination to subjectivism. The key figure in this endeavor is Dilthey whose contribution is characterized by the striving for social *science* without traces of relativism or outright metaphysics. The *Verstehen* of Dilthey's (later to be elaborated upon by Weber) is derived from his conviction that human mind processes must be at the core of non-natural scientific understanding as prevailing in someone's 'inner experience'. Such an understanding comes about as external events, such as action and social institutions, are interpreted as embodying someone's inner life. This interpretive understanding is then the method by means of which human life can be grasped in a scientific manner akin to that found within the natural sciences

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[104] Hayek (1979 (1952), pp 41, 42-43)

(Burrell and Morgan (1979, pp 227-230, 255-256)). The development thus delineated constitutes the first step taken on the path towards (scientific) subjectivism as 'the self-conscious awareness of subjects', a process subsequently to turn subjectivity away from something inhering in human nature into a socially constructed phenomenon.

The development of scientific subjectivism is also very much tied to the advent of the marginal revolution of economics (see Chapter III). This subjectivism is made explicit in the founding Austrian argument of Menger's. The theory of value is here conducive for subjective understanding. Devoid of subjectivism value cannot be grasped since this value stems exclusively from the individual's evaluation of an object. That is, the value of an object can only be found through the manner in which it is subjectively appreciated by the individual. Object value is hence connected to individual needs via subjective 'imputation'.

> *Value is thus the importance that individual goods or quantities of goods attain for us because we are conscious of being dependent on command of them for the satisfaction or our needs. ... Just as a penetrating investigation of mental processes makes the cognition of external things appear to be merely our consciousness of the impressions made by the external things upon our persons, and thus, in the final analysis, merely the cognition of states or our own persons, so too, in the final analysis, is the importance that we attribute to things of the external world only an outflow of the importance to us of our continued existence and development (life and well-being). Value is therefore nothing inherent in goods, no property of them, but merely the importance that we first attribute to the satisfaction of our needs, that is, to our lives and well-being, and in consequence carry over to economic goods as the exclusive causes of the satisfaction of our needs. ... Value is thus nothing inherent in goods, no property of them, nor an independent thing existing by itself. It is a judgement economizing men make about the importance of the goods at their disposal for the maintenance of their lives and well-being. Hence value does not exist outside the consciousness of men. ... For the entities that exist objectively are always only particular things or quantities of things, and their value is something fundamentally different from the things themselves; it is a judgement made by economizing individuals about the importance their command of the things has for the maintenance of their lives and well-being. Objectification of the value of goods, which is entirely subjective in nature, has nevertheless contributed very greatly to confusion about the basic principles of our science. ... The* ***measure*** *of value is* [thus] *entirely subjective in nature, and for this reason a good can have great value to one economizing individual, little value to another, and no value at all to a third, depending upon the differences in their requirements and available amounts. ... Hence not only the* ***nature*** *but also the* ***measure*** *of value is subjective.*[105]

Pure economics apart, there is no doubt that the works of Weber constitute the foremost elaboration of an early *Verstehen* methodology in the social sciences during the 20th century. On the one hand subjectivism in this guise serves Weber as an overall scientific compass, on the other it assists in the definition of his major disciplinary concern, sociology. The latter allegedly is preoccupied with 'the interpretive understanding of social action' in the form of the 'subjective meaning' attached thereto by the individual. It is then obvious, says Weber,

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[105]Menger (1994 (1871), pp 115, 116, 120-121, 146)

that meaning in the individual case of action can only be understood against the subjective 'complex of meaning', the mental background against which conduct unfolds. Hence action that does not fit into this mental infrastructure is hardly understandable (Weber 1968 (1922), pp 4, 9, 11). But this order of meaning matters also for the validation of apprehended knowledge, something coming about as value is attributed to the truths thus conveyed. In consequence, claims Weber, 'cultural events' (stemming from meaningful action) cannot ever be understood through 'the reduction of empirical reality to "laws"', they can only be grasped from 'special and "one-sided" viewpoints' (Weber (1949 (1904), pp 110, 80, 72)). As observed by Udéhn (1987, p 13) it is hence crucial to realize that to Weber subjective understanding cannot ever be 'an end in itself' but only appears as a means for 'a causal explanation' of conduct then informed by acquired knowledge. It is furthermore telling to share the opinion of Burrell and Morgan (1979, pp 230, 231) who endorse the position that Weber's subjectivism is a 'bridge-building exercise between idealism and positivism'. That is, he manages to span a chasm hardly crossed by anyone else, something naturally following from his overall unifying social science aspirations. This he does by tying subjectivism to the causal explanation mostly associated with positivism. 'Weber is interested in developing a causal theory of social explanation rather than in pursuing the full implications of the idealist view of the nature of social reality.' In this endeavor he comes to serve as a model for several sociological scholars, most notably Schutz who also however is inspired by the more extreme interpretive philosophy of Husserl. In this philosophical school of phenomenology human life evolves in a world which is entirely consciously 'created' and that does not exist outside such mental constructions (Burrell and Morgan (1979, pp 232, 233-234)).

In a similar vein Prendergast (1986, pp 1, 3, 10) argues that the undertakings of Schutz are very much inspired by Weber whose ideas on *Verstehen* and ideal-types he transforms in order to make them fit those of the Austrian economists together with whom Schutz develops as a scholar.[106] To succeed in this project Schutz is however compelled to emphasize whatever is 'nominalistic', 'rationalistic', and *wertfrei* ('value-free') in Weberian methodology. In this vein Weber's ideas are important for Schutz as they enable him to handle what Austrians are not able to deal with, their 'impoverished account of subjective understanding' and their 'antiquated, ... account of the a priori character of economic theory'. The Austrian theory of value (originating with Menger) thus connects nicely both with the methodological individualism of Weber and Husserl's reflexive psychology.

> *Schutz earliest intellectual environment was dominated by the epistemological problems of the Austrian school of economics, of which he was a member. Committed to the school's overall methodological standpoint, but recognizing inadequately justified components, Schutz ... began to investigate alternative solutions.*[107]

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[106] The foremost forum hereof is *das Privatseminar* chaired on a continuous basis by Mises.
[107] Prendergast (1986, pp 2-3)

The core of Schutz' contribution can be found in his article The social world and the theory of social action (Schutz (1960)) (confer Udéhn (1987, p 130). Schutz starts out by asking why it is that subjectivism is to be adhered to at all in the social sciences. The reason, he says, by drawing on the example of (objectivist) behaviorism is that 'the fallacy of this theory consists in the substitution of a fictional world for social reality by promulgating methodological principles as appropriate for the social sciences which ... prove a failure in the realm of intersubjectivity' (Schutz (1960, p 205)). As seen this echoes the claim of Hayek although Schutz a) singles out behaviorism in particular instead of the natural sciences in general, and b) emphasizes intersubjectivity in much more of an overt manner than Hayek does. The main claim of Schutz which opposes these attempts is that they avoid what is the most crucial element of the social sciences, the 'social life-world' inhabited by the individual 'whose doing and feeling lies at the bottom of the whole system' (Schutz (1960, p 207)). To be able to understand such a system any student thereof must necessarily resort to a theory of action. And, says Schutz (1960, p 209) '[t]he safeguarding of the subjective point of view is the only but sufficient guarantee that the world of social reality will not be replaced by a fictional non-existing world constructed by the scientific observer'. Two things then stand out clearly in Schutz' adherence to subjectivism. For one thing the foremost point of reference is everyday human experience, for another this experience is shaped by means of cooperation with others. 'My experience of the world justifies and corrects itself by the experience of the others with whom I am interrelated by common knowledge, common work, and common suffering' (Schutz (1960, p 210)).

> *I cannot understand a social thing without reducing it to the human activity which has created it and, beyond it, without referring this human activity to the motives out of which it springs. I do not understand a tool without knowing the purpose for which it was designed, a sign or a symbol without knowing what it stands for, an institution if I am unfamiliar with its goals, a work of art if I neglect the intentions of the artist which it realizes.*[108]

The shadows of both Weber and Hayek are furthermore very much present as Schutz (1960, p 212) ties the interpreted everyday realities to action thus defined as '[motive-induced] behavior in accordance with a plan of projected behavior; and the project is neither more nor less than the action itself conceived and decided upon in the future perfect sense'. There is hence an almost dialectic relationship at hand between 'social things' and 'human activities' steered by motives. And the conduct of others can be grasped only by resorting to one's own experience of the social world. In this context the subjective understanding of social relationships takes on a preeminent role, something in its turn grasped as 'an intersubjective connection of motives'. By way of projecting and imagination individuals thus frame these connections that can be understood as ideal-types.[109]

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[108]Schutz (1960, pp 211-212)

[109]As observed by Burrell and Morgan (1979, p 244), an additional pillar of Schutz' is his idea of time, a

> *The social world in which I live as one connected with others through manifold relations is for me an object to be interpreted as meaningful. It makes sense to me, but by the same token I am sure it makes sense to others too. I suppose, furthermore, that my acts oriented to others will be understood by them in an analogous manner as I understand the acts of others oriented to me. More or less naively I presuppose the existence of a common scheme of reference for both my own acts and the acts of others. ... Convinced that they want to express something by their act or that their act has a specific position within the common frame of reference, I try to catch the meaning which the act in question has, particularly for my co-actors in the social world, and until presented with counter-evidence, I presume that this meaning for them, the actors, corresponds to the meaning their acts has for me.*[110]

The reasoning of Schutz, where '[k]nowledge of social life is socially ordered' is finally more sociological than phenomenological in character in its approach to the thus crucial intersubjectivity that exists subject to '[t]he inner world of intentional consciousness and the outer manifestations of the world of everyday life' (Burrell and Morgan (1979, pp 245, 246). 'Instead of treating the issue of intersubjectivity as a philosophical problem, Schutz shouldered it as a practical problem concerning the possibility of mutual human understanding' (Bäck-Wiklund (1991, p 76, author's translation)). This social impact on subjectivism is the area to which this paragraph now turns.

Social subjectivism

So far subjectivism mostly (with the exception of the Schutz coverage) appears as something tied to the individual. That is, subjectivism is understood as the manner in which *an* individual relates to *her* environment that by means of *her* senses is interpreted. It is however clear, as discerned in the writings of Hayek, that the individual, despite her own 'taking-in' of the context, cannot plausibly be treated as an isolated atom. In that case such phenomena as institutions cannot ever be explained by means of subjectivism that would only represent some kind of 'myopic narrowmindedness'. The social context whereto the individual is a party must somehow be accounted for. This reasoning lies at the heart of Weber's analysis according to which the world is interpreted by the individual who at the same time takes others into account. This claim is seen also in the contribution of Hayek but most readily appears in works that emanate from the tradition founded by Schutz. As seen right above, his argument revolves around the life world of humans who can only grasp this context by relating to others by means of connected motive structures. Humans thus understand the world and each other via the notion of intersubjectivism, something which constitutes the sine qua non of reality interpreted as a social construction. '*Homo sapiens* is always, and in the

conceptual fundament that is derived from Bergson. One can thus posit the presence of a 'stream of consciousness' that gives rise to the idea of 'reflexivity'. This consciousness, continuously 'lived' experiences, carries no meaning whatsoever when considered in isolation, in themselves. 'Meaning is dependent upon reflexivity – the process of turning back on oneself and looking at what has been going on. Meaning is attached to actions retrospectively; only the already-experienced is meaningful, not that which is in the process of being experienced.'

[110] Schutz (1960, pp 216-217)

same measure, *homo socius*' (Berger and Luckmann (1971 (1966), p 69)). The interpretive sociology of Schutz constitutes the first fundamental part of a development path that via Berger and Luckmann's sociology of ('shared') knowledge and the cognitive social psychology of Weick ends up in the idea of the 'enacted environment'. This is the world as 'an ambiguous field of experience' wherein 'organization and environment are created together (enacted) through the social interaction processes of key organizational participants' (Smircich and Stubbart (1985, pp 725-726)).[111]

The one contribution which stands out within this realm is Berger and Luckmann's The social construction of reality (1971 (1966)).[112] Their project is a highly integrative one that exhibits such merits and weaknesses.[113] The core hereof is readily discerned in the passage below (Berger and Luckmann (1971 (1966), p 37)).

> *The reality of everyday life further presents itself to me as an intersubjective world, a world that I share with others. This intersubjectivity sharply differentiates everyday life from other realities of which I am conscious. I am alone in the world of my dreams, but I know that the world of everyday life is as real to others as it is to myself. Indeed, I cannot exist in everyday life without continually interacting and communicating with others. ... My "here" is their "there". ... I know that there is an ongoing correspondence between my meanings and their meanings in this world, that we share a common sense about its reality. The natural attitude is the attitude of common-sense consciousness precisely because it refers to a world that is common to many men. Common-sense knowledge is the knowledge I share with others in the normal, self-evident routines of everyday life. The reality of everyday life is taken for granted as reality. ... While I am capable of engaging in doubt about its reality, I am obliged to suspend such doubt as I routinely exist in everyday life.*[114]

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[111]Confer Udéhn (1987, p 132) for an opposed view having it that The social construction of reality is not intersubjective in character (as its society allegedly exists as an objective reality).

[112]As opposed to Schutz (their grand intellectual master), who takes some pains in dissociating himself from 'higher order subjectivities' (discerned in the works of Durkheim), Berger and Luckmann explicitly recognize the inspiration gained from the Frenchman (confer Berger and Luckmann (1971 (1966), pp 28-29, 207), Udéhn (1987, p 131)). They furthermore draw on the dialectics of Marx, the *Verstehen* of Weber, and the symbolic interactionism of Mead which entails how a social reality is internalized by the individual.

[113]Confer the claim of Udéhn (1987, p 132). '[The work of Berger and Luckmann] is a seductively attractive synthesis, but like most syntheses it has its problems. It is made possible only by dragging isolated bits of the works of different authors out of their original contexts, thereby distorting their original views. To suggest, as Berger and Luckmann do, that Weber's subjective idealism is compatible with Durkheim's objective idealism is simply false, and to do the trick with the help of Marx's subject-object dialectic is doubtful ecelecticism.' As a case in point, consider the manner in which they choose to come to grips with the concept of identity. Intuitively identity seems like something residing deep down in the subconscious sphere of the human being. Berger and Luckmann (1971 (1966), pp 194-195) however have it differently in alleging that '[i]dentity is a phenomenon that emerges from the dialectic between individual and society'. This most individual feature of the human is hence not only moderated by the social but in fact created thereby.

[114]As seen there is almost reason to abandon the individual given her tight interlinkage with the surrounding everyday social world. This must be so as an isolated 'I' is not in the position to assign meaning to life. As cases in point a few questions can then be asked. For one thing, 'where' does the individual end and the social begin? In the borderland between dreams and everyday life, or? For another, what about other non-social elements of reality, can they also exert some kind of social influence, or? And, how do other non-social realities enter the discourse, as socialized icons, or? What about the meanings of others that are non-manifest in tangible expressions, are they less within reach? Is free will really an issue in this world or is everyone so imbued with social meaning that it is akin to determinism? Et cetera.

Their argument is made more within reach as the crucial role played by face-to-face interaction is considered. This is, says Berger and Luckmann (1971 (1966), pp 40, 43, 44, 45)) the 'prototypical case of social interaction' subject to which humans organize their sphere of meaning. There is, hence, a distinctive structuring aspect to interaction that unfolds within the realm of relationships with others. In consequence the procedures of everyday life tend to be stable though not inflexible in a static sense. They are anchored in social typifications that constitute the structural skeleton of life. 'Social structure is the sum total of these typifications and of the recurrent patterns of interaction established by means of them. As such, social structure is an essential element of the reality of everyday life' (Berger and Luckmann (1971 (1966), p 47). It follows that face-to-face interaction is also conducive for the rise of institutions which result from 'a reciprocal typification of habitualized actions'. This comes about as socially interacting individuals, by means of these typifications, construct a background, the purpose of which is to enable 'a division of labor between them'. This is a continuous process that creates and recreates 'institutional order'. This order then takes on the guise of 'an institutional world' that appear *as* 'real' and 'objective' as 'the natural world'. This does not mean that there is always complete institutionalization of all aspects of society but that there is a dialectical relation between the individual and this world. When action takes place the typifications are relied upon for the moment being. But they are not taken for granted in retrospect as the individual then reflects upon her action pattern in relation to the typified institutions relied upon. Such reflection, thus embodying the dialectics underway, is for instance seen in the striving for legitimation, a process that renders plausible 'the institutional order by ascribing cognitive validity to its objectivated meanings' (Berger and Luckmann (1971 (1966), pp 72, 75, 77, 91, 97, 110)).[115]

It is however obvious that this account of the 'social construction of reality' is not unproblematic, something observed by Searle (1995, pp 190-191). His argument rests on the fact that a social construction 'must be constructed out of something'. It must have an objective base, something it allegedly does not have in the argument of above. The objective reality is said by Berger and Luckmann to exist but the role hereof is not outright conducive for the social reality. The two (subjective and objective) realities thus exist in parallel in the interpretation of Berger and Luckmann without however really being interconnected. And the

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[115]One can then ask whether this environmental internalization, coming about via the social sharing of knowledge about everyday life, is ever complete. That is, can the individual ever be considered as so socialized that her identity virtually disappears? No, says Berger and Luckmann (1971 (1966), pp 166-167, 174, 183)), 'socialization is never complete' since it is constantly 'threatened' because of recurrent doubts regarding whether what is experienced is in fact what is subjectively 'real'. That is, the unfolding dialectics ascertain that there is not a one-way ticket towards eternal socialization, something also supported by the de facto presence also of an 'objective reality'. On the other hand all social processes serve as a function constantly assuring that there is always at least *some* socialization going on. As said this socialization is anchored in a particular social structure endemic to the individual. That is why 'the micro-sociological or social-psychological analysis of phenomena of internalization must always have as its background a macro-sociological understanding of their structural aspects'.

objective reality appears only as a distant shadow in comparison to its subjective counterpart.

> [A] *socially constructed reality presupposes a reality independent of all social constructions, because there has to be something for the construction to be constructed of. To construct money, property, and language, for example, there have to be the raw materials of bits of metal, paper, land, sounds, and, marks, for example. And the raw materials cannot in turn be socially constructed without presupposing some even rawer materials out of which they are constructed, until eventually we reach a bedrock of brute physical phenomena independent of all representations. The ontological subjectivity of the socially constructed reality requires an ontologically objective reality out of which it is constructed.*

Searle's own alternative is to further a view, a 'construction of social reality' that relies both upon 'brute facts' and 'institutional wholes'.[116] To Searle (1995, p 35) a 'social reality is created by us for our purposes and seems as readily intelligible to us as those purposes themselves'. That is, reason as such is a feature paramount to Searle (something not really distinguished in the social construction discourse of above). An object is here assigned a function, a 'status', by means of so-called 'collective intentionality' that is subject to the object's 'intrinsic physical features'. This intentionality is the outcome of collaborative social conduct in parallel to the sharing of 'intentional states such as beliefs, desires, and intentions' (Searle (1995, pp 23, 46, 124)). Why is it then that someone's intentions, a feature that spontaneously seems rather individual in character, cannot be grasped at this level? Searle (1995, pp 24, 25, 41) has it that there is, given the fundamental social character of the world, a need for the attainment of a 'sense of *collectivity*'. Only hereby is it possible to avoid the type of infinite regress traced in circumstances such as 'I think that you think that I think that you think' et cetera. 'The crucial element in collective intentionality is a sense of doing ... something together, and the individual intentionality that each person has, is derived *from* the collective intentionality that they share.' And it is this collective intentionality, nothing else, that separates nature from culture. These two however do not constitute two ends of an unbridgeable gap. Nature and culture are instead the sine qua non of the spanning agency which unfolds as social reality is 'created', when a function is attributed to an object that void hereof cannot work out as intended.

> *The key element in the development of agentive functions into institutional facts comes when we collectively impose a function on a phenomenon whose physical composition is insufficient to guarantee the performance of the function, and therefore the function can only be performed as a matter of collective acceptance or recognition.*[117]

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[116]This position is akin to that of (generally subjectivist) Austrian economists where there is (except for in the most extreme versions) always an underlying objective reality.
[117]Searle (1995, p 124)

The connection between the objective and the subjective

Only adherents to strict positivism or subjectivism can make do without a discussion that addresses the *connection* between the objective and the subjective facets of life. A very objectivist position allows the positivist to claim that reality is all about what can be physically grasped via observation whereas an extreme subjectivist in a corresponding manner can claim that nothing exists outside of the interpretation thereof. In the former case the understanding of institutions becomes highly problematic and in the latter the same holds for the grasping of certain physical features. Most observers naturally subscribe to positions somewhere along the subjectivism-objectivism continuum. A representative comment is thus that of O'Driscoll Jr and Rizzo (1996 (1985), p xv)) who have it that an 'approach in which the actor's problem situation is defined as he perceives it to be .... [does not imply] of course, that his perception bear no relation to an underlying reality'.

Hayek (1979 (1952), pp 44, 46) chooses to conceive of objects as either 'objective facts' or as entities that 'cannot at all be defined in physical terms', things that '*are* what the acting people think they are.' That is, there are things which exist 'objectively' but in this guise they are not really *tied* to those that for their existence depend on the way in which humans perceive them. The physical attributes of things do not matter says Hayek who all the same seems to accept the independent existence of such attributes once they are *not tied* to human action. He draws upon the example 'of the problem of the archaeologist trying to determine whether what looks like a stone implement is in truth an "artifact", made by man, or merely a chance product of nature.' Not being an artifact this stone might still prevail, but not in any, to humans, meaningful way. The somewhat murky position of Berger and Luckmann in this regard, in fact akin to that of Hayek, reads as follows. There is an objective reality, but this reality does not come forward as an interpreted everyday reality to humans and it then follows that it cannot carry any true meaning for them. It hence really does not matter. On the other hand they claim that as 'consciousness is always intentional' this consciousness 'intends' in the direction of objects. But as these objects in theory can also be part of the objective reality, how can they then constitute the aim of subjective consciousness? This ambiguity is readily discerned as Berger and Luckmann (1971 (1966), pp 36, 67)) discuss the relation between man and nature.

> *The reality of everyday life is organized around the "here" of my body and the "now" of my present. This "here and now" is the focus of my attention to the reality of everyday life. What is "here and now" presented to me in everyday life is the* ***realissimum*** *of my consciousness. ... While it is possible to say that man has a nature, it is more significant to say that man constructs his own nature, or more simply, that man produces himself. The plasticity of the human organism and its susceptibility to socially determined interference is best illustrated by the ethnological evidence concerning sexuality.*

Some light is thus shed on the argument once it is realized that 'the objectivity of the institutional world ... is a humanly produced, constructed objectivity', something explained by means of the alleged dialectical relationship between the producer of the social world and this world itself (Berger and Luckmann (1971 (1966), pp 78, 79, 84). This claim is however very eligible for the criticism posed above by Searle concerning that what is socially constructed must, in the very end, have something that it is constructed out of.[118] One way of illuminating this area adhered to by Berger and Luckmann (1971 (1966), pp 49, 50, 51, 53) is via the notion of objectifications. The purpose of these is to 'serve as more or less enduring indices of the subjective processes of their producers'. That is, these man-made representations of the subjective have got an objective element which deconnects them from the immediate social context of personal interaction. Such an objectification is language, 'a system of vocal signs' that 'makes "more real" my subjectivity not only to my conversation partner but also to myself.'[119] It furthermore seems as if the objective reality can be grasped by means of the de facto physical existence of humans themselves. This is seen as social definitions of reality are said to be '*embodied*' by these 'definers of reality' (Berger and Luckmann (1971 (1966), p 134). As said the one concept by means of which the gap between man and nature is tentatively overcome in this reasoning is via the drawing on some kind of dialectics between the subjective, socially constructed everyday world, and nature itself.[120]

> *Since society exists as both objective and subjective reality* ... [i]*t is possible to speak of a dialectic between nature and society. This dialectic is given in the human condition and manifests itself anew in each human individual. ... Externally, it is a dialectic between the individual animal and the social world* [by means of 'internalization: the immediate apprehension or interpretation of an objective event as expressing meaning']. *Internally, it is a dialectic between the individual's biological substratum and his socially produced identity.*[121]

The point of departure is very different for Searle who, despite being most preoccupied with the social aspect of life, still does not leave the objective reality behind. Whereas Berger and Luckmann (1971 (1966)) relate to the social as their natural point of departure, Searle is slightly more explicit in articulating his reasoning in more of an incremental, 'aggregating', manner. He (Searle (1995, pp 1-2, 7, 9, 27)) starts out by recognizing that there are two types

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[118]It further seems as if these authors set out to overcome this problem by saying that something 'learned as [an] objective truth' is then 'internalized as [a] subjective reality' (Berger and Luckmann (1971 (1966), p 84)). But what about that part of reality that is not learned about and that hence is not internalized?

[119]There is no doubt that Berger and Luckmann (1971 (1966), pp 120, 121) are well aware of the opaqueness of their argument. This is seen as they comment upon the 'symbolic universe' that allegedly embodies '*all* discrete institutional processes' at the same time as it 'set[s] the limits of what is relevant in terms of social interaction'. 'One extreme possibility of this, sometimes approximated in primitive societies, is the definition of *everything* as social reality; even inorganic matter is dealt with in social terms.'

[120]Despite the inclusion of dialectics into the discourse on the social construction of reality there is no doubt that it is not very well suited to handle the connection between the objective and the subjective, something it however does not really set out to do either. One of the problems is that the objective and the subjective seem to coexist without really grabbing each other at any depth. Instead this effort is mostly devoted to the tying together of the individual and the social.

