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The Infusion of Relational Market Obligations into the Austrian Agenda—Some Lessons Learned from Economic Sociology

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Abstract. Given its dictum of market equilibrium, economics in general obviously does poorly in shouldering market dynamics. Pervading obligatory traits of the market (other than mere dyadic contracting) is yet another area where not much attention is devoted. Whereas the Austrian agenda fills the first of these voids in a most sophisticated manner, its current discourse appears *as* oblivious concerning the manner in which market exchange transforms into relational interconnected obligations. That is to say, exchange is hardly understood as an indispensable facet of durable market obligations such as relationships 'constituting the market', but *exclusively* as immediate entrepreneurial arbitrage. Apart from an outright peculiar failure to recognize some of its own roots in this regard this omission unnecessarily delimits the manner in which Austrians can proceed and deepen their market analysis. The principal idea of this paper is to scrutinize the manner in which relational market obligations can be introduced into Austrian reasoning by drawing on ideas from within economic sociology. Max Weber's dictum on market openness takes on a particular role in this regard. An adjacent contribution strived for is to let this scrutiny foreshadow the manner in which such a partial reconciliation of market ideas from within economic sociology and Austrian economics could proceed.

Key Words: relational market obligations, economic sociology, embeddedness, entrepreneurship

JEL classification: A12, B53, L14

Introduction

Imagine a tiny neighborhood and its citizens' demand for milk which, it is assumed, can only be bought within the boundaries of that particular neighborhood. To saturate the demand for milk consumers could turn to either of two stores, one of which is a since-long traditional provider whereas the other newly opened store sells milk in a manner not heard of before. Discount schemes for the purchase of milk over a certain period of time period combined with a supply guarantee of different milk qualities embody the novelty thus discerned by consumers. Assume further that this second store does well during its first few days of operations. After all (some) people (at least) *are* curious on what is new. But then, everything else aside, milk demand there suddenly and relentlessly drops. People stick to what they have got in the first place and go on to buy their milk where they 'always' have.

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If now an Austrian is asked to analyze the highly stylized context of above from a market dynamics perspective it is obvious that a first-hand alternative is to start out by laying bare the way in which the milk market newcomer embodies entrepreneurial qualities. By thus enacting the ignorance of the traditional store, that does not 'see' what evidently matters to consumers (volume discounts and safe supply), the newcomer displays alertness and thus brings the market closer towards coordination (confer Kirzner 1992). But what about the second part of the story where consumers after some initial curiosity turn back to their traditional source of supply? How can that be understood? Notwithstanding the array of assumptions not made explicit here it is clear that there is not an obvious Austrian explanatory alternative at hand. That is to say, despite the fact that there is a solid recognition among contemporary Austrians that what unfolds across time matters as intertemporal dependence, this is hardly taken into account in the guise of obligatory market aspects with significant consequences. Nowhere is this more readily commented upon than in Ricketts' (1992:82–83) criticism of the Kirznerian entrepreneur. The argument is that entrepreneurial intervention with agreements-relationships (such as those between consumers and the traditional milk store) which were formed in the mutual aspiration of their durability (via repeated acts of exchange) might in fact constitute an outright market disturbance-nuisance as contracting and/or recontracting which facilitates market coordination might in fact be hampered. Long-term benefits thus assuring the proper maintenance of property rights could hence suffer in this regard. It is hence questionable whether the milk entrepreneur brings about improved market coordination at all. 'Kirzner's theory of the entrepreneur . . . does not take account of the *relational* or *obligational* aspects [thus] involved in long-term contract' (Ricketts 1992:82). Alternatively, one can posit that it does not properly accommodate the embedded character of human economic action in its social context (Granovetter 1985).

In the following a relational market obligation will be looked upon as an aspect of a relationship that originates in repeated acts of exchange and which is manifest in 'mutually oriented interaction between two reciprocally committed parties' (Håkansson and Snehota 1995:25). That is to say, relationships constitute patterns of obligations which are both enabling and constraining in character for market actors. In the milk tail of above there is no way in which either the presence or the formation of relational contract seen as repeated acts of exchange of milk can be properly dealt with from a typical Austrian entrepreneurial perspective. Something is missing. Or it is, most likely, highly invisible to the detriment of an exhaustive understanding of what unfolds. In case such an entrepreneurial view is instead imbued with more of relational concern, much in the spirit of economic sociology where repeated acts of exchange emerge as reciprocal relationships that 'make up' the market, more is learned. The working-out of entrepreneurship is eventually 'molded' following the social embeddedness of market actors in networks of relationships (confer Granovetter 1985). That is why milk consumers stick to the store they are used to irrespective of the obvious merits of the emergent alternative. To see how this might come about, and still endorse an Austrian view of market entrepreneurship, is the theme of this paper. The text underway furthermore strives to build upon, and elaborate further, the 'socio-Austrian' agenda foreshadowed by Boettke (1998) and Boettke and Storr (2000). Whereas these works delineate the grand shape of this an endeavor the present paper renders such ideas tangible in an area where Austrians could learn a lot.