[121]Berger and Luckmann (1971 (1966), pp 149, 201)

of facts in the world that differ concerning whether they, 'for their existence' require 'human institutions' or not, 'brute facts' and 'institutional facts'. The world of Searle's is further one based upon 'physical particles in fields of force', some of which are 'organized systems'. Some of these are 'living systems' and might in consequence display consciousness, and thereby intentionality. This bestows upon them 'the capacity ... to represent objects and states of affairs in the world itself'. Whereas brute facts are found already at the level of the physical particle thus being '*intrinsic* to nature' institutional facts are in need of '*the intentionality of observers, users, etc*', something only at hand among conscious living systems such as human beings. There is hence no doubt that a stone is a brute fact and an institution and institutional fact. To 'state' a brute fact it is however in need of an institutional ditto such as language. Why is it then that not all facts are institutional as a stone is a stone only because we have learned that this is so? The argument of Searle (1995, p 56) is the same that he uses to criticize the social construction of reality-argument. He thus has it that 'the analysis of the structure of institutional facts reveals that they are logically dependent on brute facts. To suppose that all facts are institutional would produce an infinite regress or circularity in the account of institutional facts. In order that some facts be institutional, there must be some other facts that are brute. This is a consequence of the logical structure of institutional facts.' Hence, there is an asymmetric existential dependence between brute and institutional facts according to which the latter requires the presence of the former to prevail (the reverse is however not true). To Searle (1995, pp 155, 183), this is realism, '*that there is a way that things are that is logically independent of all human representations*', as opposed to the 'antirealism' he associates with the social construction of reality-perspective.

> *One can show that this or that claim corresponds or fails to correspond to how things really are in the "external world", but one cannot in that way show that the claim that there is an external world corresponds to how things are in the external world, because any question of corresponding or failing to correspond to the external world already presupposes the existence of an external world to which the claim corresponds or fails to correspond. External realism is thus not a thesis nor an hypothesis but the condition of having certain sorts of theses or hypotheses. ... The upshot then is that there is a contrast between the role of the presupposition of external realism and the presupposition of the existence of human representations in normal understanding. Normal understanding of talk of both money and mountains requires external realism, but normal understanding of talk of money presupposes the existence of representations in a way that normal understanding of mountains does not. Money is understood as socially constructed; mountains are not understood as socially constructed.*[122]

Austrian subjectivism

Methodological subjectivism is one of the cornerstones of Austrian thought. It hence appears *as* explicitly in today's Austrian hermeneutics as it does in the very formulation of Menger's value theory brought forward more than 100 years ago. It is at times held that subjectivism, as

[122]Searle (1995, pp 178, 194)

framed by the coming into being of the marginal revolution, is one of the rather few instances where Austrians and neoclassical economists can agree. This is true if subjectivism is meant to imply only those fundamental issues that are put to the fore via the works of Menger, Walras and Jevons. But it is by no means so when subjectivism is looked into somewhat more in depth.[123] A first observation is that Austrians' subjectivism is 'genuine' in the sense that it imbues every single aspect of economics, something which is not the case among its neoclassical colleagues. Mainstream 'pure logic of choice' does display subjective characteristics, but only at a most shallow level. Nowhere is this more clear than through the way in which neoclassical economics entail *methodological* positivism, something vehemently opposed by the Austrians.[124] The difference stands out very much if Austrian subjectivism is seen as 'dynamic', something touched upon at the outset of this paragraph (O'Driscoll Jr and Rizzo (1996 (1985), pp 2, 4)).

> *Thus, for the Austrians, and for subjectivists generally, economics is first and foremost about the thoughts leading up to choice, and not about things or the interaction of objective magnitudes. ... The neoclassical method of modeling uncertainty essentially denies the fundamental tenet of subjectivism: the autonomy of individual choice. ... Subjective probability thus reflects subjectivism in its static form; while unbounded possibility sets reflect the essentially dynamic aspect of subjectivism.*

This idea of subjective choice is what pillars the Austrian discourse on rationality as purposefulness which pertains to the entire means-ends framework. Some even have it that its conception of subjectivism is what renders Austrian economics truly unique as a line of economics inquiry. This is so since subjectivism here is not 'only' a methodology or the emphasis of tastes and preferences per se but its main way of coming to grips with human action in general (something explaining the coming into being of social institutions and the approach to knowledge) (confer Horwitz (1994, pp 17-18, 19), Ebeling (1995, p 42)). Lachmann (1994, pp 46-48) has it that there are three major phases to the development of Austrian subjectivism. *The first* appears as Menger's co-founding of the marginal revolution ('the subjective revolution') with its emphasis of 'subjectivism of wants and minds' thus

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[123]As observed by Horwitz (1994, pp 18-19) Menger is definitely more subjectivist than the other two since also supply issues, once considered, are interpreted in subjective terms. This is what subsequently is conducive for Wieser's discourse on 'cost as foregone utility', an observation subsequently to find its way into the core of neoclassical economics via the notion of opportunity cost.

[124]Consider the issue of consumer demand. One can then (drawing upon the reasoning pursued earlier on in this section) say that even though the neoclassical view of reality regarding 'relation between objects' (its ontology) displays some fundamental subjectivist ingredients, this is certainly not so when the issue of how to learn more about reality (its epistemology) is concerned. That is, consumer demand is in the first place understood from the horizon of buyers, and not calculated from the pure number of people, but to learn more about how buyers in fact behave one resorts to standard calculus where aggregated behavior is 'measured'. Austrians are, in contrast, genuinely subjective in both senses. They start out from demand as a function of subjective human action and understands this only via a reasoning where uncertainty, learning et cetera are penetrated in a manner far from objective measurement. So whereas neoclassical and Austrian economists to a certain extent agree regarding aspects of ontology, they differ widely once epistemology is turned to, something that can be explained through the opposed views of man.

bestowing value upon goods by means of individuals 'propensities'. *The second* is manifest in the works of Mises according to which there is 'the subjectivism no longer of wants, but of means and ends' closely tied to the issue of choice. *The third and final stage* Lachmann identifies as that embodied in the argument of O'Driscoll Jr and Rizzo concerning dynamic subjectivity wherein there is a truly 'active mind' imbued with imagination in a world of eternal uncertainty. A similar position is that of Kirzner (1992a, p 134). 'We wish to argue here that these separate [Mises' on human action and Hayek's on knowledge] contributions together not only make up a decisive step from static to dynamic subjectivism but also, at the same time, help articulate a subjectivist understanding of market processes that constitutes an authentic extension of the work of economists of the Austrian School, in a tradition going back to Menger.'

The (Weberian) twist of Mises is to overtly tie subjectivism to human action. The foremost implication hereof is that subjectivism is by no means akin to psychology. The two dimensions of human action (exchange and entrepreneurship) can only come about via the pursuit of choice. And it is within the realm of choice, of both means and ends, that subjectivism works out (Mises (1963 (1949), pp 2, 11-12)).[125]

> *Acting man is eager to substitute a more satisfactory state of affairs for a less satisfactory. His mind imagines conditions which suit him better, and his action aims at bringing about this desired state. The incentive that impels a man to act is always some uneasiness.*[126]

That is, the perception of uneasiness, the major propellant of human action, must always be subjective in nature. This also holds for the imagined desired ends that reduce the prevailing dissatisfaction via means chosen as a pattern of action. Mises (1963 (1949), pp 21-22, 95-96) further has it that this subjectivism is what necessarily renders any scrutiny of human action value-free. Only acting man can evaluate his action according to his own view of the world, nobody else can. This holds in particular as what Mises calls 'ultimate ends' are concerned. 'Value is the importance that acting man attaches to ultimate ends. Only to ultimate ends is primary and original value assigned. Means are valued derivatively according to their serviceableness in contributing to the attainment of ultimate ends. ... Value is not intrinsic, it is not in things. It is within us; it is the way in which man reacts to the conditions of his environment. Neither is value in words and doctrines. It is reflected in human conduct.' As noticed by Ebeling (1995, pp 41-42) Mises' logic, his mapping of a journey 'into an uncertain feature', thus revolves around 'the *mental doing*, by which the "givens" of the logic of choice

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[125]Confer Kirzner (1992a, p 131). 'Subjectivism in the analysis of Misesian human action includes the insight that any ends-means framework relevant to a human action has *itself been actively chosen* in the course of that very action – and that that choice expresses and reflects that agent's dreams, aspirations and imagination, his expectations and his knowledge, his hunches and his biases.'
[126]Mises (1963 (1949), p 13)

are created and given contextual or *subjective meaning* by the actor without which the concepts and content of choice would have no intelligibility for human understanding.' The subjectivism of Mises constitutes the programmatic agenda for modern Austrian economics in this regard.

As seen earlier on in this paragraph the argument of Hayek is more inclined towards the general issue of subjectivism as opposed to the positivism found in natural sciences. 'Things are what they are because we think they are.' Action, implying unintended outcomes, is then impacted by the subjectively mediated classification schemes endemic to any individual that however also relates to her social realm in this regard. This is what Hayek (1948a (1937), p 44) draws upon in order to grasp equilibrium. This is also where the *first major* impact of his approach to subjectivism is discerned.

> *When in all this I emphasize the distinction between mere intercompatibility of the individual plans and the correspondence between them and the actual external facts or objective data, I do not, of course, mean to suggest* that *the subjective interagreement is not in some way brought about by the external facts. There would, of course, be no reason why the subjective data of different people should ever correspond unless they were due to the experience of the same objective facts. The equilibrium relationships cannot be deduced merely from the objective facts, since the analysis of what people will do can start only from what is known to them.*

The *second* principal area where his ideas of subjectivism work out is that of knowledge, the dispersed character of which in part is attributable to its subjective underpinnings. It is hence Hayek who by means thereof sows the first seeds of what later is to come forward as dynamic subjectivism in the guise of O'Driscoll Jr and Rizzo (confer Kirzner (1979, pp 133, 137)). What emerges as overall market knowledge is then inaccessible for any *one* body of the market but instead inheres in the form of bits and pieces in an innumerable mass of interpreting market participants. As seen below this is however not to say that others are not taken in as the process of interpreting market individuals unfolds.

Kirzner's reasoning on subjectivism follows a few distinct threads of thought that mirror the works of his predecessors. Kirzner hence chooses the role of a commentator and does not really come forward with a version of his own.[127] Although in general appreciative of Menger, Kirzner (1992a, pp 70, 71-72, 73, 121) has it that there is a lot more potential to the argument than realized by Menger himself. That is, although highly meritorious as he 'transmutes all the phenomena of the economy from being simply physical transformations, relationships or ratios into direct or indirect expressions of human valuations, preferences, expectations and dreams' Menger's account is allegedly 'relatively unsophisticated',

[127]The reason is most likely Kirzner's own position within the Austrian discourse, midway between ultra-subjectivists and neoclassical economists where subjectivism is not really a main issue.

something to be remedied only through the works of Mises and Hayek.

> *Misesian subjectivism replaced the mechanical, allocative activity of the rather wooden economizer by the dynamics of human action. Hayek's work compelled the economics profession to address explicitly the role of knowledge and learning in economic process. Together, the Mises-Hayek contributions offer a truly "dynamically" subjectivist understanding of market processes.*[128]

That is, there is a key step taken in the Austrian discourse as subjectivism in its static guise is left behind. The crucial issue here, says Kirzner (1992a, pp 122-124), is when preferences, at the outset conceived of as in all respects untied to the decision itself, with the advent of dynamic subjectivism is reconsidered as imbuing this decision in a dynamically embedding manner. The decision and the subjectivism which pillars it thus become one and the same from having been merely related as causally connected entities as 'preferences giving rise to decisions'. This is viable only in light of the dynamically subjective character of both (Misesian) non-fixed means-ends frameworks and (Hayekian) dispersed knowledge. A choice that follows static subjectivism is then hardly a choice at all as it only evolves subject to a fixed means-ends framework where all crucial choice parameters reside a priori in the so-called decision structure.[129] 'A machine can calculate a required optimal option; we would not wish to say that the machine can *choose.*'

An additional facet of Austrian subjectivism paid attention to by Kirzner (1979, pp 138, 151-152) is the paradox which seemingly prevails in Hayek's reasoning on knowledge. Kirzner finds no way out of it. Iron and wool, says Kirzner, matters only to the extent that they are perceived in this very way. That is, they are 'subjectively known' as just iron and wool and it is these opinions, *or rather what is known about this knowledge*, that matter when iron and wool enters an economics discourse from a subjectivism perspective. But the problem is that following other aspects of subjectivism and decision making, people are in general not knowledgeable about what they do not know. So how could knowledge about what is known as iron and wool than ever enter a serious economics discussion in the area?

> *Subjectivism suggests that things about which men are completely ignorant are things that, in the sense relevant to economic theory, simply do not exist. Yet, in the case of knowledge itself, consistent pursuit of the subjectivist approach turns out to direct attention precisely to the existence of opportunities for the acquisition of knowledge about which no one knows. While in less consistently subjectivist approaches such approaches are held not to exist, it is to the very important and very real existence of these opportunities that subjectivism points.... Since action grows out of perceived configurations of ends and means, subjectivism focuses attention on the way these ends and means have been perceived – on knowledge and beliefs concerning them. ... The subjectivist view on iron and wool, then, would see not*

[128]Kirzner (1992a, p 130)

[129]A similar reasoning pertains to Austrian as opposed to neoclassical *competition* where the former *is* the genuinely dynamic process *itself* whereas the latter is made up by the structural assumptions which define a certain type of market subject to which price can be predicted.

> *iron and wool alone, but iron packaged with information concerning iron, and wool similarly packaged. ... Instead, subjectivism sees action as inextricably embedded in the complex of perceptions and images that make up the consciousness of the human agent at each moment. The means employed in human action can be discussed quite separately from the human agent, but to discuss the knowledge and beliefs that actuate actions separately from the human agent* [thus only residing with iron and wool] *would be to imagine away the very notion of a human agent. Consciousness must be treated as primordial to action, so that the knowledge, beliefs, and images that constitute consciousness must for a science of human action be treated as ultimate givens. One must at some point in time desist from searching for what the agent knows and believes about his knowledge and beliefs. He simply has this knowledge and beliefs.*[130]

As noted in several instances Kirzner in general takes on a position midway between mainstream neoclassical economics and more 'extreme' versions of his own Austrian abode. As such Austrian versions differ from Kirzner's first and foremost in their perspective to subjectivism (that subsequently informs virtually all other elements of this particular branch of economics) their view is rather telling to share. In the view of Kirzner (1992a, p 126) it is obvious that such an ultrasubjectivist view is hardly feasible since it is on the verge of complete absence of order. This means that market tendencies towards equilibrium is not really an issue. To choose from an 'infinite' number of possible patterns of action in light of a genuinely uncertain world wherein nothing is known, is simply not done, he seems to say. It is thus plausible to argue that Kirzner stops short of taking the last step of Austrian subjectivism. 'Whereas Hayek moved Austrians from subjective value to subjective knowledge, Lachmann has taken the next step to subjective expectations [and imaginations]' (Horwitz (1994, p 20)). This an approach of 'radical subjectivism' is a view in part subscribed to by Boettke and Prychitko (1994, p 288). By pulling this thread all the way and by digging for any roots that point in this direction, one ends up in a version of Austrian economics which finds itself on the verge of phenomenology. [131] One aspect thereof is the idea of Austrian intersubjectivism.

Lavoie (1994, pp 57, 58) traces intersubjectivist Austrian theory to the ideas of the *Verstehen* method which emanate in the works of Schutz and Weber. Intersubjectivism hence takes on subjectivism imbued with (social) meaning, something it is not in the position to display in case only 'isolated individual minds' are considered. 'Getting rid of social complications means getting rid of meaningful action itself.' Austrian thought that *does not* take this intersubjectivism into account displays an atomistic individualism which is associated with

[130] Kirzner (1979, pp 138, 151-152)

[131] 'Influenced by Max Weber, whose *Verstehende Soziologie* was closely and critically discussed ... Mises established a phenomenological basis for Austrian economics.... Mises would also be influenced (and have some influence upon) his friend and colleague Alfred Schutz, whose extensions of Husserlian phenomenology would later shape the work of many of Mises' students, especially FA Hayek.... As a general science of human action, and true to its Continental roots, Austrian economics was situated squarely in the midst of an interpretive endeavor' (Prychitko (1995a, pp 2-3)). As observed by Madison (1994a, pp 42, 44, 45) this connection is an opaque one. The alleged ground is that phenomenology in fact *opposes* subjectivism The furthered reason is phenomenology's subscription to the idea of *intersubjectivity* according to which meaning, says Madison, is *objective* in the sense that it prevails outside the individual mind as manifest 'in social and institutionalized practices'.

static subjectivism. 'Thus, through a phenomenological (or, what the Austrians have traditionally referred to as "causal-genetic") analysis, one traces the origin of meaning in consciousness to the emergence of a social world of intersubjective meaning, to a spontaneous order of mutual orientation ...' (Ebeling (1995, p 49)). As noted by Horwitz (1994, pp 19-20) this is also what Hayek sets out to convey regarding how markets work out. Bits and pieces of subjective and dispersed knowledge thus join and come together in the unintended formation of social order by means of 'intersubjective signals such as prices and profits'. 'Markets are ... [hence to be] seen as [a] process for the creation, discovery and use of knowledge that originates in the subjective mental states of individuals. ... For Austrian subjectivism, the main fact to be explained in economics is how actors with *different* expectations and knowledge are able to coordinate their behavior despite such differences and despite the anonymity inherent in markets.'

> *While concepts or ideas can, of course, exist only in individual minds, and while, in particular, it is only in individual minds that different ideas can act upon another, it is not the whole of the individual minds in all their complexity, but the individual concepts, the views people have formed of each other and of the things, which form the true elements of the social structure. ... The individuals are merely the foci in the network of relationships and it is the various attitudes of the individuals toward each other (or their similar or different attitudes toward physical objects) which form the recurrent, recognizable and familiar elements of the structure. ... It is only by the systematic and patient following up of the implications of many people holding certain views that we can understand, and often even learn to see, the unintended and often uncomprehended results of the separate and yet interrelated actions of men in society.*[132]

Subjectivism in economic sociology

The economic sociology account on subjectivism differs from its Austrian counterpart in several respects. *Firstly*, since the coming into being of economic sociology follows a less distinctive path of development than Austrian economics it is mostly void of an ongoing distinct discussion concerning its ontology and epistemology. That is, as 'new economic sociology' is a relatively recent phenomenon it must come to grips with an array of other issues first. *Secondly*, some of the most progressive facets of contemporary economic sociology is utmost structural character (confer Swedberg (1994, pp 267-268) who relates the work of Burt (1992)). This bestows upon it a touch of positivism which means that subjectivism is not really an issue. A network thus appears as a concrete social structure to be observed. Also, since the individual here is of measure zero there is no 'anchor' for any potential subjectivism at hand. *Thirdly*, there are several contributions within the overall disciplinary realm, sociology, that are explicitly devoted to issues of ontology and epistemology. This means that there is no real need to develop an own agenda. One can merely take on what comes forward in general such as contributions within the sociology of

[132]Hayek (1979 (1952), p 58)

knowledge, be it a certain cost of risk for non-coherence.[133] There is, however, also a point of common inspiring reference for contemporary economic sociology and Austrian economics. This is of course the discussion of Weber's on subjectivism, a project earlier labeled a 'bridge-building exercise between idealism and positivism'. As said Weberian *Verstehen* is at the same time an overall compass for social science inquiry and the sine qua non of sociology as 'the interpretive understanding of social action'. This obviously also holds for the economic social action of Weber-inspired economic sociology. That is, the subjectivism discerned as *Verstehen* defines what is sociology according to Weber. This means that any attempt within economic sociology that tries to grasp the world with the slightest aspiration of echoing Weber is, by definition, subjectivist in character.[134]

This established, it goes without saying that any separate treatment of economic sociology subjectivism must necessarily be most concentrated in character. Impoverished as this may seem at first glance in comparison with the corresponding Austrian account, it must however be kept in mind that what appears *below* cannot be properly judged unless what is elaborated *above* on Weber and on the sociology of knowledge, is seen as being parts thereof. Still it is obvious that contemporary economic sociology until now by and large misses out on an 'own' account of subjectivism, something which reflects its relative overall juvenile character. There then appear to be two main sources of inspiration when it comes to an explicit contemporary economic sociology treatment of subjectivism in addition to what is said above. These are White's (1981) reasoning on how manufacturers watch each other and thereby 'produce' an industry and Granovetter's (1985) argument on the social embeddedness of economic actors.

The first of these (as seen in Chapter III) has it that by mirroring each other via 'transposable role structures' producers mentally construct markets. That is, roles are produced and enacted according to an ongoing intersubjectivist process which results in a for-granted-taken market reality, the institution subject to which action subsequently unfolds. The outcome is a social order akin to that relied upon by Hayek.

> *I argue that the key fact is that producers watch each other within a market. ... I insist that what a firm does in the market is to watch the competition in terms of observables. In my proposal, markets are social structures in which producers reproduce their own set of actions; the set confirms as correct each firm's expectations of what it hoped was an optimal volume. ... Any market of significance* [hence] *operates itself and reproduces itself without external planning or auctioneer. It is a social mechanism, which is to say it is an institution and cannot be installed to order, by decree, at least also because it is sustained in part by competing attempts at control. ...* [T]*he production market remains the social construction for*

[133]In this regard Austrians have been 'forced' to work out an own agenda since, given the inclination of economics in general towards outright positivism and a de-emphasis of issues regarding ontology and epistemology, there has been nothing to gain inspiration from within the overarching own field of study.
[134]As seen there is then a certain strain at hand between this position and those which adhere to more of an outright structural economic sociology.

what "a product" is, overriding engineering and cultural preconceptions.[135]

White (1993, pp 230, 234) further emphasizes that it is everyday businessmen knowledge, as seen in 'ordinary calculations' following various market 'signals', that forms the input for choices undertaken and market positions then attained. It is hence 'the practical activities [that] generate the signals needed' for the establishment of applicable 'terms of trade'. As seen, the importance assigned to everyday life experiences is reminiscent of Schutz' ideas on the life-world and those of the social construction of reality. This is all the more so once it is recognized that White does not speak of *any* construction of a market, but of that originating in 'social perceptions'. This social market construction then comes about as a function of a) 'signals', b) 'garnering', and c) the 'composing itself'.

A similar argument with the same implications for subjectivism, and with an emphasis slightly more within reach, is that concerning the embedded character of economic actors as endorsed by Granovetter (1985). Although subjectivism is not an issue in this original contribution it epitomizes (as posited by Swedberg (1997, pp 165)), in the guise of the 'social construction of the economy' (together with embeddedness) 'new economic sociology'. The emphasis of subjectivism in this manner, says Swedberg (1997, p 171), takes on the role of legitimizing the network character of this embeddedness as it renders it broader. The network is then the 'device' wherein embeddedness is manifest. One is embedded in and through the network context to which one is a party. And thanks to the fact that a network market is socially constructed it runs less a risk of becoming a strait-jacket thus suffocating conduct which unfolds within this structure. That is, by applying social constructionism in this sense, new economic sociology reduces the obvious downside of structural analysis in this regard.

Granovetter's reasoning starts out in establishing that institutions (for instance firms, business groups, markets and industries) do not arise in a mechanical manner but only as an outcome of *social constructions* formulated by everyday hands-on social experience of concrete human beings. There is not a 1:1 relation between needs and those institutions that are established in order to support the satisfying of those needs. In consequence the very *process* by which this comes about is critical. Social dynamics matter. This view thus stands out in relation to either 'oversocialized' cultural or 'undersocialized' functionalist ('elliptical and often tautological') explanation of institutional emergence but is in fact akin to that of Hayek concerning the gradual establishment of social order. The emphasized concrete social 'network' reality of actors is hence very different from that which embraces either cultural beliefs or functional, ex post-realized, efficiency. This constructed reality is, as networks in general are, both enabling and constraining in character. It provides access to direct and indirect resources but on the other hand also shields the actor from other potential

[135] White (1981, p 518, 1993, pp 223, 235)

resources.[136]

> [E]*conomic institutions are socially constructed, they result from actions taken by socially situated individuals embedded in networks of personal relations with noneconomic as well as economic aims. An adequate understanding of why institutions look as they do requires detailed attention to this process of construction.* ... [I]*nstitutions do not typically arise in any simple way as solutions to problems presented by the environment. Rather, ways of doing things begin for reasons that relate to the various purposes of the actors involved and to the structures of relations they are embedded in.* ... *There is thus, in this argument, a high level of contingency in the outcomes. This resembles situations in economic dynamics that are characterized by multiple stable equilibrium points. Indeed, I believe that a social constructionist account can help make such dynamic economic models of institutions more sophisticated.*[137]

As seen there is nowhere an overt recognition of subjectivism per se but the contribution of Berger and Luckmann (1971 (1966)) is constantly related to in an implicit manner. If anything the reasoning of Granovetter is akin to that of Hayek who however is not referred to in this regard. The argument can furthermore be exemplified by an analysis of early American electricity industry (McGuire et al (1993), Granovetter and McGuire (1998)). An ongoing event in this industrial process is then how various groups of interest fight each other in order to gain structural (technical and administrative) control. What subsequently emerges as the 'winning' technology is not necessarily the superior one in either sense but the one that 'resulted from the specific and shared personal understandings, social connections, organizational conditions, and historical opportunities available to these actors' (McGuire et al (1993, pp 215-216)). This view of industrial development endorses neither a functionalist Panglossian argument, nor a perspective where a few socially detached 'heroes' are in control. Far from surprising, this approach is in fact reminiscent of White's (of above) in that it is the participation in actual 'related activities' - interpersonal connections, whereon the social construction depends, that counts.

> *We conclude that the electric utility industry was born not of Benthamite Equations or optimizing rationality, but longstanding friendships, similar experiences, common dependencies, corporate interlocks, and active creation of new social relations. Samuel Insull and his circle of collaborators socially constructed their firms in similar ways, and then promoted a system of industry governance and template diffusion. ... Industries are constantly re-negotiated, re-framed, and re-mobilized in response to their environment.*[138]

A dynamic intersubjectivism

As recognized in the brief discussion on subjectivism within economic sociology right above, there is some unbalance once this is put to contrast the Austrian account. This is however not to say that the two stances brought forward are by any means incompatible. In fact there

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[136]Granovetter (1996 (1992), pp 270, 271, 272, 274, 275, 1992, pp 47-48, 49)

[137]Granovetter (1992, pp 47, 49, 1996 (1992), p 275)

[138]Granovetter and McGuire (1998, pp 166-167)

seems to be more of a difference *among* Austrian scholars than *between* the perspectives of Kirzner and Granovetter here. *There are three major sources that establish this socio-Austrian bridge in the realm of subjectivism. Firstly*, they resemble each other regarding the view of man as an individual conditioned but not designed by the social context (confer the paragraph of above discussing methodological individualism). This is crucial for the issue of subjectivism since it delineates how the individual establishes the link between herself and the environment. *Secondly*, their overall perspectives to subjectivism emanate from the Weberian idea of *Verstehen* according to which action cannot ever be meaningful unless interpreted by those being informed by that action. Weber here represents a position in-between pure marginalist evaluation of objects and the ideational-only prevalence of these objects. That is, action in its everyday form, as discussed by both Schutz and Hayek, take on a most important position. *Thirdly*, they seem (although this is not very well developed in either stream of work) to share the view that the objective reality cannot be disposed of altogether. Something has to underlie subjectivism as its anchor. When brought together they seem to converge in a position here labeled *dynamic intersubjectivism* commented upon below.

Consider first the manner in which the individual relates to the social whole when it comes to subjectivism. There are, here, two possible extreme stances endorsed neither by Austrians nor by economic sociologists. An atomistic position would have it that subjectivism must necessarily be understood as something of relevance to the individual only on the grounds that how to interpret the surrounding world is a most personal experience that no one else is in the position to interfere with. The most explicit counter argument would be that such a stance is not viable following the fact that people live in a social whole and what matters is in consequence how that aggregated whole (made up by many individuals) perceives reality, something *only then* being accessible for the individual herself. *Neither view can be accepted by Austrian economics and economic sociology*, and this for several reasons. The non-viability of a 'social mind' follows from the discussion above on individualism. This an oversocialized view of man would entail the sudden acceptance of norms and social institutions without no reflection whatsoever on the part of the individual in an almost stimulus-response manner on the verge of behaviorism. The very same holds for the case when action, playing a crucial role in *Verstehen* reasoning, is pondered upon. *As* implausible is however the notion of isolated individual subjectivism. The most fundamental reason is that whenever the surrounding context is related, be it from within an individual human being, others are necessarily related in one way or the other and it follows that they have to be integrated into the very notion of interpretation as well. As a case in point any belief in social institutions, emanating from the very fact that there is at least some common understanding of things, renders improper any notion of subjectivism as something of relevance only for the pure self. Hence, *an individual-based social subjectivism* as a feasible point of departure.

In consequence, any notion of subjectivism that hopes to encompass both the Austrian, and the economic sociology, account of subjectivism, must do so by somehow relating an idea that explicitly recognizes the crucial role played by the social while at the same time however not letting the individual vanish completely. The one option that appears most appetizing in this regard is that following *Schutz' notion of intersubjectivity*. It is worth considering in this regard as it a) echoes the ideas of Weber about the individual that take others into account, and b) comes forward as a practical problem that does not 'lose out' in philosophical spheres where Austrians and economic sociologists hardly would agree. The main notion of Schutz in this regard is the prevalence of a 'social life world' that can only be grasped via action where it is manifest. A 'thing' thus appears as a socially mediated institution encountered in everyday life (confer Schutz (1960, pp 211-212)). This very much reflects both the concrete interpersonal relationships of Granovetter's which render someone embedded, and the unique role taken on by human action within the Austrian discourse. As said earlier there is some sort of dialectics in place between 'social things' and human activities steered by motives, a product of reflection of the past and imagination of the future. In this last sense it is obvious that Hayek's argument regarding the spontaneous rise of social order is a key device by means of which experience-based plans constitute a way ahead, a social reality, that will undergo constant change with the re-framing of institutions. The most hands-on application of Schutz' ideas is that of Berger and Luckmann (1971 (1966)) on *the social construction of reality*, an agenda referred to by Granovetter (1996 (1992)). Herein the intersubjectivity foreshadowed by Schutz is worked out in some detail by means of an individual's 'internalization' of the social experience, the 'intersubjective world' of everyday life (Berger and Luckmann (1971 (1966), p 37)). This argument is obviously on the verge of being 'oversocialized', something that would make it inapt for the purpose eventually served here. This does not occur as de facto 'face-to-face interaction', very much present in both the economic sociology and the Austrian discourses, is brought forward and relied upon as the propellant behind the rise of institutions. This intersubjective world can further be assumed to mirror a *dynamic subjectivism* in the O'Driscoll Jr and Rizzo (1996 (1985), p 22, 24-25)) sense of the word. That is, subjectivism as experienced by an 'active mind' thus constructing the world by means of learning from experience and imagining the future. Human choice can then never unfold within a fixed means-ends framework, but only as an ongoing process of reformulation of both means and ends. In this way subjectivism hence demands some kind of human decision making that is closer to the 'human purposefulness' elaborated in the preceding paragraph than to accounts of reality which work only with fixed ends. Reason is anyway a most crucial feature. There is however one thing that disturbs this reasoning. That is the issue of the eventual presence of an 'objective reality' underlying social constructions. Following the somewhat murky reasoning of Berger and Luckmann (1971 (1966)) in this regard this does not seem to constitute too much of a problem for the economic sociology agenda. It is not a problem of any major importance. The situation is different for the Austrians that somehow do not seem to succeed in taking care of it, despite trying. Objective phenomena here mostly prevail only in parallel to, but not really as part of, a subjective reality. That is, a socio-Austrian conception of subjectivism cannot come forward unless somehow in the position also to handle the presence of an underlying objective reality.

There seems however to be a way out of this dilemma, and that is by referring to Searle (1995). As seen from above he vehemently criticizes the social construction of reality reasoning for being circular in this regard. That is, by socially constructing something out of something else that is also a social construction of yet something socially constructed, the risk for an infinite and meaningless regress is obvious (confer Searle (1995, pp 190-191)). Not to mention the extreme relativism coming with such an account. '[S]ubjectivity ... requires an ... objective reality...'. This is so despite the fact that Berger and Luckmann (1971 (1966)) mention the objective reality but they do so in an insufficient manner by not really integrating it into the rest of the argument. The way to overcome this, says Searle, is to make a difference between 'brute' and 'institutional' facts. *The 'intrinsic physical features' of a brute fact gets meaning by 'collective intentionality' that in its own turn is molded via social conduct and shared intentions.* So, human interaction is conducive for the framing of intentionality at the social level, something rendering the argument acceptable, although with some qualifications, also to the Austrians. Such qualifications necessarily have to stem from the fact that action is intertwined with intentionality that, although manifest at the collective level, always must be anchored in the individual where it is formed subject to social influence. Brute and institutional facts are furthermore asymetrically dependent so that an institution requires some brute facts for its existence in relation to which human action, thus socially 'creating' the institution, can unfold. Whereas Italian lire is a social construction the mountain carrying the label Mount Everest is not.

Is it then feasible to draw on the reasoning of Searle's also with regard to other things than those discussed immediately above? There, he seemingly is in the position to connect subjectivism to an underlying objective reality in a manner acceptable both for economic sociologists (collective intentionality is very much socially constructed) and Austrian economists (collective intentionality stems from human action and is not constructed out of nothing). This seems to be the case following the manner in which he (as already recapitulated all through this paragraph on subjectivism) approaches the 'construction of social reality'. He manages to do this, it seems, by attributing equal meaning to action and collective intentionality.

The above account, where Austrian economics and economic sociology is mediated by the ideas of Searle thus frames a scientific (in the sense that it is explanatory and thus conducive for scientific understanding) idea of 'dynamic intersubjectivism', anchored in human action and reason. It can be summarized as follows.

- The main pillars of a dynamic intersubjectivism are a) an individual-based social subjectivism which encompasses learning and imagination, b) intersubjectivity refined by ideas regarding reality as a social construction, c) collective intentionality rendered meaningful via human interaction.
- Dynamic intersubjectivism implies that the world is socially constructed by means of daily human interaction subject to ever-changing means-ends frameworks. Herein both the learned experience of the past and the creative imagination of the future take on crucial roles. That is, '[a]ctual human efforts to get true representations of reality are influenced by all sorts of factors – cultural, economic, psychological, and so on.'[139]
- A brute fact is an intrinsic feature of reality that is 'logically independent of all human representations'.[140]
- The social construction of institutional facts, resulting from collective intended human action but not from human design, unfolds as meaning is bestowed upon brute facts that hence make up the underlying objective reality of such facts. That is, '[t]he ontological subjectivity of the socially constructed reality requires an ontologically objective reality out of which it is constructed.'[141]

viii. Joint social individualism, human purposefulness, and dynamic intersubjectivism

The preceding paragraphs treat three issues with particular impact on how human action can be understood. Individualism, rationality, and subjectivism. The idea is to scrutinize the manner in which two particular versions of contemporary social science, 'Kirzner's' Austrian economics and 'Granovetter's' economic sociology, can be reconciled. This is important as they make up the two major sources of inspiration pillaring this essay on competition. The outcome of the above discussion are three distinct aspects of human action, a) 'social individualism', b) 'human purposefulness', and c) 'dynamic intersubjectivism' *by means of which it is possible to reconcile Austrian economics and economic sociology human action as impacting competition*. That is, by scrutinizing some of the assumptions which underlie Austrian and economic sociology ideas of human action it is possible to articulate the manner in which these two schools can be drawn upon together in the understanding of the subject matter, competition. As already emphasized, this is however not to say that the above constitutes an exhaustive account either of individualism / rationality / subjectivism, or of Austrian and economic sociology thought per se. But it demonstrates how two seemingly different facets of social science can be brought to coincide in the illumination of a particular phenomenon, here customer-geared competition very much subject to human action. Endemic

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[139]Searle (1995, p 151)
[140]Searle (1996, p 155)
[141]Searle (1995, p 191)

to any endeavor in this direction is the risk of using overall theoretical knowledge as a kind of smorgasbord wherefrom ingredients to a new formula are picked in a rather random fashion without any real scrutiny of whether they in fact do go well together.[142] Anyone who selects herring and marzipan in conjunction from the Christmas Eve table would know what is meant! The ambition here is to avoid at least some of these selection pitfalls by means of an analysis of some key human action aspects and how they can come together.

Each aspect of human action discussed above is treated in a fashion where the idea is to outline a rough sketch of the main theoretical alternatives at hand. In this way social individualism is found on the continuum individualism-holism whereas human purposefulness implies a belief in decision-making as neither 'cognitive rationality', nor 'internalization of norms'. Dynamic subjectivism, finally, epitomizes a non-radical subjectivism where the prevalence of an underlying objective reality is recognized. It goes without saying that both of Austrian economics and economic sociology have *some* problems with each of these framed aspects of human action, but the claim pursued here is that they nevertheless can accept them. To be observed is also that while it is possible to discern a distinct economics-sociology dualism concerning individualism and rationality (in the sense that the mainstream versions of each discipline clearly find themselves at opposite ends of the continua) this is not *as* explicit regarding subjectivism. The reason is that several facets of sociology, such as social exchange and rational choice theory, are objectivist in character. Of particular interest is further the manner in which all of the three human action aspects relate to the inside-outside perspective of understanding humans. Whereas social individualism is a mostly 'from outside'-view, subjectivism clearly takes on a 'from inside'-perspective. Human purposefulness, finally, seems to be a combination of the two.

Now, given the above that focuses the eventual 'internal' coherence of each human action aspect, what if they are considered in parallel? That is, not only must social individualism, human purposefulness and dynamic intersubjectivism be feasible concepts in light of prevailing thought in the respective area and the two main theoretical schools. But they must also be able *to work out together*, thus signifying action of one and the same human being. If they cannot, it is hardly plausible to relate them at all as reconciling pillars in the manner sketched above. A lengthy account of the interlinkage between individualism, rationality, and subjectivism in general is way beyond the scope of this paragraph. But a glimpse will be provided regarding how the 'socio-Austrian' actor of this essay appears, as her relation to the social whole, her decision-making, and her manner of 'taking in' the environment are considered. Following the argument of this chapter, the three bricks of such a reasoning can be defined according to the table below.

[142]Despite its obvious merits the recent work of Hunt (2000) seems to run this a risk.

HUMAN ACTION ASPECT	DEFINED AS...
SOCIAL INDIVIDUALISM	The individual is conditioned by the social over which she still has priority by means of how interaction gives rise to social structure.
HUMAN PURPOSEFULNESS	The individual is purposeful in the sense of intelligent ('learning by errors') striving towards ends that together with means are continuously reconstructed and imagined in a process imbued also with social filtering stemming from interaction.
DYNAMIC INTERSUBJECTIVISM	The world is socially constructed via meaning bestowed upon brute facts that by means of daily human interaction, subject to ever-changing decision frameworks, turn into an institutional reality.

Table VIIIc; Aspects of human action defined in terms of individualism, rationality, and subjectivism

As seen the definitions embrace the tying of the individual and the social whole, reflect dynamics following uncertainty, and converge on the notion of social interaction. That is, *interaction with others is what* a) connects the individual to the social whole, b) guides the manner in which she acts by means of decisions and c) provides her with her reality. It is furthermore obvious *that each of the three human action aspects inheres in both of the others.* This is so to varying extents and it would be wrong to say that they fully presuppose one another. It is however obvious that accepting for instance social individualism is facilitated once human purposefulness and dynamic intersubjectivism also are accepted in the same manner since the latter appears most conducive for how rationality is handled here, and vice versa. In line with the overall methodological reasoning of this essay it is also important to note that the three human action aspects here discussed are ideal-types in the original Weberian sense thereof. That is, although they are not entirely theoretical constructs with no connection whatsoever to the actual unfolding of events, they are abstractions discerned only in the guise of 'as if'-patterns of observed conduct. Relying upon them does not mirror a particular empirical world but reality at large is better understood by means of them.

Provided this a sketch of an (inter-)acting human being is accepted as reasonably accurate, what do some of those that are endemic to the formulation of each of the three aspects have to say about their interrelation in general? Among those who comment on, and endorse, the connection between *individualism and subjectivism* are Hayek (1979 (1952), pp 64-65) who claims that the 'scientistic approach', as opposed to his own, relies upon the interlinkage of the objective and the collective. Udéhn (1987, pp 10-11) traces the roots of this (Hayekian) bridge to the manner in which early 20th century 'German subjectivist philosophy' comes to impact Austrian and German methodological individualism. By criticizing his fellow philosophers, and thus discussing *individualism and rationality*, Searle (1995, pp 25-26) asks why it is that the issue of reason in decision making, 'intentionality', necessarily has to be tied so closely to the individual. 'It has seemed, in short, that we have to choose between reductionism on the one hand, or a super mind floating over individual minds, on the other. I want to claim, on the contrary, that the argument contains a fallacy and that the dilemma is a false one. It is indeed the case that all my mental life is inside my brain, and all your mental life is inside your brain, and so on for everybody else. But it does not follow from that that all my mental life must be expressed in the form of a singular noun phrase referring to me. ... The intentionality that exists in each individual head has the form "we intend"'. An argument in the same vein, however slightly more individualistic in character is that of Boudon (1998, pp 172-176) who manages to tie individualism and rationality by means of social mechanisms. A prerequisite of this project is however the abandoning, it is argued, of 'the utilitarian concept of rationality'. A similar claim is made by Coleman (1986, p 1312) who has it that progress of social thought in general demands 'a theory of purposive action' and 'this entails acceptance of a form of methodological individualism and rejection of holism'. Less obvious judging from the number of scholars commenting thereupon is however the link between *rationality and subjectivism.* However, provided hermeneutics is accepted as a facet of *Verstehen*-induced subjectivism, an ardent defense for how the two go together is that of Madison (1994b, pp 202-207) who alleges that '[h]ermeneutics [as subjectivism] is not a form of irrationalism and does not entail a rejection of reason. ... Hermeneutics [as subjectivism] does not entail relativism'.

To conclude, consider the following two quotes that from somewhat different angles express what is meant to be conveyed with the current paragraph articulating social individualism, human purposefulness, and dynamic subjectivism as the means by which Austrian and economic sociology human action can be framed in concert.

> *If I see somebody cutting wood, the most natural explanation is that he has reasons to do so, such as getting warmer. If this assumption appears implausible, I may assume that he wishes to show his neighbor the way to cut wood. If he is alone in his yard, he may cut wood to get relieved from sorrow. If not, he may celebrate a ritual. If he does not belong to any woodcutting sect, and if I have the impression that I have more or less exhausted the possible reasons to cut wood, I will be entitled to assume that he cuts wood, say, under the effect not of reasons but of some irrational cause, such as "compulsion". But "compulsion" will be a "black box" or a mere label covering my ignorance.*[143]

> *"Rationality" in this* [institutional] *formulation of individual action is nothing more than a basic notion of instrumental rationality and must be understood as being entirely individually subjective and forward-looking. ... The point to emphasize for my purposes here is that it is the institutional context of choice that gives meaning of human action both through discursive reasoning (conception) and through empathetic intuition (understanding).*[144]

ix. A socio-Austrian reconciliation in the shadow of Weber

As previously stated, the idea of this chapter is to make a case for the compatibility of ideas stemming from Austrian economics and economic sociology by drawing on three aspects of human action. The foremost role of these three aspects, individualism, rationality and subjectivism, is then to explicitly demonstrate the manner in which Austrian and economic

[143]Boudon (1998, pp 174-175)
[144]Boettke (1998, p 63)

sociology thought can be combined and reconciled given their disparate overarching disciplinary domains. This a 'socio-Austrian' unifying project with respect to the subject matter of this dissertation, competition, however resides all throughout this text, although not as transparent at all times. The one step which renders this project feasible in the first place, and truly contributive as the essay unfolds, is that of listening to Max Weber, something occurring already in the second chapter as the research goal is delineated. It is thus plausible to argue *that it is Weber's fundamental ideas of Sozialökonomik in general and Wirtschaftssoziologie in particular that inspire the steps here taken in formulating the socio-Austrian idea of a customer-geared competition as framed in this dissertation.* Although not elaborated upon in each and every detail (something that would have meant a much different thesis) his spirit is hopefully recognized in more instances than where it is actually alluded to directly. As argued at some depth elsewhere (confer Holton and Turner (1989), Boettke (1998), Boettke and Storr (2000)) this is far from surprising given the role Weber plays for the development of both Austrian and economic sociology thought (confer Swedberg (1998, pp 162-172)).

It is however also crucial to underline the fact that Weber does not only appear in this thesis as a shadow inspiring others. His very own idea that the more social a context is in the sense that economic actors take each other into account, the more competition there is, stands out when complementary conceptions of competition with the respect to the mainstream idea are reached out for. This is of course not to say that Weber himself would agree with the manner in which the argument is pursued in this text. He would surely have several criticisms to convey, also to economic sociologists despite some of them overtly trying to follow in his footsteps and continue beyond. Such Weberian criticisms may, as noted by Swedberg (1998, pp 165-167), pertain to the rather loose character of the contemporary treatment of rationality or to the relatively shallow idea of action where propelling factors such as material interests, habits, and emotions by and large are left out.

The interlinkage thus sought between Austrian economics and economic sociology, in the spirit of Weber, appears *explicitly* in the following critical instances throughout this essay.

- The fundamental market assumptions that prevail only subject to the premises of each school[145]
- The reasoning on competition by means of dichotomous choices, something underlying the definition of competition as seen in the corresponding assumption.[146]
- The general agency of the explanatory model (fueled by two truly Weberian guiding principles), wherein customer alertness, a most Austrian concept, works out jointly with

[145]Confer Figure VIIIa

[146]Confer Table IVa and subsequent pages

social capital, endemic to economic sociology, as explanans.[147]

- The specific model agency as discerned in the issue-expressions according to which the explanans as inputs, by means of the combined impact of 'choice transparency' and 'appropriation', affect the explanandum competition, the output, in a causal manner.[148]
- The constructed human action aspects social individualism, human purposefulness, and dynamic intersubjectivism[149]

There is no doubt that there are a number of fragile bricks in this edifice. Consider for instance the original three working assumptions (later to make up three of the nine dichotomous choices defining competition) having it that this slant on competition stands out when compared to others. That competition is something 'social' is not a very Austrian way of reasoning. Since Mises however sees exchange with others as one of the two dimensions of human action together with entrepreneurship, and since ties to others is what reduces uncertainty, this position is not outright unacceptable for Austrians. They simply choose not to highlight it in a manner done by sociologists. An additional working assumption says that competition is both static and dynamic. This fits nicely with the market assumption which says that the market is an indeterminate process that works out within an elastic web of social associations. Whereas an Austrian would once again choose to downplay the role of these social ties, although not jettisoning them altogether, the economic sociologist would underline how action, be it as discerned through entrepreneurship or otherwise, is embedded in the surrounding *stable but not static* relational network. The final working assumption says that competition is indirect. It epitomizes the customer-based view of this text and is alluded to by both Austrians and sociologists, be it in a rather scattered way. Another option when looking out for fragile parts of this essay is to seize in on the manner in which economic sociologists and Austrians view institutions. Both recognize the presence thereof. And although Kirznerian entrepreneurship (as already noted) experiences some problems herewith, institutions do make up part of the Austrian agenda. This is seen in Hayek's discussion of social order and its uncertainty-reducing function. To an economic sociologists these institutions are socially constructed, something meeting with approval from Austrian dynamic subjectivism. The point, to summarize, is hence *that in all of the related cases, and most others, the socio-Austrian linkage is feasible since what is not a kernel preoccupation for one of the schools, while maybe paramount to the other, does not constitute a position that cannot be made done with either.*

But, there is more to this argument, making it less defensive and more constructive. By reasoning in a manner similar to the one in this thesis there seems to prevail an opportunity in

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[147]Confer Figure IVb
[148]Confer Figure VIa
[149]Confer Table VIIIc

fact to nurture each of the schools, to reinforce one by means of the other that hence can throw light into formerly relatively unnoticed areas. Two distinct cases in point are here the relative absence of entrepreneurship in economic sociology and Austrians mostly missing out on issues of social structure. That is, *Austrian economics and economic sociology thought seem to be in the position to reinforce each other in hitherto overlooked areas* (confer Boettke and Storr (2000)).

In sum, the interdisciplinary fit and the potential of mutual enrichment tell why it is apt to frame a socio-Austrian conception of customer-geared competition as the social mechanism Tertius Gaudens.

Nowhere is this more evident than when the two schools are looked upon in parallel to what some might call a strawman but what here appears as natural point of reference given its extraordinary analytical performance in the area of competition. Neoclassical economics. It suffices here to relate how they appear when compared to the neoclassical agenda in general (as seen in the opening paragraphs of this chapter) and as regards views on the market and competition (as seen in tables IIIg and IIIh). Since competition is commented upon extensively (for instance in the framing of dichotomous choices in the opening of Chapter IV), turn then to the market as such and how Austrian economics and economic sociology really stand out in joint contrast to neoclassical thought concerning (among other things) equilibrium, the role of price and resource characteristics.

This chapter appears as a means of showing that it is in fact possible to draw on both Austrian economics and economic sociology when competition is to be understood as a customer-based market phenomenon. As observed, however, this requires particular notions of both Austrian and economic sociology thought, here appearing in the guises of contributions in the spirit of Kirzner and Granovetter. These two schools are illuminated via three premises of each that are discussed in this chapter as part of the respective research agendas. The spontaneous enactment of markets is an idea that both set-ups of premises can easily agree upon. The premises are hence crucial in the sense that their working out together is endemic to the market assumptions of the erected explanatory model. To deepen the case of enabling the essay to draw on the two schools, the remaining part of this chapter is mostly preoccupied with a penetration of three distinct aspects of human action. These are individualism, rationality, and subjectivism. By discussing each of them individually and in relation to both of the two schools, a new 'version' of each human action aspect is framed, thus embodying both Austrian economics and economic sociology. They hence appear as social individualism, human purposefulness and dynamic intersubjectivism, three concepts that in consequence characterize the action of one and the same human being. The chapter closes by overtly recognizing its intellectual debt to Weber, the heritage of whom as appearing in this text hopefully manages to reflect at least in part his trail-blazing endeavors in the understanding of society by means of Wirtschaftssoziologie. This established, not much remains to be said within the realm of this dissertation, save for bringing forward a conclusive chapter that both summarizes the preceding eight chapters and opens up for avenues towards the future of the intellectual project whereof this dissertation hopes to be a part. This is what follows now.

IX. CLOSING IN AND OPENING UP

The preceding eight chapters bring forward the idea of a customer-geared competition. Adhering to the dissertation purpose this comes about through the formulation of an explanatory model wherein competition appears as a social mechanism, the socio-Austrian Tertius Gaudens. The main aim of this final chapter is to scrutinize the extent to which this essay succeeds in attaining this purpose, as well as its overall research goal within a particular type of scientific inquiry. This is the subject matter of the first, 'closing', part of the chapter. In the subsequent 'opening' part, this chapter looks into the generated model in greater detail by inquiring into both its underlying assumptions and its explanans. The latter are touched upon as to their eventual ability in explaining phenomena other than competition, the assumptions are discussed concerning the eventual abandonment of some of them. In this way, it is possible to speculate regarding the eventual future use of the insights gained from this thesis.

i. What this essay is all about

These 500 or so pages discussing competition are divided into four thematic blocks, each with its own distinct emphasis and role in what constitutes this dissertation. Together they are meant to make up a consistent whole by means of which more is learned about competition. Given the overall inclination towards the 'explanatory analytical', coming forward in the guise of a social mechanism, this effort stands out in comparison to most other theses within the field of business studies. This is mostly seen in the *im*balance it strikes between underlying theory and illustrating empirical data where the former outperforms the latter by far. What is more, there is no attempt in this text to provide an empirical proof of the claim pursued via the testing of hypotheses or similar. Instead the reasoning regarding its overall feasibility is tried out by means of a *pro aut contra* analysis, much in the spirit of the ancient Greek philosopher Carneades. The argument of this dissertation unfolds as follows.

The first Opening Block, divided into two chapters, acquaints the reader with the ideas to unfold. Chapter I tells about the opaque character of competition in general with emphasis on how it is discussed within the field of business studies and economics. It also explains why the time is appropriate to see competition in the manner framed by this thesis. A core thread running through this section is that business studies are mostly preoccupied with instrumental (descriptive and / or prescriptive) accounts of competition, whereas the corresponding analytical neoclassical perspective mostly revolves around predictions of phenomena *other than competition*, such as price, following some fundamental structural assumptions. An important diverging subgroup of these latter contributions is shown as inclining towards an understanding of competition as essentially imperfect, as seen within discourses on monopolistic competition and oligopoly. The complementary approach to competition to unfold in this thesis is furthermore foreshadowed, as it is argued that seeing competition as social, static *and* dynamic, and impacted by customers, is most apt in a so-called new economy wherein companies cooperate directly but compete indirectly. The background thus painted in the first chapter is elaborated upon in Chapter II when the text seizes in on the particular way in which this dissertation is to bring forward its argument as alluded to at the outset. This seizing-in, comprised of a few elaborated stepping stones, paves the way for the remainder of the argument towards identifying *the research problem* as 'competition in market-as-networks sociology'. This area of inquiry adopts a sociological perspective, a view taken of the market that until now, it is said, by and large misses out on an elaborated account of competition. *The overarching research goal* of the text is then to theoretically refine this very sociology through a discourse on competition. The furthering of insight in this area via the thesis is described as 'the formulation of an explanatory model of a particular customer-geared competition in the guise of a social mechanism'. That is *the delineated purpose* of this essay which is to be fulfilled subject to a number of specified assumptions, some of which pertain to the model itself and others to how the market in general is looked upon. Some key features here are the elastic network-character of the market and the human action unfolding therein. In addition this chapter discusses how this, an explanatory path of inquiry, differs from some others.

The second Block, Competition, constitutes the main theoretical body of the text and hence takes on a crucial role as the foremost source of both inspiration and reference for the argument to develop. It first features a lengthy chapter wherein several accounts of competition from within both economics and sociology are provided. In this vein classical sociology, contemporary sociological accounts of markets-as-networks, neoclassical and Austrian economics, are all recapitulated concerning their respective views both on competition and markets. This last link is crucial, as any perspective taken on the one has to reflect that taken on the other. A conclusion thus drawn is that competition cannot be customer-induced unless the market is treated in a bidimensional way where there is a close interlinkage between the 'horizontal' ('supplier-supplier') and the vertical ('supplier-customer') dimensions. This is a view discerned mostly within sociology and Austrian economics and most notably in the argument of Simmel who ties his indirect conception of competition to a structural triad where 'the two' compete for the favor of 'the third'. This idea of Tertius Gaudens constitutes the main ingredient of the particular idea of competition that is presented in Chapter IV. The chapter starts out by bringing forward nine dichotomies of competition that are generated from the theoretical scrutiny of the preceding chapter. These, by means of dichotomous choices thus undertaken, subsequently result in a workable definition of competition as 'perceived freedom of entry into market relationships subject to the discretion of a third party'. The identification of competition in this vein, together with Simmel's idea of Tertius Gaudens, then constitute the first pillars of the explanatory model under construction in line with the dissertation purpose. Whereas this customer-geared competition constitutes the explanandum of the model, Tertius Gaudens is the very mechanism according to which it shall be understood. The general agency of the model is found in the tracing of two jointly functioning explanans, 'customer alertness' and 'social capital' that hence impact competition in concert. These causal factors are furthermore derived from the combination of two underlying guiding principles, generated in the spirit of Weber, autonomy-embeddedness and entrepreneurship-ignorance. In the model two interconnected customer-supplier relationships ('sharing' the same customer) then can be seen as expressing a certain combination of these guiding principles, as autonomy combined with entrepreneurship (*customer alertness*) and embeddedness combined with ignorance (*social capital*). Whereas the first of these displays characteristics oftentimes deployed in Austrian economics, the second very much embodies economic sociology. With the furthering of the general model agency thus, the particular social mechanism of this thesis, the 'socio-Austrian' Tertius Gaudens, is made eligible for further development.

Such an elaboration is what follows in *the third Block of the text, Analysis*. However, prior to this, the block starts out in Chapter V which discusses the methodology of the thesis. This is seen as particularly important given the rather unconventional guise in which this business studies thesis appears, as the framing of an explanatory model void of empirical proof. There is good reason to pursue this a theory-inclined argument in general and this text, by working out feasible concept definitions, axiom statements, and proposition proofs, does so in accordance with appropriate norms drawing upon, among other things, social mechanisms, ideal-types, and the idea of agency as *core methodological bricks*. The main analytical part of the dissertation follows in Chapter VI wherein the explanatory model initially is rendered complete via the articulation of the specific model agency, the mechanism by means of which the two explanans customer alertness and social capital tie to the explanandum, a customer-geared competition. This mechanism appears as the position of two 'issue-expressions', one for each of the explanans, that subsequently undergo the *pro aut contra* analysis. The first of the issue-expressions, 'F_1' states that there is a positive causal association between customer alertness and competition, the second 'F_2' instead suggests a negative causal impact thereupon from social capital. The analytical scrutiny results in somewhat different outcomes for the two issue-expressions. Whereas there is some, but not entirely convincing, support for F_1, F_2 appears in much more of an indisputable light. That is, *there seems to prevail a negative impact on competition from social capital whereas it is more doubtful whether customer alertness in fact exerts any contrary causal impact.* Competition is thus curtailed by social capital whereas it cannot be said for sure that it is invoked by customer alertness. The first and most conclusive result obtained, thus embodying some of the downside of social capital, is also provided with extensive additional theoretical support. What is more, there also seems to prevail a negative and asymmetric causal dependence between the two explanans in the sense that social capital tends to reduce the impact of customer alertness more than the other way around. Another conclusion is that the model as such is not very well equipped to handle the case of two potential suppliers that compete for one and the same customer prior to the unfolding of economic exchange. The erected model can furthermore be seen as appearing on a few empirical 'levels' with regard to how competition in general is treated in antitrust law. This is the subject matter of Chapter VII which discusses aspects of the Swedish Competition Act. It is then feasible to ask whether competition is referred to in relation to customers at all. Thereafter one can try to find out whether the customer appears as a beneficiary-only, or as an agent also propelling competition. In the case of Sweden there seems to be an obvious potential for an active Tertius Gaudens that shapes her own competition benefits in the manner foreshadowed by Simmel. This is discerned in various official reports which comment on, for instance, the mobile telecommunications market from a consumer perspective. Such a stance is however not really reflected in the legal framework and in the scrutiny of a particular court case which deals with procurement of railway transport services. The policy implication hereof is that markets are more likely to be able to derive in full the advantages allegedly following from competition by recognizing the agency, and not only the beneficiary, role of consumers and other customers. In Sweden two potential policy measures in this direction are a closer integration between consumer and competition policies and a slight revision of the latter in the spirit of the Public Procurement Act wherein the active role of customers for the invoking of competition is fully recognized.

The fourth and final block of this text, Completion, features one chapter in addition to this final one. Therein (Chapter VIII) the manner in which Austrian economics and economic sociology can be jointly drawn upon in the understanding of competition is discussed. In the spirit of Weber their working out together appears in several instances all throughout the text, for instance via the market assumptions and the posited model explanans. The two schools are furthermore considered coherent in light of the articulation of three distinct aspects of human action. Social individualism, human purposefulness, and dynamic intersubjectivism. The present chapter, closing in and opening up the argument of this essay will unfold as follows. First it will be asked whether knowledge in general is furthered by means of this text. Thereafter the eventual refinement of theory aspired at in this effort will be discussed, something followed by an emphasis concerning what business studies can learn from these pages in general. The 'closing in' character of these sections are finally found also in a paragraph which recapitulates some of the obvious weaknesses of this essay. This spirit of 'closing in' is subsequently replaced by more of an 'opening up' atmosphere as the very subject matter of this thesis, the understanding of competition, is penetrated somewhat more in detail by means of the erected model and any potential it might entail for future studies. This very discourse also entails the dismantling of some of the model assumptions and the eventual consequences thereof.

ii. Is knowledge in general furthered in accordance with the promises made?

This dissertation sets out to further knowledge according to the sketch below. As seen there are three 'levels' of scientific inquiry where this piece of work hopes to contribute. All of them are subject to the research problem.

GOAL → theory refinement
ASPIRATION → explanation of competition
PURPOSE → formulation of an explanatory model

RESEARCH PROBLEM = COMPETITION IN MARKETS-AS-NETWORKS SOCIOLOGY

Figure IXa: The scientific promises of the thesis

Starting out in this problem, the overall impetus of this text is that there is a void regarding how sociological studies of markets (as networks) come to terms with competition. This 'gray spot' thus foreshadowed in the formulation of the research problem also still prevails after the theoretical scrutiny of competition in Chapter III. If anything it is illuminated regarding its specific nature. That is, contemporary formal-analytical network studies do not seem to display any contributions that are at the same time 'positional' (as opposed to 'relational') when it comes to the type of market approach adhered to and 'absolute' (as opposed to 'relative') when it comes to the type of competition approach worked out. What is missing is thus a more 'hands-on' perspective to competition, relying on de facto social ties within the realm of a market approach that go beyond these immediate interpersonal bonds. *The phenomenon of competition hence grasped by the mirroring of the concrete against an abstract market foil.* This void in network studies is however already filled in somewhat thanks to the founding works within classical sociology. These contributions however miss out on some fundamental aspects of markets such as relationship interconnectedness and the prevalence of entrepreneurial tendencies. Their seminal character still stands out. Take for instance the discourse of Weber leading to the conclusion that the more 'social' a market context is in terms of actors who take each other into account, the more competition there is. In consequence non-social and detached market accounts are hardly in the position to frame competition in a satisfactory manner. Classical sociology is also the realm wherein the kernel idea of competition as interpreted in this dissertation originates, brought forward by Simmel. The foremost character thereof is the way in which Simmel manages to extricate indirectness as the very aspect that separates *competition* from *conflict* in general. The blurring of these two is perhaps one of the foremost reasons why competition is not really an issue within contemporary economic sociology. It is seen as more or less equivalent to conflict but since this is not really the case, competition, as a phenomenon in its own right to be understood, suffers immensely. In sum, the validity of the research problem posed here seems to be confirmed.

The overarching goal of this dissertation is labeled the refinement of theory, and more precisely the elaboration of a market sociology from within a networks perspective. At this point, it suffices to mention the way in which Austrian economics, as shown in the closing paragraphs of the last chapter, takes on an enriching role in this regard. This is of particular interest as this branch of economics does not seem as yet to have had its way into the economic sociology agenda, save for the bridging project of Weber's. An emergent market sociology is in the position to benefit from a particular facet of Austrian thought with reference to several issues. *For one thing* the Austrian agenda as such is 'sociological' in character since it revolves around social human action which eventually forms structures that are also influenced by recurrent entrepreneurial dynamics. *For another thing*, several of the (Kirznerian) Austrian market assumptions, as seen in the human action aspects social individualism, human purposefulness and dynamic intersubjectivism, are compatible with those endorsed by the new economic 'markets-as-networks' sociology, that rely upon embeddedness and social constructionism.

The thesis aspiration, indeed rendered more precise via the stated purpose, is the explanation of competition, eventually via the formulation of an explanatory model. That is, the understanding of competition is to improve by means of a non-instrumental analytical discourse. *This dissertation claims to provide such an explanatory account of competition fueled by sociological insight that hence complements the prediction, description, and prescription provided from within neoclassical economics and business studies respectively with regard to the subject matter* (confer Figure Ia, 'Scientific inquiries into competition'). The key feature in this partly pioneering project is the drawing upon customer-geared competition as a social mechanism. By relating the idea of mechanisms, explanation is achieved, but not just in any manner but in a particular way with distinct methodological implications that subsequently results in a *pro aut contra* analysis. Herein the key to the 'why and how competition?' of the mechanism is the causal associations between the explanans and the explanandum suggested by the two issue-expressions. It goes without saying that the crucial event here is the Weber-inspired identification of the two guiding principles autonomy-embeddedness and entrepreneurship – ignorance respectively, and their subsequent theory-founded turning into the explanans customer alertness and social capital. These explanans are then to constitute the core of the two main issue-expressions that lay the ground for the ensuing analysis with direct impact on competition. That is, *the very articulation of the guiding principles and their combination into two construct-explanans occupy a most crucial position when the time comes to assess the eventual contribution of this work.* Explanation, the non-random systematic association of concatenated events, is discerned through the tenability and relevance of arguments that pertain to the two issue-expressions, each of which then is made up by one of the explanans.

Although *a distinct weakness* of the analytical approach chosen is that it scarcely lends itself to consideration of several issue-expressions in parallel, there is an outcome, akin to an 'analytical result'. It states *that there is good reason to believe in the negative association allegedly prevailing between social capital and competition but that it is somewhat more dubious whether there is in fact a positive impact on competition from customer alertness.* However, this last 'deficiency' can (at least to some extent) be seen as being compensated for by the viability of the Austrian agenda per se. Herein the connection between entrepreneurship (via alertness) and the 'market process as competition', takes on a key role. What is more, it further seems that the model mechanism scrutinized lends itself less well to the understanding of competition between two suppliers when neither of them is in the position of de facto economic exchange with a customer that both are aiming at. *A further weakness* stems from the rigidity of the applied assumptions. One of these says that the customer has got a discretionary role when it comes to the establishing and eventual maintenance of a customer-supplier relationship. In the language of social exchange theory, the assumption means that the relationship is unbalanced as the supplier is more dependent on the customer (who accordingly can exert more power) than vice versa. The alleged reason is that a) the supplier appreciates the relationship relatively more than the customer does and b) the customer has got more exchange alternatives than the supplier.[1] This assumption thus presupposes a certain type of imbalance between customers and suppliers in relationships, and in the absence thereof it is simply not feasible to try out competition in the manner done here. The hands-on defense for this harsh assumption is that there is of course not a clear-cut two-step procedure once customers and suppliers 'choose' each other in a market context. Instead there is most likely an unfolding process of intertwined choice and deliberation. But even so, this argument goes, it seems feasible to attribute a discretionary role to the customer. This must necessarily be so as it is the supplier, *by way of a rudimentary idea as to how markets work*, that furnishes the customer with an offer that the latter then can decide to accept, alter or reject entirely. In general, customers and their attention are also much scarcer resources in markets than suppliers are. However, all this just said is not the full story. This follows from the manner in which this dissertation works with ideal-types, thus pillared by the assumptions made. Since ideal-types (for instance the triadic structure according to which the customer has got such a discretionary role) do not pretend to constitute the sole ruling alternative, their assumptions do not really have to be scrutinized concerning their realism and eventual primacy over some others. That is, assuming customer power in the vein recapitulated above does not necessarily mean that it is principally 'wrong' to frame it differently. But that is just another story that the present attempt does not set out to deal with. It is beyond the formulated model. In case one *is* really interested in an actual empirical setting, and such an arena proves to be different, well, than this piece of work has less to tell. That is it. The equivalent

[1] That is, there are more supply than demand alternatives.

reasoning holds for a context where it is alleged that the mechanism works out in opposite direction. In that case it is competition (a horizontal phenomenon) which impacts customer alertness and social capital (vertical phenomena). This might very well be a viable assumption but such a situation is not looked into here as it would entail the reframing of the entire argument, that is a new model to be erected. The overall ambiguity thus eventually identified by some in this reasoning simply resides firmly in the 'sometimes-true theory'-character of social mechanisms.

iii. On the eventual refinement of theory

This essay sets out in the hope of refining market sociology by explaining competition as a customer-based market phenomenon. That is, since market sociology, as discerned in the 'formal-analytical' and the 'informal-governance' network approaches, is relatively devoid of works on (analytical) competition, it cannot pretend to furnish an 'all-inclusive' market theory either. This is so since cooperation, by means of which webs of network ties emerge and stay on, up until now outperforms the role of competition in terms of the amount of attention paid to it and in that sense downplays it. So far this can be seen as perfectly viable but now, after some 30 years of progressive development in other market domains (concerning, for instance, the network understanding of labor market functionality and technology innovation), competition must come into its own. Given its general impact for the market as a whole and its alleged parallel prevalence with cooperation it deserves to be understood in its own right. The goal of this text is to open a window in this direction by at least foreshadowing the manner in which theory refinement could come about, via the explicit inclusion of competition into a market sociology. It is hoped that the bricks necessary in order to erect a truly complementary theory of markets has taken a step in the desired direction. *As seen, the precise manner in which this comes about is by furnishing an account of competition that is 'absolute' (in relating concrete social ties) - at the same time as it mirrors a 'positional' view of the market. Both of these aspects are readily discerned in the model wherein competition is understood via the parallelism of two concrete interconnected social ties which work out within an ideal-type triad that embodies the market as an abstract foil with reflective properties.* In this manner the thesis constitutes a complement in relation to other similar works on competition (White (1981), Baker (1990), Podolny (1991)) which appear within the formal-analytical network approach (confer Table IIIa). The key event concerning this expounded theory refinement is however the joining of Austrian economics into the sociological agenda.

The sine qua non of this dissertation in scrutinizing the phenomenon, competition, is the partial reconciliation of Austrian economics and economic sociology, in the absence of which the eventual scientific aspirations of the work are doomed to come to naught.

That is why Chapter VIII, Austrians and sociologists: Friends or foes carries such weight when it comes to any contribution this essay might make. And that is why the overt recognition of social individualism, human purposefulness, and dynamic intersubjectivism is so crucial for the eventual continuance of efforts in line with this dissertation. As stated in the said chapter the explanatory model's market assumptions appear only subject to the premises of either of these two main sources of theoretical inspiration. The Austrian ones ('the purposefulness of humans', 'the market conceived of as a process', 'the uncertainty-reducing character of institutions') are 'economic' in character, with a social slant to them. The economic sociology premises ('the social orientation / embedded character of economic action', 'the social construction character of institutions') are different and display distinct sociological characteristics imbued with economic meaning. That is, the adherence to 'soft' versions of Austrian economics (where 'soft' means its being inclined towards social considerations in the tradition of Mises and Hayek) and economic sociology (where 'soft' means its encompassing also of economic features in the spirit of Weber) is what renders them mutually reinforcing and jointly in the position to strengthen the coming into being of more of a full-fledged version of a markets-as-networks sociology.

This a 'co-theorizing' project is however firmly rooted in the conviction that it inspires, and in fact proves crucial for, the very purpose of the thesis, the formulation of an explanatory model of customer-geared competition as a social mechanism. As argued, this co-theorizing is explicitly recognized in the two explanans where one appears most 'Austrian' and the other most 'sociological' in character. In addition, Chapter IV articulates the subject matter competition by means of a) the formulation of nine dichotomies, and b) the choosing from among the dichotomous alternatives and the subsequent framing of competition in a particular guise. That is, competition as 'perceived freedom of entry into market relationships subject to the discretion of a third party'. This is not to say that this framing of competition is entirely unique. But, and this is the clue to the reasoning, the very way in which the dichotomies come together, with particular emphasis on the last three (= the working assumptions of this effort entailing competition as social, static *and* dynamic, and indirect), makes it on the one hand stand out in comparison to most other efforts, and on the other *embodies the partial reconciliation of Austrian economics and economic sociology*. That is, *the subject matter, customer-geared competition, as a feature of its own in the guise of a mechanism, is the apex by means of which the theory refinement aimed at in fact appears in most explicit light.*

iv. 'Managerial implications' discerned from a businessman's perspective

Although this dissertation appears discipline-wise within the field of business studies, there is not too much of conventional business reasoning to it. The thesis starts out by asserting that most contributions within business studies which deal with competition, be they found within marketing or strategy studies, understand competition as an instrumental project. That is, they tell in descriptive studies about how organizations in fact *do* compete or they set out to tell in normative language how they *should* compete. In short, if explained at all, *competition is explained in terms of competition* without anyone *really* resorting to the true depth and impact of the questions 'why and / or how competition?'. According to the reasoning brought forward in the opening chapters it is dubious whether an instrumental understanding can occur in a viable manner if a phenomenon is not readily explained first, something seemingly holding in particular for business accounts (confer Arbnor and Bjerke (1977) referring Wärneryd, Valdelin (1982)). That is, only after some events are 'registered' (a 'micro'-sort of description) and subsequently concatenated by means of causal association (that is, explained) can they be properly a) analytically predicted, b) instrumentally described and subsequently prescribed. Any attempt to *explain* competition should hence prove valuable for, and enrich, business study contributions that deal with how actors should, or actually do, compete. In consequence, both works in strategy and marketing should be able to benefit from the main insight conveyed in this essay, that it is feasible to interpret competition as induced by customers via the *joint* impact of customer alertness and social capital.

That is, this text brings out of the closet a marketing truism which is seemingly forgotten for so long by so many, *that competition cannot ever be properly understood unless customers are overtly referred to* (confer Oxenfeldt and Moore (1978)). Once again, this is not to say that these ideas have not come forward before (confer Jacobson (1992) on Austrian-inspired, entrepreneurship-led strategy, and Dyer and Singh (1998) on relational, social capital-oriented, strategy) but the *joint* strategic inclusion of 'the entrepreneurial' and 'the social' is not found, at least not when competition is to be understood. This is no surprise since those who emphasize entrepreneurship easily downplay social issues whereas the opposite holds for contributors who bring relationships to the fore (thus downplaying entrepreneurial matters).[2] So, on an overarching level of scientific inquiry there seems to be good reason to assert that business studies could profit from this thesis effort following a) its explanatory character, b) its re-emphasis of competition as impacted by customers and c) its distinct drawing on *both* entrepreneurship *and* social ties.

But, is it really possible to 'translate' whatever sociology and economics teach into the very much applied area of business studies? Yes it is, as is easily seen in industrial organization contributions within strategy that are fueled by some basic insights from standard microeconomics. Why should not the same hold also for aspects of (economic) sociology, and non-standard (Austrian) microeconomics? This is readily seen in works which appear within the industrial networks tradition (belonging to the informal-governance network approach).

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[2]Several exceptions however prevail, notably within the industrial networks tradition, confer Lundgren (1995) who takes on the task of grasping 'technological innovation' via cooperation and coordination.

Such contributions are *on the one hand* firmly based in a sociological way of reasoning by the drawing on relationships, and the direct / indirect positioning of these ties via interconnected structures. *On the other hand* this tradition also relies (although mostly implicitly) on the Austrian discourse of dynamics that emphasizes market heterogeneity (confer Hägg and Johanson (1982), Hammarkvist et al (1982), Håkansson and Snehota (1995)). That is, there is *already* very much of a seed present here that this dissertation hopefully succeeds in propagating a little bit further. This aim pertains in particular in light of the research problem.

What is then to be learned in practical terms from this essay, in addition to its obvious overall emphasis of customer impact? There are presumably two aspects to a plausible answer. *One* is the way in which the joint prevalence of customer alertness and social capital can be considered in business studies concerned with competition. That is, both of these concepts presumably have a role to play when competitive conduct, be it in descriptive or normative terms, is to be understood. *Another* is the drawing on the outcome of the *pro aut contra* analysis, that there seems to prevail a negative impact on supplier competition from social ties at hand between suppliers and customers.[3]

Consider suppliers S_1 and S_2 who compete for business with customer C. What can they learn from this thesis? As a customer ('C') it is possibly interesting to be aware of the fact that there is in fact an opportunity cost inherent in 'close and long-term' relationships. Provided C believes in the creative role of competition for market functioning this is thought-provoking. This is so in particular as several writings within 'supply management' seem to endorse the virtue of intimate partnerships without however discussing the eventual pitfalls thereof for supply market competition (confer Lamming (1993)).[4] That is, an over-emphasis of the overall positive impact of social capital at the expense of an explicit recognition also of its downside (confer Portes and Sensenbrenner (1993)). This holds true despite the fact that the general dictum of deliberate approaches is that 'relationships are not only enabling but also constraining'. In the position of C it is probably also interesting to realize the manner in which the eventual balancing effects between customer alertness and social capital seem to be curtailed by the latter's relatively heavier mutual impact on the former. For either of the competing suppliers S_1 and S_2, this dissertation could hopefully contribute to a deepened understanding of competition as such. Provided these suppliers find themselves in a market where relationships do prevail it might prove valuable to redefine the manner in which competition generally is looked upon. This holds both for the consideration of dichotomies here provided and the recognition of the joint customer alertness and social capital impact.

[3]Whereas the alleged positive impact of customer alertness is more difficult to obtain evidence for.

[4]This writing (also appearing in Womack et al (1990)), although more deliberate and balanced than most works in the area of supply management, still adheres to sort of an idealization of Japanese 'lean partnership' practice, something commented upon and taken issue with by Gerlach (1992).

That is, since there is fair reason to believe that a lower degree of competition (originating in the downside of social capital) is not only beneficial for either of the suppliers,[5] it is worthwhile learning more about why this is so. For a supplier to encourage customer alertness ('as a supplier we really have to know on which grounds you choose to work with us') would thus be wise choice of strategy, without having to abstain from the obvious benefits residing with social capital.

Also on the overarching institutional level there is reason to believe that part of what comes forward in this text can, from a 'business administration' perspective, serve as a guiding light. Consider for instance the legal framework in place in order to promote competition as commented upon in Chapter VII. Whether it is efficient or not can always be a matter of dispute, not least once the role of governing authorities (such as *Konkurrensverket* (The Swedish Competition Authority) in Sweden or The Federal Trade Commission in the United States) are considered. But, ceteris paribus, competition does seem to be a problem, as seen in cases such as Microsoft versus The United States (on the alleged abuse of predominant market position).[6] This becomes all the more important since a reasonable level of competition by some is seen as one of the major prerequisites for the truly coming into being of a new economy imbued with benefiting features (confer Eklund (2000)). A very hands-on area of ambiguity seems to be how to define the 'relevant market', the subject in relation to which eventual abuse of predominant market position and similar is to be assessed by the letter of law. That is, if markets in fact are made up of relationships, how is it possible to conceive thereof and still not lose sight of competition? Could it be that the 'balanced approach' to competition foreshadowed in this dissertation has something to tell, in this regard, and in general? As seen in Chapter VII there are two major policy implications of this thesis, both of which recognizing that customers should not only be seen as beneficiaries, but also as agents, of competition. The first policy implication is that consumer and competition policies should be tied closer together, the second is that antitrust legislation should let itself be inspired by the Public Procurement Act in this regard. Such steps would be very much in the spirit of Simmel's active Tertius Gaudens thus truly *deserving* the benefits that competition has to bestow.

v. Potential shortcomings

As this thesis makes use of a theory-laden methodology not experienced very much within the field of business studies it follows that the criticisms that can be directed against it also must

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[5]This is so given the alleged beneficial impact of competition for spurring innovative performance, confer Sölvell and Bengtsson (2000). That is in sharp contrast to the classical structural view of Porter (1980), the lesson of which is that competitors (and thereby competition) shall be 'beaten' in an almost zero-sum game character.

[6]Confer Konkurrensverket (2000a) for a recapitulation of Swedish markets with insufficient competition.

differ from what normally is encountered in the area. In brief, whereas more conventional efforts can be held liable for shortcomings found in the method applied (and in conclusions drawn) when penetrating empirical data, the weaknesses of this dissertation are most likely traced within the area of theory itself, and regarding the overall methodology here adhered to (devoid of empirical data in the conventional sense of the word). There seem to be a few areas in particular that are susceptible to criticism. These are commented on below.

Likely general criticism as to format, seemingly representative for some norms prevailing within the area of business studies, alleges that a dissertation in this area cannot come forward in the format used here. 'There simply has to be some empirical data mirroring the thoughts brought forward.' The simple way of opposing such superficial criticism is to revert by posing a counter-question. 'Why?' That is, it is true that most business studies theses are heavily inclined towards the empirical, but does that really imply that a different line of scientific inquiry is non-viable, not to say outright wrongful? Only the most ardent defenders of business studies orthodoxy are likely to provide an affirmative response. The argument of this text heavily opposes such orthodoxy. By following among others Arbnor and Bjerke (1977), Valdelin (1982), and Smedslund (1991, 1994, 1995), it is mooted that the social sciences in general, and business studies in particular, are in need of much more of a theoretical discussion of its underlying concepts before any true relevance can be attributed to 'measurements' undertaken in any area. A beta-weight or a case-study conclusion simply has more to tell if it is subjected to an in-depth scrutiny of its underlying concepts. Another way of putting this is to say that the imbalance which mostly prevails between instrumental (descriptive and normative) and analytical (explanatory and predictive) studies should be straightened out so that more of fundamental research is undertaken in the latter vein. True, such attempts run the risk of vanishing in vain in the eternal search for grand theory. But by realizing the vast opportunity that inheres in (social) mechanisms, 'sometimes-true theories' understood by means of ideal-types, explanatory accounts which come to grips with the issues of 'why?' and 'how?' are in the position to realize their true potential. This is however not to say that this as an approach is unproblematic. Quite the opposite. And particularly so as there are few role models to gain inspiration from within the proper academic abode. The claims made in Chapter V tell about the measures undertaken in order to provide a satisfactory non-empirical account. The steps taken constitute, if nothing else, a move in a promising direction.

Another type of criticism is likely to pertain to the treatment of theory as such. A weakness might then reside in the fact that there is too little, and too superficial, attention paid to the conventional agenda on competition within business studies and neoclassical economics. This risk is obvious and the manner in which only relatively few pages are devoted to each opens up for criticisms of insufficiency and similar. Spending more pages in these areas still seems out of question but the selection of illustrative themes could have been done differently.

Maybe an exhaustive discussion of the selection process constitutes a feasible alternative? The ambition here is to tie some of the core historical roots to a few selected versions of economics and business studies that appear as representing at least some of the most important arguments of the day.[7] It can then be noted that some areas (such as the 'industrial networks' tradition and economics' contestability theory) appear as more than illustrations since they in fact constitute hands-on points of inspiration. A more serious potential weakness is however tied to the schools which in fact pillar this essay. Austrian economics and economic sociology. Why these, and why not some others? And can they really be drawn on in parallel in such a relatively summary fashion? First, the choosing of these two schools does not claim to be the sole feasible alternative when presenting a customer-geared view of competition. It is here only said that they constitute *a* viable alternative, not *the only* feasible one. If one, however, by any means hope to work in the spirit of Weber's *Sozialökonomik*, sociology and economics must somehow be brought together and the claim of this paper is that such a bridging endeavor *is* possible. Not in general, but as 'Kirzner's' Austrian economics and 'Granovetter's' economic sociology meet. The manner in which these disciplines are reconciled is obviously an additional potential weak part of the text. Had it not been for the extra efforts undertaken in Chapter VIII this weakness would work out in full and be truly serious. Following that very discourse, whichever shortcoming that still remains hopefully exerts only minor negative impact.

A third kind of potential vulnerability stems from the analysis undertaken in the form of *pro aut contra* in Chapter VI. For one thing it can be deemed meaningless as such, for another its actual working out in this text can be seen as unsatisfactory, if not outright wrong. It *is* true that a *pro aut contra* analysis is not the most common analytical tool, not even in the realm of applied logics. Some of its shortcomings, for instance its inability to handle several arguments in parallel, also appear in clear light in this text. Still, this an analysis allows for the discussion of associations by means of arguments in a rather open manner. This seems important since the causal linkages tentatively grasped by the mechanism are not everyday truths. More of a thorough discussion of its alternatives might prove a remedy in this regard. Concerning the very pursuit of the analysis as such, that is the choosing of arguments in the first place, and their evaluation regarding relevance and tenability in the second, it is by necessity a most subjective exercise where right and wrong hardly can be said to exist. The most crucial risk, and thereby a serious potential weakness of the endeavor, is that the very posing of issue-expressions per se presupposes their confirmation, something that can be hidden by referring to the subjective character of the project. The only defense is that relatively many arguments are posed in relation to each of the issue-expressions. Thereby it is possible for the reader to

[7]This is not very salient in the everyday dialogue of these disciplines as opposed to within sociology where the past is ever-present.

make her own analysis although drawing on arguments already at hand. That is, the sheer number of arguments should safeguard at least some scientific quality in this regard even though, as Carneades says, no opinion is more false than the other. Although it can be pillared in a more or less clever way.

A forth and final source of weakness pertains to the explanatory model itself. The overall argument in defense of its applicability resides with the theory-biased approach of this thesis, something commented upon concerning the first potential weakness above. Provided the idea of the model is accepted together with the manner in which Austrian and economic sociology thought come together therein, there are two major criticisms that all models have to handle, particular those which come forward within neoclassical economics. Those are the claims 'but its assumptions are not realistic' and / or 'but its assumptions are not coherent'. *First*, that a discourse on realism is not an issue here follows from the very character of the effort undertaken. This is an endeavor that necessarily has to make abstractions, in the guise of ideal-types, for analytical sharpness to prevail. Mechanisms simply cannot be reached out for if reality 'as it is' makes a difference. Abstract reproduction, and not photographic representation, is what matters. A core demand is then of course that these assumptions are explicitly stated, something here coming about at the outset of Chapter II. That is, just like in the conventional Friedman (1953, pp 14-15) way of reasoning, the very realism of the assumptions as such does not carry much weight here. What can be questioned is instead 'whether they [the assumptions] are sufficiently good approximations for the purpose in hand. And this question can be answered only by seeing whether it yields sufficiently accurate predictions' (Friedman (1953, p 15)). In consequence, without any pretension whatsoever to display the highly elegant modeling from microeconomics, the same kind of criticism that this strand of thought occasionally runs into, is in part *as* relevant for this essay.

> *The key characteristic of an analytical approach is that it proceeds by **first** constructing an analytical model of the situation to be analyzed (an "ideal-type"). This theoretical model is in principle constructed in such a way that it includes only those elements believed to be essential for the problem at hand. The target of the theoretical analysis, then, is this model and not the reality that the model is intended to explain. However, to the extent that the theoretical model has been constructed in such a way that it incorporates the essential elements of the concrete situation, the results of the theoretical analysis will also shed light on the real-world situation that the model is intended to explain. Or, ...* [as posited by Schumpeter], *when the tailor is good, the coat will fit.*[8]

To repeat, there are three *model assumptions* (see section II:iii[9]).[10] The first says that

[8] Hedström and Swedberg (1998, pp 13-14, added boldface)

[9] 1a) The parallelism of two interconnected customer-supplier relationships can be framed as a triad momentarily detached from, but in essence embedded in, the surrounding network of exchange relationships. 1b) The customer-supplier triad is unbalanced in the sense that the suppliers are relatively more dependent on the

interconnected relationship parallelism can be framed as a triad that is part of an overall market network. The second has it that this triad is unbalanced in terms of power so that the suppliers are more dependent on the customer than the other way around. And the third presupposes that there are no social ties between the two suppliers. The 'realism', although not really a crucial issue here, is commented upon above regarding the second of these. That is, to assume that suppliers in general are more dependent upon a customer than the other way around seems to have some resemblance with what is actually known about how markets work. More important here, with reference to the *second* obvious criticism at times posed concerning assumptions, is however the eventual coherence of assumptions. The well-known assumptions behind the neoclassical construct of perfect competition work out in this regard with reference to the fact that they pertain to different spheres of the market, something thus rendering them compatible. That is, the number of sellers and the degree of product homogeneity are independent issues that work out in different areas. And in consequence they can be deemed coherent. The three model assumptions of this text differ a little bit in this regard. The first 'triadic' assumption relates part of the market structure, the second 'dependency' assumption is about power relations, and the third 'supplier tie' assumption pertains to how suppliers eventually are connected. Whereas the first assumption is relatively independent with regard to the other two, these are mutually interrelated. That is, the 'dependence' assumption is likely to work out subject to the third one on 'supplier ties'. This is so since if supplier ties prevail it is most likely that relative dependency is altered. There is hence a risk of non-coherence here. This however does not prevail since absence of ties is very much in line with the relative power advantage position thus occupied by the customer. In sum, the potential weaknesses stemming from assumptions do not seem to constitute too much of a hindrance for the model.

vi. The understanding of the explanandum, customer-geared competition

This dissertation sets out to illuminate competition as a customer-induced market phenomenon in the guise of a social mechanism. That is, it is posited that the idea of mechanisms, thus associating input with output, is a feasible means for the purpose of shedding light on the research problem. This means that competition, the subject matter, is being illuminated by the socio-Austrian Tertius Gaudens as '*a plausible hypothesis abstractly reproducing competition thus constituting a 'sometimes-true theory' situated midway between a social law and pure empiricism*' (confer Chapter I). The 'nuts and bolts' of the causal 'non-random systematic association' reached out for by way of the mechanism are made up of the specific manner in which the two explanans customer, alertness and social capital, allegedly

customer than the other way around. 1c) There can be no triad closure as 'horizontal' supplier social ties do not prevail.

[10]The assumptions that pertain to competition and the market are left out here since they are commented upon in connection to the discourse on theory.

impact competition. Following the idea of Elster (1983, p 24), the mechanism, here then discerned through the two issue-expressions F_1 and F_2, enables the 'deconstruction' of the explanandum as it narrows down the explanatory chasm of 'how and / or why?' surrounding customer-geared competition. Thereby the mechanism provides some new 'associative' information that is not present when each of the three constructs, competition, customer alertness and social capital are considered merely in separate or with regard only to their eventual correlation (confer Hedström and Swedberg (1996, p 288)). In response to the questions 'why competition?' and / or 'how competition ?', the mechanism here scrutinized via the issue-expressions F_1 and F_2 is hence conducive to any answer reached out for. Still, due to its abstract and ideal-type character, this social mechanism does not really lend itself to explicit observation since it is 'seen' only as its consequences are considered (confer Hedström and Swedberg (1996, p 290)). That is, it is only by looking into competition that Tertius Gaudens in fact can be grasped. As already noted this work is somewhat reminiscent of that of Stinchcombe (1998). But whereas he relates monopoly power via status and 'competitive environments' as explanans, the effort of this thesis is on the one hand more micro-founded as it works with hands-on interaction and on the other more original as it draws on constructs not very often associated with the connotation competition.

Concerning the actual analytical implication of the socio-Austrian Tertius Gaudens, its pure formulation apart, it stands out as more inclined towards the explanatory power of social capital than that of customer alertness. There are two main connected reasons for this. On the one hand this is the distinct conclusion from the main *pro aut contra* analysis pursued. On the other this follows from the posited impact of the superior relative impact of social capital to the effects of customer alertness. To get to know more about customer alertness per se before trying its explanatory role out further then seems viable. The same holds for the case where the mechanism is scrutinized in the realm of two potential customer-supplier relationships (connected by one and the same customer) which face each other (where economic exchange is not yet an issue in either of them). That is, *apart from the formulation of the model itself, the insight conveyed regarding the 'insulating' character of social capital with respect to the subject matter stands out as the foremost conveyor of learning in the area of competition.*

So, is it then really viable to posit that the understanding of competition improves by means of this thesis? In the conventional meaning where an idea, firmly supported by prevailing theoretical pillars, is to be tried out empirically and thus 'tested', the answer is most likely negative. That is, the practical working out of competition in an individual situation is hardly illuminated via this dissertation. But, this kind of instrumental, 'hands-on' understanding is not the aspiration of this thesis either. The aim is all about analytical explanation, powered by a few distinct assumptions and concept definitions devoid of which the reasoning does not make sense. Provided one is prone to believe in the idea of social mechanisms and provided the theoretically generated concept definitions appear fair in light of the made assumptions, then it seems as if this essay has made a contribution to the understanding of competition. If however any of these ideas, for one reason or the other, do not meet with approval, the preceding pages do not have much to tell about competition either.

What if the present effort is to be judged in light of the abandoning of some of its assumptions? To get rid of either that pertaining to competition ('2') or those ('3a', '3b', '3c') which relate the market as perceived within the two major theoretical fields of inspiration is futile as such a project would completely shatter the skeleton of this text.[11] The model assumptions ('1a', '1b', '1c'), discussed right above concerning their realism and mutual coherence, seem more apt in this regard. Each of them is commented upon below.[12]

1a. 'Two interconnected customer-supplier relationships seen as a network-embedded triad.' This is a structural assumption that has got two features to it, one inclined towards the micro and the other towards the macro. *The micro feature* is the assumption that two interconnected customer-supplier relationships can in fact be seen as a triad. This assumption can be lifted by allowing for 'atomistic influence'. This implies that there is no way in which this a triad can be seen as an analytical unit in the sense that there is nothing that ties *these* three actors together more than any other constellation of three. The triad hence ceases to exit as the context becomes a socially detached sphere where neither time nor space matters. *The macro feature* is that such a triadic entity can be seen as partially isolated for the sake of analysis but still very much part of the overall network structure of other relationships. To take this assumption away means to allow for 'oversocializing' influence. The outcome is the same as for atomistic influence. The triad vanishes and ceases to exist. The reason is however opposite. Since the three actors in this case are *as* tied to *everyone else* there is no way in which it is possible to isolate the triad in the way posited by the original assumption. This is so as the triad is *as much* dyads, quadrants and an array of other structural features to the extent that no analysis of the relation between the three initial actors separate from the others is in fact possible. The disappearance of the triad for either of the two reasons, thus tearing apart assumption 1a, has also got far-reaching consequences for the other model assumptions, 1b, and 1c. Both of these cease to prevail as 1a is abandoned, something following from the manner in which they depend on 1a as their structural anchor. The conclusion, in fact, is very much akin to that of Granovetter (1985) who endorses neither an under-, nor an over-

[11]These assumptions read as follows. 2) Competition is perceived freedom of entry into market relationships subject to the discretion of a third party. 3a) Market conduct is purposeful and socially oriented human action subject to social individualism and dynamic intersubjectivism. 3b) The market is an indeterminate process in the guise of an elastic web of embedded exchange relationships. 3c) Economic institutions are social constructions that reduce the eternal uncertainty of an imagined future.
[12]See Chapter II for the exact wording of each.

socialized, but an embedded account, for the argument pursued is obvious. *There is no way in which the erected explanatory model can work out in case assumption 1a is lifted.*

1b. 'The triad is power-dependence-wise unbalanced in a way that favors the customer.'
As seen assumption 1a is a prerequisite for this 1b to prevail. No triad, no discourse on power-dependence balance. To abandon 1b could theoretically imply either of two major consequences. The triad could be in balance or it could be unbalanced, but this time with the suppliers 'in command'. To assume perfect balance does not seem viable as such symmetry between the customer and both of the suppliers is highly unlikely, also from a purely conceptual angle. This is obvious once it is realized that the dependence of one part on another (being inversely related to the power they exert on each other) is, as said above, a function of a) the value attributed to the relationship and b) the number of alternative relationship parties.[13] If then the assumption is twisted so that the suppliers (that is both of them in their respective relationship with the customer) are in a power position in relation to the customer, the two of them can choose whether to work with the customer or not (as the latter in consequence has declared itself ready to buy from them). What happens to Tertius should then be obvious since the core ingredient hereof, 'the one benefiting from the disunion of the two' does not apply anymore. The situation however gets a little bit more intriguing once an unbalance is allowed to work out differently within the two relationships. That is, it could be posited that the customer in this sense takes on an advantageous position in one of the relationships and not in the other. In that case the overall reasoning still falters as there is no way in which Tertius can play out one of the suppliers against the other. If this is tried out anyway, the 'powerful' supplier will obviously turn to other customers and Tertius will cease to be Tertius. A yet more intricate case is at hand when assumption 1c is abandoned, something thus opening up for social ties between the suppliers. In that case there can be a direct power-dependence relation also between the suppliers. This means that triadic unbalance can work out within the realm of either of three relationships. Once again Tertius cannot exercise her power and benefit from the disunion of the two others. *As seen any alteration of assumption 1b implies that the actual social mechanism cannot work out*, although there is no direct negative influence on assumptions 1a and 1c.

1c. 'There is no triad closure as 'horizontal' social ties between the suppliers do not prevail.'
The meaning of abandoning this assumption is straightforward. Suppliers are allowed to establish social ties, something making it possible for them to cooperate. In the vocabulary of Coleman's (1990), triad closure is in place, and this enables social influences to diffuse in all directions throughout the triad that in consequence becomes more transparent in terms of

[13]To have many alternatives and not to evaluate the relationship a lot when the relationship party faces an opposite situation thus implies relative independence and hence power.

domino effects (confer Hertz (1993)) and similar. Whereas cooperating suppliers do not harm assumption 1a, they seriously damage assumption 1b as collaboration is something that is likely to influence power-dependence set-ups.[14] The implication for the buying Tertius is not subject to any doubt, especially as it is explicitly commented upon by Simmel (1950 (1908), p 156) who says that 'the third' (for instance the buying public) 'is, however, completely dependent on their [the producers'] totality; and their coalition would, in fact, at once invert the relationship'. Hence, once again *any lifting of the assumption renders non-viable the entire approach taken on by means of the particular mechanism adhered to in this essay.*

In consequence it is obvious that the explanatory model here envisaged, thus embodying the socio-Austrian Tertius Gaudens, is a most fragile construct distinctly susceptible to damage if any of its applied model assumptions are modified. That is, *the model is by no means robust since it easily collapses once its assumptions are somewhat altered.* This is an obvious shortcoming. The reason for this model fragility (something tentatively holding also if the model would be formally tried out statistically) is the harsh character of its assumptions. These do not leave an onlooker a lot of interpretive freedom. Maybe it is viable to posit that the reasoning which follows from the model, if considered at all accurate, is a little bit over-contingent on the assumptions which pillar it (something however being endemic to most models).

Be it as it may, it is nevertheless important to position this piece of work in relation to some others (until now not commented upon) which seemingly reach out in the corresponding direction. This helps to associate the truly analytical of this text with what is a little bit less analytical and more on the verge of instrumental reasoning as it appears within the field of business administration, *the disciplinary realm that this dissertation still hopes to enrich.* Thus starting out in the field of business strategy broadly defined (also to include 'non-tactical' marketing strategy, confer the discourse in Appendix A), Chapter I posits that a contemporary tendency here is the partial convergence of resource-based (confer Wernerfelt (1984)) and structural (confer Porter (1980)) perspectives (confer Thomas (1996)). That is, to grasp instrumental competition (endemic to any and all strategy writings), it seems necessary to embrace both assets that reside *within the organization* and the opportunities that in fact can be exploited *within the very structure* ('industry') where the strategy is to come true. What if, now, this way of strategy reasoning is considered in light of the analytical argument brought forward in this dissertation? That is, what if the function of entrepreneurship (akin to alertness) and 'social capitalization' are considered as to their eventual role for instrumental competition (however defined)? Can anything be learned? Yes, this seems to be the case, and

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[14]It is for instance most viable that suppliers in cooperation are likely to reevaluate their respective relationship with the supplier after having learned more about opportunities that they do not experience themselves.

there are two major reasons for this.

Firstly, there are already contributions in place that focus on either of these functions, but until now they do not seem to have been explicitly combined in a way akin to what this thesis sets out to do. *Consider first* the 'Austrian' case of Jacobson (1992). He sets out to challenge industrial organization-based strategy thinking regarding its assumptions, rooted in the perfect competition paradigm. He claims that the phenomena of change, uncertainty, disequilibrium, innovation, flexibility, intertemporal heterogeneity, et cetera, are missing in conventional strategy while these at the same time seem to make up an important aspect of instrumental strategy considerations. That is, given its very weak theoretical heritage when it comes to the understanding of the market as a process imbued with entrepreneurship, the by then industrial organization school of strategy displays serious weaknesses. As a case in point Jacobson relates the issue of competitive imitation by claiming that industrial organization thought cannot really handle it, as a successful strategy is advantageous just because it cannot be imitated. The Austrian explanation, with no industrial organization equivalence, is that knowledge is continuously eroded given the competitive discovery character of unknown not-known-of facts. Similar Austrian contributions, which set out to enrich the business strategy agenda are Reekie and Savitt (1982, inquiring into the amount of information required for dynamic market clearance by merging ideas from Alderson's agenda of exchange and the Austrian ditto on entrepreneurship), Dickson (1992, making the case for a 'general (Austrian-inspired) theory of competitive (imperfect) rationality' where the very heterogeneity of change itself is considered crucial), De Man (1994, claiming that parts of industrial organization reasoning, as seen in Porter (1990), in fact take on an Austrian guise), Hunt and Morgan (1995, presenting a 'comparative advantage theory of competition' allegedly rendering marketing more 'pro-competitive' than 'a nefarious market imperfection creator', a strand of thought subsequently commented upon by Dickson (1996), Deligönül and Çavusgil (1997), and Hunt and Morgan (1996, 1997)), and Young et al (1996, claiming that Austrian reasoning outperforms industrial organization theory when it comes to grasping a hypercompetitive context).[15] That is, these contributions all epitomize the manner in which the *Austrian* notion of entrepreneurship can enrich business strategy thinking. *Consider then* the 'sociological' case of Dyer and Singh (1998). These authors (just like Jacobson (1992)) also challenge conventional industrial organization-inspired strategy wisdom. But this time from the reverse angle. That is, they are not particularly concerned with entrepreneurship but instead focus on interorganizational assets in strategy (thus in part following Thomas (1996)). That is, what is on the verge of social capital as discussed in this dissertation, embodying

[15]The most recent and theoretically well-elaborated of these contributions is Hunt (2000) who furnishes the theoretical pillars of the reasoning originally brought forward by Hunt and Morgan (1995) and expands thereupon by means of 'a general theory of competition'.

'relation-specific assets', 'knowledge-sharing routines', 'complementary resources / capabilities', and 'effective market governance via relatively lower transaction costs', is what constitutes the basis for a sound competitive strategy. Competitive resources thus do not really reside only with the actor itself but with the actor as it relates to others. The foremost asset of a commercial organization is then its ties to others by means of which it competes with yet others.[16] So, whereas an entrepreneurship-inclined way of reasoning as seen in Jacobson (1992) is not very much concerned with interorganizational relations, the opposite holds for contributions such as Dyer and Singh (1998) that do not really seem to care about entrepreneurship.[17] This is however not to say that their respective stances are irreconcilable. They are not, as seen in the idea (which appear vaguely in both) that relationships are just the kind of intangible asset that does not lend itself to imitation by competitors, something curtailing the very value of traditional industrial organization-based reasoning. Hence, once entrepreneurship on the one hand, and social capitalization on the other, are seen as two viable and contemporarily rewarding approaches for the formulation of new agendas of competitive business strategy, it seems that this dissertation has a role to play. That is, *as the effort here underway, by bringing forward and **jointly** discussing entrepreneurship and social capital, puts together otherwise disparate aspects of the strategy discourse, it is in the position to imbue the agenda of competitive business conduct in general with some new insight not broadly prevailing.*

Secondly, two influential contributions in recent years dealing with competitive business strategy are D'Aveni's ideas on hypercompetition (D'Aveni (1994)) and Brandenburger and Nalebuff's on coopetition (Brandenburger and Nalebuff (1996)). When considered in separate there is not too much of a problem to conceive of each of them in a 'new economy' context. But what if they are looked into in parallel? As briefly discussed in Appendix A there seem to be some contradictions around here as what the one strongly subscribes to, the other does not believe in. That is, coopetition heralds what hypercompetition claims is not viable in terms of competitive strategy. What is a core element in the Brandenburger and Nalebuff mode of reasoning carries no major weight when hypercompetition is dealt with. According to this latter discourse, apart from the hegemony of (a little bit Austrian-influenced) competition, whichever advantages that reside with cooperation with others get eroded, following the constant flux of markets. This conceptual contradiction stands out even clearer once the often stable and long-term character of interorganizational relationships is considered. There are

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[16]As seen, this is very much the reasoning of the industrial networks tradition (within the 'informal-governance network approach') that, it shall be clear, do not really focus on corporate strategy as such (confer however Johanson and Mattsson (1992) for an illuminating exception).

[17]In fact, by referring to the 'rent-generation' of interorganizational resources they, in a non-deliberate manner, recur to a most non-Austrian way of reasoning as 'rent' and 'entrepreneurship' hardly are two expressions that go very well together.

hence two influential agendas of competitive strategy that, superficially analyzed, seem irreconcilable. This is not the place to work this out in any depth but, considering the joint manner in which entrepreneurship (fitting very well into the idea of hypercompetition) and social capital (most apt once coopetition is highlighted) are related in this dissertation, maybe something can be learned. That is, *the conceptual manner in which the two explanans of this thesis come forward together seems most promising, also regarding the drawing in parallel on hypercompetition and coopetition in business strategy.*

Looking beyond the business agenda, the humble and earnest hope of this essay is also to provide at least some insight regarding the functioning of competition on the macro, societal, level. The precise policy implications already accounted for apart, this could unfold in the tradition of Dahmén (1988, p 12) who recognizes the necessity in an economy of both 'competitiveness' and 'development power'. This is somewhat akin to the ideas brought forward here regarding the explanatory power of jointly drawing on both customer alertness and social capital. But whereas the explanandum of Dahmén is an economy's competitiveness and development power in concert, the explanandum of this dissertation is 'only' competition, in an analytical guise. Development through cooperation is thus an additional feasible explanandum of further research efforts by means of which the ideas of the model could be fully in the position to grasp what is hinted at by Dahmén. In such a tentative conceptual edifice alert customers thus promote competitiveness whereas development comes forward very much thanks to the presence of social interorganizational ties. As elaborated upon by Mattsson (1992) these kind of insights carry particular normative weight in light of the problems which (formerly centrally planned) economies in transition face since they allegedly miss out on both competition and cooperation. That is, both customer alertness (thus strengthening competition) and social capital (favoring cooperation) are needed for economies to work out since they complement one another.

vii. Can the explanans assist in explaining phenomena other than competition?

Now leaving competition aside and concentrating on the explanans related to *other* potential explanandums, the reasoning here seems yet more compelling. That is, can 'fueling' entrepreneurship (as customer alertness) and 'insulating' social capital be drawn upon in order to understand also *market phenomena other than competition*? Could it eventually be that the explanans, by virtue of their joint inclusion of 'economic' and 'social' aspects of markets, have more to tell about this ambiguous institution (at present manifest in what some choose to label a new economy) than already seen here?

Consider the new economy as an ideal-type.[18] Imagine it as a market space imbued with the

[18]Confer Castells (1996, p 476) mentioning 'the ideal-type of the network society'.

following (non-defined) concepts, meant more to entail associations than to display certain de facto well elaborated facets of contemporaneous society. Transparency. Economics of time. Innovation. Chaos theory. Technological lock-in. Collective intelligence. Coopetition. Open systems. Churn (customer disloyalty). Tipping points. Attention economy. Network externalities. Temporal monopolies. Outsourcing. Discontinuity. Intangible assets. Electronic markets. Trust. (Browning and Reiss (1998)). Add to this the theoretical understanding of markets by way of a supply-demand diagram where the curves have switched places so that the cost curve has taken the position of the demand schedule with negative slope and vice versa (Krugman referred to by Kelly (1998)). What one gets, at least from a scientific perspective, is a completely unsatisfactory and contradictory whole void of the regularities by means of which markets mostly are understood.

Now, have this ideational edifice, the 'new markets-as-networks economy' pillared and reinforced by more of an elaborated vision with substantial empirical and scientific support like that articulated by Castells (1996, 1998). He claims for instance 'that all major trends of change[19] constituting our new, confusing world are related, and that we can make sense of their interrelationship' (Castells (1996, p 4)).[20] All this occurring within '*the network society* ... [that] is made up of networks of production, power, and experience, which construct a culture of virtuality in the global flows that transcend time and space' (Castells (1998, p 350)). Is there then any way that the two explanans elaborated upon, (market alertness as) entrepreneurship and social capital, can assist in understanding what seems hardly within reach in this hitherto not known of market logic? Maybe! What Castells (1996, p 3) alleges is that '[o]ur societies are increasingly structured around a bipolar opposition between the Net and the Self'. Whereas the 'Net' signals the embedded character of social capital there is no doubt that the 'Self' displays signs of autonomous entrepreneurship. 'A network-based social structure is a highly dynamic, open system, susceptible to innovating without threatening its balance' (Castells (1996, p 470)). And just like with the two-faceted agency scrutinized in this dissertation, it is the *joint* working out of these two forces (or network functions) Net and Self, that Castells chooses to highlight. They could furthermore be seen as epitomized through the concepts used in this thesis to reconcile Austrian economics and economic sociology. That is, social individualism as the Self subject to Net constraint, human purposefulness as a two-step rationality where the Net acts as a first screening device paving the way for the Self's pondering of both means and ends. And, finally, the notion of dynamic intersubjectivism as

[19]'Changes in relationships of production, power, and experience converge toward *the transformation of material foundations of social life, space, and time*' (Castells (1998, p 349)).

[20]As noted by Castells (1998, p 336), whether this is in fact 'new' is not the point. It is however a fact that this type of economy, however characterized in terms of ideal-type features or newness, embodies macro economic features (such as steady growth mostly devoid of inflation and constantly increasing labor productivity) that are powered by the force of real globalization meaning true transparency of markets rendered possible in part via information technology (Eklund 2000).

the way in which the Net conceives of the world by way of the Self. But just like the impression gained from this dissertation, the embedded Net seems to be relatively more influential than the autonomous Self in the 'network society'. 'I would argue that this networking logic induces a social determination of a higher level than that of the specific social interests expressed through the networks: the power of flows take precedence over the flows of power ... [in] a society that, ... we may properly call the network society, characterized by the preeminence of social morphology over social action (Castells (1996, p 469)). However bold, or maybe futile, this observation may seem[21] it is a fact that the ideas of Castells and those of this thesis rely on classical sociology. The explicit recognition of the crucial role of Weber for the claims of this dissertation is obvious and something similar appears in the words of Castells (1996, p 195).

> *Yet the theoretical principles proposed by Max Weber almost a century ago still provide a useful guideline to make sense of the series of analyses and observations I have presented ..., bringing them together to highlight the new cultural / institutional configuration underlying the organizational forms of economic life.*

Nowhere is this Weberian heritage, as seen in his ideas on appropriation, more present than when the downside of network interconnectedness (a subject however hardly touched upon in any depth by Castells except for his dealing with organized crime) is to be understood. On a macro level the very impact of Japanese economic demise in the late 1990s can, ceteris paribus, easily be attributed to the keiretsu costs discussed by Gerlach (1992). That is, the magnitude of the Japanese meltdown, spreading fast within the country and among its Asian neighbors, could possibly (in part) be attributable to the prevalence of (the formerly 'over-praised') close and exclusive, clientilized and appropriated, ties among, within, and between business and state organizations. A similar argument can easily be adapted to explain partial stalemates of an emergent Russian illiquid economy that is eroded by invoices and salaries not paid thus inducing further invoices not being paid et cetera.[22] And, consider on the micro level the detrimental impact of world wide web viruses[23] which spread like an epidemic causing enormous damages to those previously enjoying the benefits of being so 'wired'.

viii. An agenda for reaching out further

The preceding seven sections of this chapter provide an account of the eventual merits and shortcomings of this essay with particular emphasis on how these appear in light of the promises made at the outset. The intention is to illuminate an array of ambiguities, paralleled

[21]That is, to connect the understanding of competition in a business studies dissertation to the understanding of society at large in the world of Castell's.

[22]Russia's *main* problem is however most likely the *insufficient* level of social capital and its asymmetric distribution in society.

[23]Take for instance 'I Love You', during spring 2000.

however with some insights that seem to prevail. These eventual insights, the contribution of this academic dissertation, are briefly recapitulated below as they are connected to potential future endeavors in the same vein.

- This dissertation casts light on competition as a customer-induced market phenomenon. It does so in three main ways in addition to that of emphasizing the agency, and not only beneficiary role, of customers. *First* it treats competition from an analytical angle with distinctive instrumental impact. *Then* it extracts, via the *joint* explanans customer alertness and social capital, some key aspects of the market forces that impact competition. *Finally* it makes its case by way of an in-depth survey of competition theory in two formerly unconnected strands of social thought. Are not there any other central, though yet less well defined, market concepts to be looked into once economics and sociology are allowed to meet in this manner?

- This dissertation is furthermore an illustration of how theory can be refined by drawing on an explanatory social mechanism that entails a thorough elaboration of theoretical concepts subsequently to be tried out as analytical arguments. As noted in Chapter VII the call is out for such a furthering of scientific knowledge, at least in psychology and sociology (confer the claims made by Smedslund (1991) and Sørensen (1998)). So why not in business administration?

- This dissertation displays, via its overall argument as discerned in the two explanans, and in the articulation of social individualism, human purposefulness, and dynamic intersubjectivism, the creative manner in which Austrian economics and economic sociology, in the Weberian spirit of *Sozialökonomik,* can come together and enrich each other. How far can this a cross-fertilization actually reach out?

- This dissertation, finally, furnishes analytical nutriment to the genuine understanding of a highly opaque and contradictory ideal-type turn of the century icon, the 'new markets-as-networks economy'. It does so by bringing forward the joint balanced agency of entrepreneurship and social capitalization. So, how can this agenda of inquiry work out further?

There is hence a sincere belief that this thesis sees the seeds of a revised paradigm of customer-based market understanding, fueled by a particular type of theoretical cross-fertilization which until now is mostly in the dark. The alleged contributions listed above can thus feed into further inquiry in three major areas, the 'applied', the 'conceptual' and the 'theoretical' according to the below. This is hence the manner in which the findings of this essay can be both deepened within already analyzed areas and enlarged into new territories.

The first, 'applied', area is discerned at two societal levels. Macro level implications are seen in the discussion of policy implications already pursued. As said consumer issues here come to the fore via the idea of customer agency and not only customer benefit as tied to the workings of competition. There is good reason to believe that antitrust and consumer legislation, and their interlinkage, are most feasible and rewarding points of departure. On more of an ideological level it is furthermore viable to question whether there is not in fact a mismatch between calls for the 'active consumer' and the manner in which this might jeopardize the ability of the consumer *collective* to balance the power of large suppliers (confer Galbraith (1993 (1952)). That is, for customer agency to work out as desired, thus contributing to customer benefit, via the workings of supplier competition, it is necessary that consumers are in the position to exert this agency on fair terms (confer the need for informed consumers alluded to in the referred report on the Swedish mobile telecommunications market (Konkurrensverket (1999a)). If not, there is a risk that the belief in consumer agency which proves to be toothless results in yet less competition with devastating consequences for consumer welfare.[24] A further macro level implication is that hinted at in the spirit of Dahmén (1988) concerning the necessity of both competitiveness and development power in an economy. Whereas there is fair reason to believe in two particular causal associations between customer alertness / social capital and competition (thus akin to Dahmén's macro level competitiveness) there seems, ex ante, to be *as* good reason to posit that they could impact also cooperation (reminiscent of Dahmén's development power) in an economy. This time, however, the causal associations seem different in that social capital is most likely more conducive to cooperation than what is customer alertness. Or? This elaboration will furthermore obviously be subject to the claim of this thesis that competition and cooperation differ in the sense that whereas the former is indirect the latter is direct.[25] An additional macro level impact is that pertaining to how a 'new' economy can be understood as an outcome of both competition-driving and competition-impeding market forces as discussed in section IX:vii of this chapter.

A distinct micro level application is, as already foreshadowed, an empirical test of the claims made in this text according to which customer alertness and social capital impact competition in opposite directions. True, this would not be entirely in the spirit of the methodological argument pursued (confer Smedslund (1994)) saying that such empirical tests for the most have nothing to add. Still such a test, where the issue-expressions of the *pro aut contra* analysis already pursued would turn into hypotheses, could tentatively illuminate the reasoning of this essay in the eyes of more orthodox business studies scholars. This is called

[24]This is an observation made by Claes-Fredrik Helgesson which hereby is gratefully acknowledged.

[25]True, one could then argue that there is no role for customer agency at all since the 'directness' of cooperation eventually jettisons customer impact. Or?

for particularly regarding the insufficient analytical support obtained for customer alertness.[26]

There is a whole array of ways in which the *'conceptual'* insights of above can be elaborated further in successive inquiry. That is the *second major area* wherein the thesis' contributions are in the position to promote further inquiry. Staying with competition as the explanandum, the most sophisticated of these is probably the in-depth scrutiny of the manner in which customer alertness and social capital balance each other as explanans. It is good reason to believe that the preliminary conjecture made in the thesis, that the weakening impact of social capital to the effect of customer alertness in this regard is higher than the other way around, only applies subject to some specific conditions and that other conditions might point in another direction. To analyze such conditions further thus seems like a progressive path forward. This, however, seems only possible once a more thorough understanding of the two explanans themselves are attained. As commented upon there is most likely more to find out regarding customer alertness (than what is the case for the other explanans), and why not from the angle of its mother-concept, entrepreneurship? The entire discourse on entrepreneurship, be it within Austrian economics or elsewhere, is imbued with the idea that *brokerage* agency is what a) propels market activity in general, b) bestows market profit upon some market actors. This is particularly so when the impact on brokerage from 'human capital' ('lonely hero'-reasoning anchored in individual qualities) factors is downplayed by an emphasis of 'social capital' explanation. Such a view is very much discerned in the reasoning of Burt (2001, p 202). 'Society can be viewed as a market in which people exchange all variety of goods and ideas in pursuit of their interests. Certain people, or certain groups of people, do better in the sense of receiving higher returns to their efforts. Some people enjoy higher incomes. Some more quickly become prominent. Some lead more important projects. The interests of some are better served than the interests of others.' These people are social brokers. The market function of brokerage is also what pillars the social mechanism Tertius Gaudens. Whereas customers are salient in the original conceptual reasoning of Simmel, this is much less so in contemporary claims regarding market brokerage by means of social capital. This is readily seen as 'customers-as-market-brokers' are invisible in the recapitulation of empirical evidence pursued by Burt (2001).[27] That is, ideas of social brokerage are in the position to be enriched by studies that expand upon the insight furthered in this essay concerning customer-based market brokerage. And what is more crucial here, it is apparent that a deeper understanding of this particular brokerage will feed directly into the furthering of knowledge concerning customer alertness. It is however obvious that although more theoretically refined than customer alertness, there is also considerable potential to find

[26]This explanans obviously needs also some conceptual refinement. See section V:vi for some details of such an empirical endeavor.
[27]This is an observation made by Richard Swedberg which hereby is gratefully acknowledged.

out more about social capital. For one thing regarding its (in this thesis) alleged two-faceted nature as 'structural' and 'substantial' that connect via mobilization. For another, the manner in which structural social capital (here 'patterns of exchange relationships') and substantial social capital (here 'enacted expectations of commitment') are constructed by means of other concepts. Regarding the former it seems important to understand the way in which different kinds of ties, 'purely' social, technical, and legal, affect each other (confer Hammarkvist et al (1982, pp 23-24)). Are, for instance, technical ties under any circumstances stronger than social bonds. Or?

An additional conceptual realm into which the insights of this study reach is the market phenomenon per se. As repeatedly argued, notably from within an Austrian standpoint, competition and the market are but two sides of the same coin. In consequence, as the idea of one changes, so must necessarily that of the other. This dissertation has it that the idea of competition until now, save for aspects of Austrian economics, is not very much elaborated within approaches that emphasize the truly social character of markets, such as networks perspectives. By advancing the idea of competition that is customer-geared it is claimed that such an account is underway. In this phase it is obvious that the main social market tenets are kept fix, thus allowing a new concept of competition to evolve, attached to these tenets. But what happens to these tenets once there is a revised idea of competition in place? That is, if now customer-geared competition, as appearing in this text, is hold fix, what are the consequences for how the market is looked upon? Given the close interlinkage between the market and competition it is obvious that some aspects of how the market is interpreted will be affected. But how? Customers will obviously take on a more prominent overall position, somehow at the expense of supplier and product emphases. As a case in point one could ask how the delimitation problem of network markets might be affected. How far do such markets reach out, where do they 'cease' to appear meaningful? One tangible way of inquiry in this direction is the analysis of market dependencies. A scrutiny thereof could start out in expanding the model triad by adding more suppliers / customers and then evaluate the 'domino effects' (confer Hertz (1993)) of various events for competition and market structure.

The third and final area that could benefit from the insights of this study is *theory itself.* As argued (particularly in the closing section of Chapter VIII), there is reason to believe that, in the spirit of Weber, the socio-Austrian' connection established in this dissertation is in the position to enrich social theory agenda in a number of ways.[28] This is particularly so in the area of market sociology wherein actor ties are assumed to occupy a central role. That is, in line with the reasoning of Baker (1981, p 54, 92), there is fair reason to believe that the socio-Austrian argument of this thesis can be expanded upon in order to provide 'the detailed

[28]That this is done from a theory coherence perspective is the subject matter of Chapter VIII.

cartography of [market] networks', thus envisaged by Baker. This would, in line with the research problem of this thesis, in addition fill in yet more white spots in this theoretical field. The overall understanding of the market function, encompassing for instance the human action dictums now advanced (social individualism, human purposefulness, dynamic intersubjectivism) can hence learn from here. An agenda that is expanded in this direction seems particularly promising for those business studies which discuss interorganizational ties as a preeminent facet of corporate strategy by means of which market opportunities are grasped (confer Dyer and Singh (1988)). Markets are accordingly better understood as attention is paid both to 'entrepreneurial' and 'embedded' aspects thereof.

This theoretical bridging exercise is foreshadowed by Boettke and Storr (2000). The main thread of their argument is that economic sociology needs a market theory. The discipline 'has [until now] failed to find the necessary allies within the disciplinary borders of economics'. But, 'in the Austrian School of Economics ... economic sociologists will not only find a scholarly tradition that shares many of the same intellectual forebears but that is a more comfortable bedfellow than' some of the alternatives (Boettke and Storr (2000, pp 4,6).[29] It can be added that Austrian thought itself, following the argument of Rizzo (1992, p 246), is in *as* bad need of 'scholarly interaction', plausibly with (among others) sociology.[30]

> *The cross-fertilization of Weberian sociology and Austrian economics promises a way back from scientistic models of irrelevance in the social sciences, and a return to the "life-world" of human existence. ... The excesses of both economism and historicism can be avoided, while the benefits of analytical structure and narrative detail can be exploited to render social phenomena intelligible. ... While sociology asks the interesting questions, it remains hobbled by a lack of analytical structure. And, while economics possesses an analytical structure, it remains hobbled by an undue restriction of the questions that it can ask. ... Indeed, the Weber-Austrian connection promises to avoid many of the pitfalls that plague their economic brethren and the "new sociology of economic life" and may represent what has appeared so elusive in the 20th century: a social theory which is at the same time logically coherent, empirically useful, humanistic in its method, and humanitarian in its concerns.*[31]

To be continued.

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[29] such as new institutional economics or rational choice sociology

[30] 'Without significant changes in its traditional research topics and strategies ... Austrian economics will become increasingly irrelevant to the major intellectual currents in the next century and will ultimately fail to survive' (Rizzo (1992, p 245)). See also the 'balancing' claim of Boettke and Storr (2000, p 7). '[W]e believe that an alliance [between economic sociology and Austrian economics in the spirit of Weber] would not be one-sided but mutually beneficial. For one, Austrian economics would benefit a great deal from economic sociology's healthy attitude toward "thick" empirical work.'

[31] Boettke and Storr (2000, pp 29, 30)

EPILOGUE

Competition is still ambiguous. And, it must be admitted, there is fair reason to believe that sportsmen such as the Russian swimmer Popov or *le pilote della scuderia Ferrari* are hardly in the position to unequivocally relate the discourse of the socio-Austrian Tertius Gaudens to their own field of competitive activity. Despite the claim made at the outset of this essay.

There is better reason to believe that artists in *quattrocento* Florence feel that customer-led processes of awarding prestigious projects of art, in the hands of the Medicis and like clans, jointly with social ties between artists and maecenas, impact mutual competitive artistic tension. Customer alertness and social capital thus seem to matter in this regard.

Consider competition underway at the outset of the 15th century as seven artists are chosen to submit trial panels later on to become the bronze reliefs ornamenting the Baptistery bronze doors of the Florence Cathedral. The commission is to depict Abraham's sacrifice of Isaac. Two of the entries are supplied by Lorenzo Ghiberti and Filippo Brunelleschi. Imagine them strolling the tiny *piazze* wondering how their efforts will be appreciated by the judges appointed to select the winner. And ponder their subsequent collaboration as the entire dome is erected following the commissioning of Ghiberti as the winner of the panel contest and Brunelleschi as the main figure behind the architecture of the Cathedral.[1] Did anyone say it is entirely inaccurate to liken this combination of competitive and cooperative tension to that unfolding some 600 years later as the dance of business icons in the heat of Silicon Valley?

Be as it may. It is anyhow essential to emphasize also the manner in which competition, as apparent in the guise above, embodies a sort of human market economy wherein *both* 'selfish' entrepreneurship and social capital have roles to play. The vision of such a civic community, as the network society, is found in the closing words of Castells (1998, pp 359-360).

> *The dream of the Enlightenment, that reason and science would solve the problems of humankind, is within reach. Yet there is an extraordinary gap between our technological overdevelopment and our social underdevelopment. This state of affairs must not be. ... If people are informed, active, and communicate throughout the world; if business assumes its social responsibility; if the media become the messengers, rather than the message; if political actors react against cynicism, and restore belief in democracy; if culture is reconstructed from experience; if humankind feels the solidarity of the species throughout the globe; if we assert intergenerational solidarity by living in harmony with nature; if we depart for the exploration of our inner self, having made peace among ourselves. If all this is made possible by our informed, conscious, shared decision, while there is still time, maybe then, we may, at last, be able to live and let live, love and be loved.*

[1]This illustrative tale is inspired by a text at www.britannica.com.

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APPENDICES

Appendix A, Instrumental competition within business strategy and marketing

The resource-based view of strategy

As argued by Dyer and Singh (1998) there are two main strategic perspectives taken regarding the scrutiny of (instrumental) competition in business studies. The resource-based view endorses an approach where organizational heterogeneity in terms of resource access is the key decisive factor impacting competitive strength. On the contrary, the traditional industrial organization view draws on industry structure, broadly conceived of, as the foremost reason for an actor's competitive advantage. As opposed to the latter, a resource-based perspective thus implies that it is the actor itself (not its products or environment) that should be the prime target when competitive advantage is to be understood.[1] Wernerfelt (1984) traces this resource-based view to classical economics' emphasis of supply side issues and to the works of Penrose on firm growth. Resources are here seen as both tangibles (such as skilled labor) and intangibles (for instance market reputation) and can be seen as implying 'position barriers' that benefit those in control thereof relative to others. One particular aspect of an actor's resources is the competence, an area looked into by De Leo (1994). He claims that assets cannot always be easily imitated, something implying that 'the sources of competitive advantage are not so much influenced by the context or industry structure conditions, as they are by asymmetric endowments of unique, and more or less sustainable, resources and capabilities'. This means that competitive advantage is subject to the ability of resource mobilization, or 'architecturing' at and between all levels of firm activity (De Leo (1994, pp 43, 44)). The claim is echoed by Barney and Hansen (1994) who relate the manner in which trustworthiness (a competence) can propel competitive advantage. They suggest that strong trustworthiness only constitutes a competitive advantage when this cannot be imitated and is not common among other exchange partners. These and other resource-based perspectives are mostly static and do not explicitly come to grips with direct market interaction.[2]

Structural-based strategy

The epitome of the structural view, forging microeconomics and business strategy in a most deliberate manner, is obviously (the 'early') Porter (1980). His original reasoning constitutes

[1]As commented upon by De Man (1994) it is however viable also to see these two approaches as partially interrelated, something readily discerned in Porter's (1985) penetration of the value chain that matters immensely for the attainment of competitive advantage in a still structural context.

[2]One exception is however Jacobson (1992) who, in a partially resource-based manner, comments on a dynamic view of strategy inspired by Austrian economics. Another is Thomas' (1996) launch of the term 'dynamic resourcefulness', implying the potential fast demise of some, and rise of other, firm assets for competitive advantage impact.

a distinct summary of an array of preceding contributions within the field of strategy and as such serves as a natural point of reference, a springboard by means of which successors come to grips with similar issues.[3] Its contemporary impact is mostly discerned in the discourses of competitive forces, market signaling and strategic groups. The former discourse revolves around how a) competition among incumbents, b) threats from potential newcomers and substitute products, and, c) the relative power over incumbents from suppliers and customers, jointly are decisive for the competition intensity at hand in an industry. In light thereof Porter further identifies three generic competitive strategies (cost containment, differentiation and market focus) as tools by means of which an individual company can 'combat' the competition prevailing in a particular industry (that is, the joining forces delineated above), and thus derive above-normal profits by means of its own unique sustainable competitive advantage. The strategy chosen is further subject to the overall development of an industry in terms of growth, maturity and decline. Endemic to an actor's competitive strategy is also the way in which it performs market signals, 'any action ... that provides a direct or indirect indication of ... [someone's] intentions, motives, goals, or internal situation' (Porter 1980, p 75). These signals could be either true or false and encompass both a priori statements and measures already undertaken as well as an open discussion of industry conditions in general. By identifying the kernel dimensions which inhere in the competitive strategies applied in a particular industry, it is finally possible to distinguish companies that are mutually similar in one dimension or the other. Together such companies constitute what is labeled a strategic group, a 'group of firms in an industry following the same or a similar strategy along the strategic dimensions' (Porter 1980, p 129). Despite its overt focusing of the individual actor there is no doubt that the inspiration from microeconomics is ever-present as seen in the overall structural perspective, the pinpointing of industries (in terms of product substitutability) and not markets, and the relative absence of dynamics (following the central role of positions) and competitive non-faceless interaction (confer De Man (1994), Thomas (1996)).

The strategy of dynamics

As most economists since long endorse a rather static view of competition, it is but logical that the lion's share of contributions within business strategy, inspired by this view, follows the same path. Accompanied by real-world phenomena such as globalization and momentary technology development it has however become necessary also for writings within strategy to take into account industrial dynamics.[4] This has a tangible impact also for how instrumental competition is treated. Abernathy et al (1983, p 12) identify technological uncertainty

[3]Confer Brownlie (1989). Two cases in point are Porter's (1980) notion of market signaling and strategic groups, the former being coined by Spence, the latter by Hunt.

[4]An early time-based contribution in this vein relying heavily upon information-feedback loops is Forrester (1961).

(inducing markets in constant flux) as the propellant behind what they label the 'new industrial competition'. Positional concepts such as niches then lose much of their role for companies' competitive success. What instead matters is the gained privilege of 'defining' competition. As noted by both De Man (1994) and Thomas (1996) it is possible also to distinguish a clear shift in the industrial organization business strategy thinking as it comes forward in the work of Porter (1990).[5] As his overall focus changes towards more of a dynamic one emphasizing innovation as the source for competitive advantage, it is hence but logical that the role of industry structure shifts from exogenous to endogenous. This also implies that competition intensity within an industry, to be 'competed away' in a static world, now takes on a new role as the very driving force behind innovative strength, by itself assuring long-term company survival (De Man (1994, pp 438-439)). The path chosen by Porter (1990) is to focus how local (intranational/regional) rivalry promotes global (international/regional) competitiveness, the causal association of which is deemed positive. This follows vast empirical evidence applied in the light of what Porter (1990, pp 71-130) labels 'determinants of national advantage'. These national attributes which constitute the context of local rivalry are the character of factor / demand conditions, the presence of related and supporting industries, and structural / rivalry parameters.[6] More of a direct managerial impact has the notion of hypercompetition (D'Aveni (1994)), an inherently processual view to some extent inspired by Austrian economics.[7] The main idea which underlies this reasoning is in part reminiscent of Abernathy et al (1983) and Smith et al (1992). That is, an increased pace of change and globalization promotes a revised aggressive logic of business where hitherto prevailing competitive advantages are 'eroded' as short-term 'positioning' is replaced by long-term 'interaction'. As cases in point D'Aveni identifies how the functioning of traditional competitive advantages are transformed within areas of cost-quality, speedy know-how, barriers of entry and financial superiority. None of these can be regarded as 'sustainable' anymore since the commercial landscape is continuously reshaped at high pace. And they also penetrate each other and thus become integrated in a way previously not seen. For instance, barriers of entry are much more porous than before and financial viability can be 'artificially'

[5]Both in fact (De Man in particular) make the rather bold statement that Porter is leaving industrial organization reasoning behind and is shifting to an Austrian economics / resource-based perspective thus entailing dynamics.
[6]This reasoning is reminiscent of Sölvell (1987) who analyzes the relation between national (entirely local) and global (entirely international) competition. That is, 'the more global the world becomes, the more local is the accumulation of world-leading [competitiveness-inducing] competence' (Sölvell (1994, pp 15, 18-19)). This crucial impact of the local for the global is seen as geographically proximate rivalry is more 'felt' and enacted (thus giving rise to competitive incentives) since actors-neighbors are perceived as being closer and more similar than what otherwise is the case. 'With domestic rivals, there are no excuses' (Sölvell (1991, p 3)).
[7]These alleged Austrian roots are plausible to the extent that hypercompetition, according to D'Aveni (1994, pp 27-30), entails the move towards, but not attainment of, the state of perfect competition equilibrium. They are however in essence untenable since Austrian economics implies a number of other crucial assumptions often overlooked by authors within the field of strategy. A common misinterpretation is for instance that of labeling Schumpeter an Austrian (scholar) despite his widely varying view of equilibrium, entrepreneurship and market uncertainty (confer D'Aveni (1994, pp xviii, 28), Young et al (1996), Ferrier et al (1999)).

created by the formation of alliances at striking speed. As noted by Young et al (1996, p 243), the transient character of competitive advantage renders the need for continuously undertaking updated competitive moves crucial for prosperity in a hypercompetitive context. Hands-on empirical proof as to the hypercompetitive nature of an industry is furnished by Thomas (1996) and Young et al (1996). A way of reasoning close hereto is that of Hamel and Prahalad (1994, pp 27-47) who however argue from a slightly different rules-based angle. They claim that the advent of globalization and 'new' industries (id est advanced information technology) means that recipes of industrial survival must be either rewritten or created. This implies some anarchy as many arenas at the outset are rather unstructured. Competitive activity must in consequence be understood as 'more of triathlon and less of sprint', as seen from the very identification of a customer need until consumption of a product. Competitive behavior is furthermore allegedly more interfirm, than interproduct, something rendering firm competence paramount in the constitution of competitive advantage.

Coopetition

In light of these accounts of dynamic competition it is interesting to note that there exists a different view that takes direct issue with this rather aggressive stance on instrumental competition. This is the claim as to the viability of competition coexisting with cooperation. The zero-sum game character of most accounts of competition is hence challenged by Brandenburger and Nalebuff (1996) who recognize the crucial manner in which the thus presence of 'coopetition' (competition and cooperation) secures business success. By clinging to 'plus-sum' game theory made readily accessible for operational use they formulate a strategy agenda which is viable in the commercial reality of highly interdependent organizations. The main bricks of this agenda are on the one hand *the 'value net'* wherein the company is at the heart of two axes, a vertical consisting also of customers and suppliers and a horizontal where also competitors and 'complementors' are found. That is, competitors are also relevant to consider in terms of cooperation without necessarily inducing collusion. On the other, there is *the set-up of elements endemic to any game* (apart from the entry of net-actors also the added value contribution of a relationship actor, the game-governing institutions, factors shaping actors' game perception, and socially constructed limits to the game).[8] In consequence, coopetition heralds what hypercompetition claims is not viable in terms of competitive strategy. D'Aveni explicitly opposes this kind of friendly co-involvement and argues that 'cooperation in hypercompetitive markets ultimately is not sustainable and [subsequently] leads to more intense levels of competition'. This is a conflict-imbued view of competition where 'the goal is disruption' (D'Aveni (1994, pp xvi, 17)).

[8]Confer Tjosvold and Wong (1994, p 297) for an applied discussion in this area where 'the constructive discussion of opposing views complements cooperative goals as important contributors for developing successful relational marketing'.

Strategic interaction

A further perspective regarding the micro-features of a dynamic perspective on instrumental competition is seen in contributions that revolve around competitive interaction in terms of moves and countermoves. These are to a certain extent inspired by game theory but traditional in the sense that it is market rivalry, and not harmony, that comes to the fore. A communications theory approach is that of Smith et al (1992). Therein the competing company is the 'sender', the original competitive move (for instance an advertising campaign) the 'message', common suppliers and / or customers the 'channel', other competitors 'receivers', and their competitive response 'feedback'. The main lesson is that the more lagged the response to a competitive move, the more sustainable the (monopolistic) momentary ('first-mover') advantage gained by the initial action. The moves thus undertaken can differ in an array of ways, for instance regarding the extent to which they can be successfully imitated. What is more, the identity of actors against which the initial move is undertaken will differ as to their proneness to respond and how this is subject to the response of yet other actors. Among the empirically supported hypotheses are that a) the initial actor's reputation impacts the type of competitive response, b) the competitive response is subject to the type of initial competitive move (is it, for instance, tactical or strategic?), and, c) the competitive response depends from the nature of the responding actor (in terms of, for instance, external orientation) (Smith et al (1992, pp 1-9, 14-18, 178-180)). A related line of thinking concerning the pure communication aspect is that of competitive market signaling (Heil and Robertson (1991), in part relating Porter (1980) (who is inspired by the original idea of Spence)). Here, it is asserted that competitive countermoves are often a reaction not to action but to signals themselves. For signals (that is, the announcement of a move and not the move itself) to matter in this vein they must be deliberately intended and indicate *potential* market action. That is, they do not necessarily have to be followed by the action thus foreshadowed. Still they might play a crucial role in the establishing of 'competitive norms of conduct'. An additional facet of competitive interaction is that of Miller and Chen (1996). The idea here is that market rivalry is endemic to the formulation of a competitive repertoire made up of a number of strategic actions concerning pricing, advertising, etceteras. According to the authors some of these repertoires are rather simple in the sense that they tend to revolve around just a few types of actions following properties both of the organization itself and of its environment. A similar mirroring argument is that of Cressman (1996) wherein it is claimed that companies often are too 'myopic' concerning the manner in which they view competition, something underlying their subsequent action pattern. It is allegedly not sufficient to monitor competitors only within or between strategic groups. Instead, the within- and between industries level must also be taken into account. Similarly, Chen and Hambrick (1995) inquire into the manner in which small firms differ from large ones in terms of competitive conduct. Among other things the former allegedly are more prone to initiate challenging moves than the latter and they are also faster in carrying out rather low-profile moves. Somewhat reminiscent hereof is an argument as to the development of market share leadership over time (Ferrier et al (1999)). In particular these authors scrutinize how former leaders are dethroned when they behave slower, less aggressively and 'simpler' (in terms of broadness of types of actions undertaken) than their contenders.

Strategic climate and the social construction of competition

As seen above, one rather recent theme is that of invoking more of dynamics into instrumental accounts of competition. Those contributions which focus the game-like character of these competitive moves constitute a sub-entity thereof. A parallel stream of thought is made up of efforts to understand the business logic that pillars competitive action. This is most readily seen in works revolving around rules that shape market behavior. This is hinted at by Heil and Robertson (1991) as they discuss competitive signaling. An interaction-like approach in this vein is that of Thomas and Soldow (1988). They claim that competitive interaction can be framed according to 'patterns that, over time, take on prescriptive forces and evolve into rules.' These (implicit) rules ('the mechanism that evolves to link individual behaviors in a sequence') further are prescriptive in the sense that they serve as guidance for future behavior of the actors that simultaneously reshape the rules via their action. This implies that there is a dynamic competitive process at hand wherein rules can be framed in a variety of ways. As alleged by Thomas and Soldow (1988), competitive interaction, the micro-foundations of instrumental competitive dynamics, does not emerge in a vacuum. Instead it is the outcome of implicit rules of conduct understood by actors as norms.[9] Although these authors claim that rules are 'negotiated' within the realms of interaction, the coming into being of these lines of conduct guidance requires yet another conceptual level to be cognitively understood and pertaining to a) with whom are these negotiations undertaken and, b) subject to which surrounding atmosphere.[10]

As for the latter, an account of how actors in fact do perceive their immediate commercial context via 'shared meaning structures' of an industry, as seen in the notion of an 'industry recipe', is brought forward by Spender (1989). This implies the prevalence of an intraindustry socialization process in light of yet another set of overarching implicit rules, the predominant norms and values. There are, then, norms as to how competition 'is' to work out by means of strategies chosen in order to exploit market imperfections (confer Spender (1989, pp 190-191)). For instance, in the dairy industry studied by Spender, the notion of territories is crucial

[9]As for normative rules ('prescriptions' concerning 'appropriate actions'), these can be said to 'exist in the expectations that others have for our behavior; and they also often become internalized through socialization processes so that they exist in the expectations that we hold for our own behavior, in our self-identity' (Scott (1994, p 63)).

[10]That is, as noted by (amongst others) Hodgkinson and Johnson (1994, p 548), the '[t]axonomic mental models constitute but one aspect of managerial knowledge. Competitive tactics are also based, among other things, upon causal beliefs about how to compete in a given sector.'

despite the fact that products are undifferentiated with a fixed price. This means that in theory anyone could walk into anyone's territory in order to attract customers, but this is not done (following the erection of 'mental' entry barriers). The recipe ('[the] set of ideas that has a certain potential under the specific circumstances which are the recipe's implicit expectations' (Spender (1989, p 195))), the adherence to certain territories but not to others for an individual supplier, thus underlies any competitive strategy aimed at. A similar notion which draws on the above idea is that of 'industrial wisdom' furthered by Hellgren and Melin (1992). This 'mental structure ... expresses shared beliefs about competitive rules of the game and the structural freedom of action within an industry. In other words, the industrial wisdom is a shared conventional wisdom about appropriate structure and action that is held by most firms in an industry. ... [It] gives expression to cognitive characteristics of an industry' (Hellgren and Melin (1992, p 187)). As a case in point regarding the location of plants within the pulp and paper industry (depending on access to waste paper as raw material), a distinct aspect of the competitive repertoire, one industry participant declares that '[n]owadays, the big forests are found in London and Paris!'. This truly signifies the prevailing industrial wisdom in that particular context.

The thus aligned idea of a collective social view of 'market wisdom' at hand, in order to be more explorable from an instrumental competition perspective, needs to be complemented with a notion of the party to the emerging (competitive) rule negotiations. That is, what is the identity of these parties, or, with whom does competitive interaction take place? An early often overlooked contribution in this area is that of White (1981) who basically establishes that markets-as-interaction-structures are in fact 'produced' by manufacturers as they mirror each other, that is the '[watching of] competition in terms of observables' (White (1981, p 518)). Even though the majority of writings which pertains to instrumental business competition assumes away the social structure of markets thus foreshadowed by White, they nevertheless gain in strength once considered in light thereof. An initial explicit effort regarding the role of 'perceived competitive structures' for the choice of competitive strategy is that of Gripsrud and Grønhaug (1985) who inquire into grocery stores in a 'small Norwegian town'. Their findings imply, among other things, that geographical proximity is a key variable in order to understand competitor perception in this vein (confer Sölvell (1987)).[11] More of an encompassing industrial focus is that of Easton (1988) who looks into the precise manner in which 'A considers B to be a competitor' and vice versa. The results point at a considerable a) uncertainty as to the perceived boundaries of an industry following competitor identification and b) asymmetry regarding mutual competitor identifications.[12] By

[11]The study is elaborated by Gripsrud (1986) who establishes that the pricing behavior of an individual grocery store cannot be derived from the overall market structure. Instead the distribution of store sizes in the immediate neighborhood seems to be decisive.

[12]After one or two industry leaders are identified as competitors by virtually all others turned to, the 'curve of

drawing on traditional industrial organization theory (confer Porter (1980)) that is reformulated via an interpretive perspective in light of social constructionism (confer Berger and Luckmann (1966)) and organizational enactment (confer Weick (1979), Daft and Weick (1984), and Smircich and Stubbart (1985)) Porac et al (1989) pull this string further out by a 'cognitivist stance on interfirm competition'. This is manifest in 'human activity as an ongoing input-output cycle in which subjective interpretations of externally situated information become themselves objectified via behavior', something based on four major assumptions (Porac et al (1989, pp 398-399)).[13]

- Structures and activities are partly determined by momentary action within an organization.
- This action stems from members' taking in and interpreting external impetus.
- Interpretation is an active and advanced process subject to learning and prevailing cognitive structures.
- Organizational members are reflective in the sense that interpretations in part can be verbalized.

The resulting processes of enactment imply that managers 'construct a mental model of the competitive environment' subject to which the organization's own conduct subsequently emerges. A major result following an empirical investigation of the Scottish knitwear industry is that a structural feature such as oligopoly that traditionally is seen as the *cause* of other events here is reinterpreted as the *outcome* of enactment processes which result in the construction of 'cognitive oligopolies' (Porac et al (1989, pp 412-413)). An additional link to traditional structural thinking is the elaboration of the concept of strategic groups (confer Porter (1980)). While Porac and Thomas (1990) develop the notion of a 'competitive group', Bogner and Thomas (1993) expand thereupon by putting this concept beside that of the traditional strategic group whereafter they are brought together in a way wherein both objective and cognitive aspects allegedly matter.[14] A complementary line of inquiry is (as noted in the main text of Chapter I) that of Bengtsson (1994) and Sölvell and Bengtsson (1997, 1998, 1999, 2000). They launch the idea of 'climates of competition', a concept that encompasses both structure and conduct, resulting from processes of competitor interaction.

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identification' falls sharply as other actors are considered. For similar results, see also Clark and Montgomery (1999).

[13]Weick (1995, pp 17, 76-82) comments upon this study as it allegedly embodies the concept of sensemaking, a process being, 'grounded in identity construction', 'retrospective', 'enactive of sensible environments', 'social', 'ongoing', 'focused on and by extracted cues', and, 'driven by plausibility rather than accuracy'.

[14]A slightly different line of reasoning is Day and Nedungadi (1994, p 31). They try out how 'managerial representations of competitive advantage' are oriented and find four distinct groups of cognitive schemata depending on whether the own organization, the competitors, the customers, or these two latter jointly are focused.

Bengtsson (1994, p 179) identifies a climate as 'the joint coeval experience of symmetry [of actors] and [active or passive competitive] activity respectively in an industry'[15], the operational (Sölvell and Bengtsson (1997, pp 5, 9)) definition of which is 'the degree of intensity in competition and attitudes towards each other within the industry'. Attitudes here include but are not limited to whether competitors see each other as friends or enemies, and whether positions occupied and actions undertaken are 'accepted' by others. One could thus posit that this notion of climate is the overarching institutional structure subject to which competitive rules (in the Thomas and Soldow (1988) sense of the word) emerge. This is so as the idea of climate encompasses both the 'who-is-my-competitor?' (dyadic interaction enables a Gripsrud and Grønhaug (1985) identification hereof) and the 'which-is-the-contextual-atmosphere?' (the *joint simultaneous* perception as discerned in the (1989) Spender conception of industry recipes) issues.

Two words on 'pure' marketing

Even though, as already said, the above accounts of instrumental competition constitute a mix of contributions from within either business strategy or marketing, (with a clear bias towards the former however, given its more tangible emphasis of competitors, and not customers) there is also a stream of more genuine marketing thought with some direct relevance in the area. As noted by Brownlie (1989, p 8) the vertical focus of market *demand* probably elicits less horizontal attention within marketing towards competitors. This is the point of departure for Oxenfeldt and Moore (1978) who argue in favor of more of a balanced *strategic* marketing orientation which takes *both* customers *and* competitors into account as these two loci are deemed by no means incompatible. The thread of reasoning is followed up by Day and Wensley (1988) who provide a somewhat resource-based framework for competitive superiority where competitor and customer foci are seen as strategic complements assuring competitive advantage. Slater and Narver (1994) accordingly emphasize the need for this balanced market orientation also to be flexible over time so that its stress could be transferred from one to the other as both customers and competitors change. Most marketing efforts devoted to instrumental competition are furthermore related to the product, or brand, level. Weitz (1985, pp 230, 234-235) acknowledges this and also notices that it is a most tactical perspective void of long-term considerations. This is far from surprising given the uttermost brand-level technical sophistication that is endemic to this kind of inquiry. Competition here typically deserves no attention at all in its own right. This is but natural following the predominant 'marketing management' school of thought that emphasizes the ability of the marketer to directly influence the variables under scrutiny. Three examples hereof are Sivakumar and Raj (1997, who find asymmetries between high and low quality brands), Moorman (1998, who looks into the impact of information on customer behavior eliciting

[15]author's translation from Swedish

revised brand formulation), and, Krider and Weinberg (1998, who suggest that timing decisions regarding the release of motion pictures are a function of the parallel wishes for 'avoiding' competition and capturing 'peak primary demand').[16]

Relationships as strategy

As argued above, there is a tendency to bridge the hitherto prevailing conceptual barrier between a structural and a resource-based perspective on competitive strategy (De Man (1994)). Such an integrated view implies that internal company assets join forces with external structural features in constituting the frame subject to which instrumental competition can be grasped. This perspective becomes more comprehensible when markets are conceived of as networks of interorganizational relationships. In such a context the most crucial asset of an organization is its ties to the environment. That is, the structural surroundings constitute its core resource through which own competitive action unfolds. Relationships then mean not only environmental ties but also sources of competitive advantage. One contribution tentatively arguing in this vein in terms of 'relational rents' is Dyer and Singh (1998). Another is more moderating in also recognizing the constraining implications hereof (Uzzi (1996, 1997)). This is a most sociological view of instrumental competition that dates back at least to the days of Simmel (1950 (1908)).[17] Once this markets-as-networks perspective is nourished, a direct consequence is that competition must be understood from a systemic perspective (confer Alderson (1957)) subject to which competitors are not only individual actors but constellations hereof (confer Mattsson (1971, p 42) on 'competition in blocks'). What is more, the scope for competitive activity necessarily becomes relationships to others and not transactions. There are several implications hereof, twelve of which can be summarized as follows (confer Hägg and Johanson (1982, pp 17, 46-49, 94-100), Hammarkvist et al (1982, pp 21-39), (in particular) Snehota (1990, pp 168-171, 177-179), Cunningham and Culligan (1990 (1988)), Axelsson (1992), Easton (1992), and Johanson and Mattsson (1992).

- The forming of relationships propels the competitiveness of the parties thereto.
- The notion of an organization-specific competitive advantage in networks is blurred as competitiveness resides within relationships.
- Competitiveness is relative and resides in a relationship as the opportunity cost to the parties of exchange effectiveness.
- Moves of competition coexist with moves of cooperation in a dialectical manner as competitive action emerges by means of cooperative conduct.

[16]See Eliashberg and Chatterjee (1985) for a review of models of competition with particular relevance for the area of marketing.

[17]Confer Chamberlin (1969 (1933), p 69)) who claims that product differentiation gives rise to 'a network of related markets', something then displaying the imperfect character of competition.

- There is both a direct and an indirect aspect of competitiveness since relationships are interconnected, something implying that indirect ties also provide further resource access.
- Competitive threats will always imply *potential* competitive action in some direction as there is a certain inertia endemic to relationships.
- There is an active and a passive facet of competitiveness, the latter implying the foreclosing of others' establishing of a particular relationship.
- The presence of so-called weak ties between sub-entities of a network constitutes a particular source of competitive advantage as it has got a unique bridging function in linking thitherto unconnected resources.
- Competitiveness is the outcome of, and not the driving force behind, business strategy embodied in cooperativeness as relationships cannot be unilaterally managed at will but only mutually negotiated.
- Strategic positions are inherently dynamic as, due to the interconnectedness of relationships, the network will always be in constant flux.
- Competitiveness is more discrete than continuous as it follows the very formation, development and termination of exchange relationships with little impact of individual transactions.
- Since competitive advantage stems from actor-specific interaction it is hardly imitated, not even as regards its more tangible features.

Appendix B, The markets-as-networks perspective

> *Sociologists and anthropologists have long been concerned with how individuals are linked to one another and how these bonds of affiliation serve as both a lubricant for getting things done and a glue that provides order and meaning to social life. This attention to networks of association, which began in earnest in the 1970s, provided welcome texture and dynamism to portraits of social life. ... In contrast to deterministic cultural (oversocialized) accounts, networks afforded room for human agency, and in contrast to individualist, atomized (undersocialized) approaches, networks emphasized structure and constraint.*[18]

As posited in the main text the underlying idea of a 'network approach' to markets is the thus emphasized social structure according to which relationships unite in a web characterized by interconnectedness and interdependence. The idea of this appendix is to briefly comment upon the properties that come to mind when two distinct versions of this market perspective, the 'formal-analytical' (FAN) and the 'informal-governance' (IGN) network approaches are pondered upon in parallel.[19]

The formal-analytical network approach

The FAN is 'formal' and 'analytical' in the sense that it is foremost a methodological tool by means of which studies of social phenomena are endowed with an abstract web-like screen that hence illuminate the analysis of market phenomena. In this way it is a generalizing approach that however does not readily lend itself to a direct understanding of observed events. The observer necessarily needs to take a step back to free herself from what she sees in order to be in the position to make the wished-for inferences. The FAN is typically drawn upon by sociologists in organizational studies but also provides for instance geographers with analytical inspiration. As noted by Powell and Smith-Doerr (1994, pp 368-369), 'the level of analysis has shifted [over time]; in tandem, the concept of network has evolved from a metaphor to describe patterns of informal ties within organizations, to a portrait of how the environments of organizations are constructed, to a formal research tool for analyzing power and autonomy.' A typical subject matter of scrutiny is hence informal organizational structures, the cement of which are interpersonal ties, as opposed to those found in conventional organizational charts.

According to Scott (1991, pp 7-38) the origins of social network theory are found within the unfolding of three parallel threads of inquiry in part influencing each other, a) psychologically oriented sociometric analysis (exploring among other things structural balance by means of graph theory), b) the 'Harvard' analysis of interpersonal relations and cliques (as seen in the

[18] Powell and Smith-Doerr (1994, p 368)

[19] This reasoning is salient also in Chapter III as theories of competition are dealt with.

studies of 'The Yankee City', and in the Hawthorne works within 'industrial sociology'), and, c) the 'Manchester anthropologists' who scrutinize various community relations, often via the notions of conflict and power. As time goes by these converge in 'a complex but increasingly coherent framework'. Contemporary accounts in this tradition often draw on structural concepts such as centrality, prestige, balance, transitivity, and cohesion (confer Wasserman and Faust (1997 (1994))). Baker (1981, p 55), traces the roots of this 'network imagery' back to Simmel's thought. One meaning of this 'imagery', as noted by Powell (1990, p 306), is that 'similar patterns of exchange are likely to entail similar behavioral consequences, no matter what the substantive context'. It is obvious how this links to Simmel's ideas about the individual and the group. As discussed in the main text Baker (1981, pp 55-57) further distinguishes two major views within this FAN-perspective, 'relational' and 'positional'. Whereas the latter is more abstract focusing the pattern of an actor's relationships (similar patterns implies structurally equivalent positions), the former (anchored in the sociometry of ethnographers) is more concrete and seizes in upon the concrete links, either within the network as a whole or relative to an individual, focal, actor within this macro structure. With both follows that 'one's position in a network both empowers and constrains action' (Powell and Smith-Doerr (1994, p 369)). This is very much seen for instance in the referred works of Burt (1992, discussed in Chapter III) on the implication of so-called 'structural holes' that bestow entrepreneurial opportunity on those who are 'autonomous' at the expense of those who are not. 'A curious irony of network research is [however] that despite its focus on the causal importance of structures of relations among actors rather than properties of actors, the research treats network positions as properties themselves' (Powell and Smith-Doerr (1994, p 371)). That is, there is a tangible risk for structural reductionism.

It is then obvious how such network analyses are inclined 'towards an investigation of the *relational* aspects of ... [such] structures' (Scott (1991, p 39)). This means that facets of data only prevail as pieces of interconnectivity structures that hence serve as the analytical background against which ties are imbued with social meaning. The hands-on implication of this is the way in which relational data matrices and so-called sociograms act in concert to reflect the subject matter under scrutiny. Whereas the former constitute the raw material for extensive mathematical and statistical elaboration the latter are the visual representation of data that renders it within reach. Such network data can be expanded upon in a number of ways regarding for instance if relations are symmetric in character or not. That is to say, actors A and B might be connected via the admiration that A feels for B, something which does hot have to imply that B appreciates A. An analysis starts out by looking into whether there is any relational cement at place whatsoever, be it animosity or sales of goods.

A rudimentary 'adjacency actor-by-actor' matrix concerning how actors A, B, C, and D tie n with each other are depicted below together with the corresponding sociogram.

	A	B	C	D
A	-	1	1	0
B	1	-	0	1
C	1	0	-	1
D	0	1	1	-

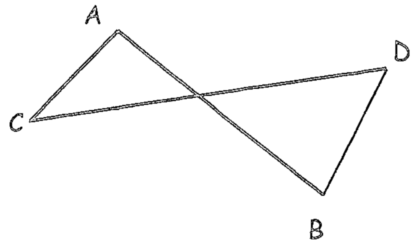

Figure AppB; Sociogram and adjacency matrix A-B-C-D

As seen, each of the four actors tie in with two of the others. In this simple case it is hence assumed that the relevant relations are symmetrical.

Given its disciplinary heritage it is obvious that FAN-studies take on the scrutiny of commercial markets from an angle that does not always lend itself to direct application. Instead what is learned in other areas by drawing on the analytical network tool is oftentimes 'translated' in order for it to apply in outright business markets. Consider for instance how studies of employment, mobilization, diffusion, social exchange, resource connectivity, and social class feed into the understanding of how companies relate to each other in terms of brokerage, power, legitimacy, and dependence. In this vein the commercial power of one organization over another can for instance be understood by resorting to the eventual prevalence of so-called interlocking directorates. It is hence assumed that whether companies are interconnected in terms of board representations or not will be conducive for how dependent one organization is on another. To 'share' a member of the board with another organization can hence both enable and constrain a company's pattern of feasible market conduct.[20]

The informal-governance network approach

The risk of structural reductionism alluded to above is definitively less salient when the IGN, the informal-governance network approach, is looked into. This is so since this perspective is less concerned with webs as an abstract tool of methodological inference and more with networks as a concrete metaphor for informal representation of how specific markets are governed. It follows that resulting studies as a major rule are only moderately generalizing in character but they are on the other hand more readily available for interpretation by observers

[20]Powell and Smith-Doerr (1994)

who take on this data very much from an 'inside' angle. An additional implication is that these studies choose to highlight 'content' of ties at the expense of how such bonds connect to each other in overarching patterns. As alluded to in section III:iii this text chooses, with regard to richness and internal coherence, to single out the Scandinavian 'industrial networks' tradition (alternatives prevail). A typical area of scrutiny here is the development and contents of a so-called focal organization's bonds to its environment, be it within the supply and / or customer markets (confer Hertz (1993)). Since this tradition is exclusively preoccupied with business markets it lends itself, it seems, to more of a direct comparison with neoclassical analysis than what does the majority of FAN-contributions.[21]

At the core of the industrial networks understanding of commercial activity is the idea of two 'levels' endemic to an industry (Johanson and Mattsson (1992, pp 205-211)). There is first an overarching governance 'layer' wherein actors are connected via relationships that result from repeated acts of exchange. These connections might also be implicit in character as socially constructed and hence enacted 'network theories'. This 'layer of governance' is akin to the subject matter of some FAN-analyses although it pays relatively more attention to tie content. The object of governance is an additional layer, the production system, wherein resources, apart from being controlled by the actors, also are subject to substantial interdependence. There is however not a one-to-one association between the network and the production system as subordinate layers of different governing structures are both intertwined and overlapping. What is more, as actual flows of activities come about at the production level this subordinate layer also affects the governing level in an almost feedback-loop like manner.[22] An example of such a loop is that the more specialized the deployed resources (are they complementary or substitutive in character?), the more interdependent are actors at the 'upper' layer. That is, webs of *actor* relationships govern deployment of interdependent *resources* as manifest in *activities*, the latter two of which however also conditioning the network level.[23]

The provenance of this 'marketing' school of thought can be traced to studies on distribution systems (confer Mattsson (1971)), structural change in industries (confer Dahmén (1988)), and internationalization. Industrial network studies hence emanate from within open systems theory according to which equilibrium cannot be (as opposed to for instance 'closed' systemic

[21]Hägg and Johanson (1982, pp 61 ff, 96) brings forward 1) empirical closeness enabling understanding of 'real' industrial networks, 2) focus of both market demand *and* supply through active suppliers *and* customers, 3) boundedly rational actors, 4) incomplete and experience-based information / knowledge, 5) unique actor identity following market heterogeneity and 6) non-equilibrium assumptions, as but a few dividers between a neoclassical and an emergent 'industrial networks' perspective.

[22]These feedback loops are somewhat reminiscent to the self-reproducing interaction structures elaborated upon by White (1981).

[23]A related but slightly different view is that of Håkansson and Snehota (1995, pp 28-36) who conceive of networks as made up of three separate layers, actor bonds, resource ties and activity links.

functionalism). Instead markets are seen as stable (as relationships tend to last for some time) but not static (as a lot happens within these relationships that hence continuously develop). A typical finding is the common prevalence of long-term relations between industrial companies (Johanson and Mattsson (1994, pp 326-328)). After a rather 'dyadic' first phase of development, IGN-studies subsequently move beyond mere two-party exchange thus truly recognizing the interconnectedness of actors and relationships. As noted by Easton and Håkansson (1996, p 408), '[w]hen the unit of analysis moves [from two] to three actors and beyond, significant network phenomena make their appearance. The most important of these is the indirect relationship ... connect[ing] actors who have no direct relationships.' This means that markets, made up of overlapping and interdependent customer-supplier dyads, are studied. An insight thus provided here is the taxonomy of bonds which tie companies together as social, knowledge-related, economic-legal, time-based, and technical (confer Hammarkvist et al (1982)). Håkansson and Johanson (1993, p 44) liken the thus governing interorganizational relationships to 'the organizational forms and processes through which activities are directed in a field' such as an industrial market. They argue that there are two major propellants behind this 'directing' activity, internal (interests and norms) and external (specific and general relations). The interface of these two propellants of force underlying action then results in four different types of governance structures. The network-like governance structure is an outcome of internal *interests* (as opposed to enacted *norms*) and external *specific* (as opposed to *general*) relations. Jointly they embody the assumption of market heterogeneity. The network-type of governance structure differs from a 'market' since the external activity propellant is 'particular', that is hands-on concrete interpersonal relations, as opposed to general ties discerned as forces of supply and demand. The internal force is similar as pursuit of own interests implies some kind of individualism-anchored rationality not found in for instance culture-induced governance structures (Håkansson and Johanson (1993, pp 44-49)).

	BASE OF INTERNAL FORCE	
BASE OF EXTERNAL FORCE	INTERESTS	NORMS
SPECIFIC RELATIONS	'network'	'hierarchy'
GENERAL RELATIONS	'market'	'culture'

Table AppB: Governance structures as functions of internal and external forces[24]

What there is of an overt connection to FAN-works within IGN-contributions is mostly found as general allusions to the notion of embeddedness (typically Granovetter (1985)) and references to some basic social exchange theory insights regarding interconnectedness of relationships (typically Cook and Emerson (1984)). As observed by Mattsson (1997b, pp 2-3) it is thus crucial not to lose sight of the fact that the industrial networks tradition is not

[24]Håkansson and Johanson (1993, p 45)

identical to a markets-as-networks studies as such. Mattsson claims that the industrial networks tradition is less connected to other branches of the social sciences than what are some other branches of network scrutiny (read: what is here labeled the formal-analytical network approach). This tradition allegedly pays relatively less immediate interest to consumers and tends to stretch out over more vertical levels in the production system than some of its network neighbors do. Finally, a crucial fact illuminated by Mattsson is that industrial networks are, in principle, conceivable void of competition, something that cannot be in more of a 'generic' networks approach to markets.

Appendix C, Sociocapitalized embeddedness or embedded social capital?

Social capital is very much intertwined with the notion of relationships. When a market is conceived of in terms of these ties it is oftentimes as a network. Actors are here seen as 'embedded' in the surrounding social structure (confer Granovetter (1985)). That is, their action is subject to a context made up of social relationships. But social capital and embeddedness are not really one and the same. This is so apart from the fact that social capital is somewhat more tangible since embeddedness is more of a mere structural characterization. In essence, social capital can be said to constitute the cornerstone of embeddedness. *This is so since social capital, in its role as the 'social infrastructure' wherein social mechanisms reside, is a prerequisite for embeddedness to be relevant at all.* Social capital is furthermore on the one hand more general (as 'capital') in character than embeddedness. But it is on the other hand more specific (as it pertains to particular actors or groups of actors). That is, whereas embeddedness on its own is a most vague concept that at worst only implies some sort of overarching dependence, the drawing on social capital makes it more within reach. Hence, *embeddedness as, through, and by, social capital* where the former 'results' from the latter.[25] Embeddedness *is* not social capital but it embodies the connection between the actor and her social environment occurring *by way of* social capital. *Social capital constitutes the institutional context and serves in this sense as the structural anchor where embeddedness is manifest.*[26] As this distinction is not always very clear, a brief scrutiny will now follow regarding what embeddedness actually entails.

Zukin and DiMaggio (1990, pp 14-23) assert that the idea of embeddedness is central to disparate aspects of contemporary economic sociology and in this role it serves as sort of a unifying theme wherearound an array of interpretations revolves. It is broadly conceived of by them as 'the contingent nature of economic action with respect to cognition, culture, social structure, and political institutions.' That is, there are allegedly four different facets of embeddedness, three in addition to the socio-structural one hinted at above. *Political embeddedness* somewhat resembles its structural counterpart in that it posits an actor's economic activities as framed by other actors but in addition hereto also by institutions that are external to the market, first and foremost the state. This embeddedeness is then more 'aggregate' than the structural ditto since the latter supposedly depends from concrete interpersonal relations. The key driving principle of political embeddedness is on the contrary inequalities of, and struggle for, power. A case in point here is the writings of Fligstein (1990, 1996) on the 'transformation of political control' where organizations strive to control their environment wherein political legislation is a decisive aspect. More subtle in meaning (and

[25]The last point is the antithesis of Portes (1995a, p 13) who assert that '[s]ocial capital is a product of embeddedness'.

[26]Uzzi (1996, p 687) labels the very presence of network bonds 'social capital embeddedness'.

therefore more subject to debate) is 'the role of shared collective understandings', that is *cultural embeddedness* (confer Fernández Kelly (1995)). Here market exchange is subject to culture, that is what is meaningful to humans in terms of beliefs, norms and ideologies in a particular context. Finally, akin to the area of psychology, *cognitive embeddedness* entails the manner in which the mental processing of the individual curtails 'pure' economic action as seen in *homo oeconomicus* rationality.

The classical notion of (economically related) embeddedness is coined in the 1940s by the anthropologist Polanyi (1944, pp 49-50) who delineates how societies transform from 'non-market' to 'market'. In the former case the principles of reciprocity, redistribution and householding of goods render the economic system 'a mere function of social organization'. Here, within 'an intricate [embedded] time-space-person system' there are no motives for barter or gain which drive actors. This is on the contrary paramount in the modern (non-embedded) society (basically emerging with the advent of the industrial revolution). Herein the principle of exchange rules and the economy lives its 'own life' only subject to the doom of the market. Polanyi is very 'anti-market' and claims that '[t]o allow the market mechanism to be the sole director of the fate of human beings and their natural environment ... would [, given 'the extreme artificiality of market economy'] result in the demolition of society' (Polanyi (1944, p 73)). That is, initially the social principles of reciprocity and redistribution are at the fore as patterns of integration. Later on, in the market society where social aspects do not really matter anymore, they are replaced by price-based exchange. Hence from virtuous embeddedness to vicious non-embeddedness of economic activity. The argument is later elaborated upon within the realm of the idea that the economy can be seen as an 'instituted process' (Polanyi (1992 (1957))).

More recently, embeddedness is brought forward by Granovetter (1985), in the article Economic action and social structure: The problem of embeddedness. Here Granovetter sets out to come up with an economic sociology alternative to the utilitarian neoclassical conception of how markets work. Economic action is thus said to be subject to the social network of personal relationships wherein each actor resides, '[actors' attempts at purposeful action are] embedded in concrete, ongoing systems of social relations' (Granovetter (1985, p 487)).[27] Others are taken into account by way of the sphere of relationships whereto one is a party, and other herewith interconnected relationships. So both context (here and now) and

[27]As already commented upon, to the extent that 'undersocialized', neoclassical thoughts deal with relationships at all there are, according to Granovetter (1990b, p 101) two major shortcomings. The first is that a relationship is just not 'any relationship' but a particular one with certain inherent properties that cannot be reduced to any standard mode of behavior as in the neoclassical discourse. The second is that also relationships are embedded in a surrounding context of other relationships. This recognition of relationship connectedness is further one of the main contributions of social exchange theory (confer Emerson (1972, p 70)).

time (the history and future of here and now) matters. Wary however of becoming deterministic Granovetter, by drawing on Wrong (1961), also denies an 'oversocialized conception of man' and takes on a mid-range 'semi-socialized' position with regard to the economic actor. There are in consequence two targets of criticism, under- and oversocialized views. Both of these perspectives are then atomized in different ways that estrange the actor from the direct influence (on her economic decisions) from the immediate social context. 'In the undersocialized account, atomization results from narrow utilitarian pursuit of self-interest; in the oversocialized one, from the fact that behavioral patterns have been internalized and ongoing social relations thus have only peripheral effects on behavior' (Granovetter (1985, p 485)).[28] The argument can furthermore be fine-tuned as pertaining to both economic action, economic outcomes and economic institutions. All of these are hence subject both to an actor's 'immediate' personal relationships ('the relational aspect of embeddedness') and those endemic to the entire network ('the structural aspect of embeddedness') (Granovetter (1990a, pp 98, 99)). Granovetter here takes particular pains to emphasize that this last aspect is crucial as one otherwise runs the risk of falling into the 'reductionist trap' of 'dyadic atomization' (something allegedly found in neoclassical treatments of social issues). What is more, these two aspects of embeddedness differ since 'relational embeddedness has typically quite direct effects ... [while] structural embeddedness has typically more subtle and less direct effects on economic action'.

An explicit attempt of coming to terms with the sometimes alleged vagueness (confer Smelser and Swedberg (1994, p 18)) of embeddedness is that of Uzzi (1996, 1997) who scrutinizes the apparel industry in New York City. He sets out to understand the way in which embeddedness and network structure affect the performance of economic action as discerned in organizational buying and selling. The main hypothesis under survey and subsequently to be verified is that the 'embedded logic of exchange' both could enhance and decrease performance of any economic actor. This is the same as saying that there is both an up- and a downside to social capital, be it in relation to individual actors or to the economy as a whole. Uzzi applies a dichotomy of ties according to which each connection is either of an arm's length, or of an embedded, type. Prevalent personal relationships is what matters since '[c]onsequently actors are relatively unlikely to invest, a priori, in cultivating an embedded

[28]Confer also Granovetter and McGuire (1998, p 148). 'We stress the role of human agency and social structure in determining which firms become associated into an industry and in defining the scope and structure of the resulting collectivity. Standard economic discussions of industrial organization neglect human agency since they assume that industrial structure is an inevitable and efficient consequence of existing technology and market conditions. At the opposite extreme from this functionalism, in which the activity of individuals is irrelevant because outcomes automatically meets the needs of the economic system, is the argument that certain industries take the form they do on account of the activity of a few 'great' men or women. ... We argue that human agency is vastly underestimated in the former argument but overestimated in the latter and that individual and collective action, while critical, operate only within sharply defined historical and structural constraints.'

relationship with unknown actors' (Uzzi (1996, p 681)). The reason for this is that the 'thick' exchange of information that occurs between actual commercial partners makes them reduce their search for any alternative supplier or customer. This is so in part since gathering of information is costly, in part since there is no need for new information given the prevailing assumption that what is to know is already known through incumbent exchange partners. The efficiency of information exchange within close relationships has hence got a key explanatory role to play regarding the rise of embedded relationships. Uzzi further claims that the longer relationships last, the richer they become in obligations. That is, the 'longer' the structural social capital, the more 'in-depth penetrating' it becomes. He also delineates the inherent shortcomings of an embedded structure to individual actors that run the risk of becoming 'sealed off from the market as they begin to trade with a confined set of network partners'. Further, '[embeddedness] may also be so intense that emotions override economic imperatives' (Uzzi (1996, p 684)). This 'overembeddedness' might also render hitherto business partners mutual 'relief organizations' in a rather devastating manner (Uzzi (1997, p 59)). Hence a focal actor had better keep up with a mix of ties. Or, as Uzzi (1996, p 694) puts it, '[e]mbeddedness, however, yields positive returns up to a threshold point. Once this is crossed, returns from embeddedness becomes negative'.[29]

[29]There are two distinct areas that seem somewhat opaque in Uzzi's argument. First, he recognizes embeddedness as an explicit strategy of the individual actor. But embeddedness, in its original (structural) meaning elaborated by Granovetter does not really seem to be that. It is a way of characterizing how individual parts of a social structure relate to each other in terms of how this social context affects economic action. That is, long and close relationships as such is not embeddedness, even though the prevalence of these renders crucial the importance of applying an embeddedness perspective when trying to grasp markets. Also, it is somewhat striking that Uzzi seems to treat embeddedness as a special exchange system which is different from the market. 'A key feature of my approach is the idea that organization networks operate on a logic of exchange which differs from the logic of markets' (Uzzi (1996, p 676)). A more suitable way should be to say that *a higher or lower level* of market embeddedness could appear. But all markets are 'markets', no matter the degree of embeddedness discerned.

Appendix D, Implications of amoral familism in a small southern Italian village[30]

1. 'In a society of amoral familists, no one will further the interest of the group or community except as it is to his private advantage to do so.'
2. 'In a society of amoral familists only officials will concern themselves with public affairs, for only they are paid to do so. For a private citizen to take a serious interest in a public problem will be regarded as abnormal and even improper.'
3. 'In a society of amoral familists there will be few checks on officials, for checking on officials will be the business of other officials only.'
4. 'In a society of amoral familists, organization (ie deliberately concerted action) will be very difficult to achieve and maintain. The inducements which lead people to contribute their activity to organizations are to an important degree unselfish (ie identification with the purpose of the organization) and they are often non-material (eg the intrinsic interest of the activity as a 'game'). Moreover, it is a condition of successful organization that members have some trust in each other and some loyalty to the organization. In an organization with high morale it is taken for granted that they will make small sacrifices, and perhaps even large ones, for the sake of the organization.'
5. 'In a society of amoral familists, office-holders, feeling no identification with the purposes of the organization, will not work harder than is necessary to keep their places or (if such is within the realm of possibility) to earn promotion. Similarly, professional people and educated people generally will lack a sense of mission or calling. Indeed, official position and special training will be regarded by their possessors as weapons to be used against others for private advantage.'
6. 'In a society of amoral familists, the law will be disregarded when there is no reason to fear punishment. Therefore individuals will not enter into agreements which depend upon legal processes for their enforcement unless it is likely that the law will be enforced and unless the cost of securing enforcement will not be so great as to make the undertaking unprofitable.'
7. 'The amoral familist who is an office-holder will take bribes when he can get away with it. But whether he takes bribes or not, it will be assumed by the society of amoral familists that he does.'
8. 'In a society of amoral familists the weak will favor a regime which will maintain order with a strong hand.'
9. 'In a society of amoral familists, the claim of any person or institution to be inspired by zeal for public rather than private advantage will be regarded as fraud.'
10. 'In the society of amoral familists there will be no connection between abstract political

[30]Banfield (1958, pp 85-104)

principle (ie ideology) and concrete behavior in the ordinary relationships of every day life.'

11. 'In a society of amoral familists there will be no leaders and no followers. No one will take the initiative in outlining a course of action and persuading others to embark upon it (except as it may be to his private advantage to do so) and, if one did offer leadership, the group would refuse it out of distrust.'
12. 'The amoral familist will use his ballot to secure the greatest material gain in the short run. Although he may have decided views as to his long-run interest, his class interest, or the public interest, these will not effect his vote if the family's short-run, material advantage is in any way involved.'
13. 'The amoral familist will value gains accruing to the community only insofar as he and his are likely to share them. In fact, he will vote against measures which will help the community without helping him because, even though his position is unchanged in absolute terms, he considers himself worse off if his neighbors' position changes for the better. Thus it may happen that measures which are of decided general benefit will provoke a protest vote from those who feel that they have not shared in them or have not shared in them sufficiently.'
14. 'In a society of amoral familists the voter will place little confidence in the promises of the parties. He will be apt to use his ballot to pay for favors already received (assuming of course, that more are in prospect) rather than for favors which are merely promised.'
15. 'In a society of amoral familists it will be assumed that whatever group is in power is self-serving and corrupt. Hardly will an election be over before the voters will conclude that the new officials are enriching themselves at their expense and that they have no intention of keeping the promises they have made. Consequently, the self-serving voter will use his ballot to pay the incumbents not for benefits but for injuries, ie, he will use it to administer punishment.'
16. 'Despite the willingness of voters to sell their votes, there will be no strong or stable political machines in a society of amoral familists. This will be true for at least three reasons: (a) the ballot being secret, the amoral voter cannot be depended upon to vote as he has been paid to vote, (b) there will not be enough short-run material gain from a machine to attract investment in it, and (c) for reasons explained above, it will be difficult to maintain formal organization of any kind whatever.'
17. 'In a society of amoral familists, party workers will sell their services to the highest bidders. Their tendency to change sides will make for sudden shifts in strength of the parties at the polls.'

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