The argument starts by a brief recapitulation of relational dyadic contracting per se whereafter the discussion continues regarding how such concerns already prevail among Austrians. Thereafter the discourse turns to how economic sociology chooses to come to terms with the very same issue by expanding thereupon. This is undertaken by starting out in Weber's idea of openness (as opposed to closure) as the most fundamental prerequisite for competition, and thus the market, to prevail. The reasoning comes forward in two major steps where the first one recognizes relational obligations as such. The second step emphasizes how such obligations are interconnected and constitute web-like structures. This makes the market appear as an open system, something very much in line with Austrian reasoning on the market as a process void of any attained 'closed' equilibrium. The tentative application thereof for an entrepreneurial market view follows. A key concern is then how *dyadic* obligations by means of interconnectedness turn into *market* obligations that affect entrepreneurial human action. Finally the contours of an emergent 'socio-Austrian' market agenda are delineated where the insights provided fit in.

1. On Contracting as the Fundament of Relational Obligations

In its most primitive format a contract is a construction which states the mutual obligations and rights of two parties relative to some exchange which occurs between them. Any understanding of obligations in this sense must start out with adequately grasping the essence of such contracts. the corresponding contractual relation concerns are essential for any social interaction. They are, in the words of Vanberg (1994:340), the prism of understanding for 'all human associations'. The degree of contract formality could differ, as seen when a marriage is put next to any non-formal enduring association between two people. An additional and common way to characterize a contract is further in terms of its degree of incompleteness. A complete contract is an ideal-typical construct that manages to encompass all possible circumstances under which rights and obligations between two parties need to be stated. What renders contracting an intriguing issue, and what poses challenges to exchange, is first and foremost that all de facto contracts by necessity must be deemed incomplete. The consequence thereof is that exchange is always subject to some inefficiencies, such as moral hazards, that contracts nevertheless set out to shoulder to the best of the contracting parties' abilities (confer Perloff 2000:667 ff). Given the institutional character of contract it is evident that contracting incompleteness is at the heart of how transaction cost economics chooses to come to terms with related inefficiencies endemic to market governance.[1] Such efficiency shortcomings are mostly dealt with in terms of how bounded rationality and opportunism creates parametric exchange uncertainty (confer Williamson 1975, Langlois 1994a). That is to say, despite the obvious merits of flexible market exchange, the contingent difficulties of ex ante formulation and ex post bringing-to-bear of contractual conditions might render in-house transaction costs relatively lower. The corresponding contracts could simply be 'less incomplete' because of less bounded rationality and opportunism. In the words of Williamson (1975:75, 91), '... contractual incompleteness is an implicit concession to bounded rationality.... That incomplete contracts, without more, pose trading risks is obvious: the natural posture for each property is to bargain opportunistically when contractual ambiguities develop.' The reasoning is elaborated upon as ‘contractual asymmetries’ are discussed in light of asset specificity. Such specificity (pertaining to ‘site’, ‘physical asset’, ‘human asset’, and ‘dedicated assets’) renders the efficiency of deployed resources contingent on whether any *previous* exchange is at hand between two parties. This means that a contract works out either under bilateral contractual exchange conditions thus constituting a relationship (in the case of previous exchange), or under more of a spot contracting regime. In the former case there is an inherent mutual wish between the parties to stay on together since otherwise the alternative cost of resource use will increase (Williamson 1987:62–65)).[2] Yet another way of coming to terms with ‘the impossible task of complete contracting’ is by means of an arrangement which frames the fundamentals of a relationship that subsequently works out in a next-to contingent manner via so-called relational contracting (Milgrom and Roberts 1992:131). Such a goal-oriented approach provides a pragmatic manner of getting away from the issue of incompleteness but poses further challenges endemic to all of contingency theory. This continuous character of such relational contracting, ‘the terms of participation in a continuing joint endeavor’, is also the epitome of what Vanberg (1994:341) denotes as constitutional contracts (as a facet of social contract theory). These are the opposite of exchange contracts and their emphasis of non-simultaneous discrete transactions where one exchange party performs only observing the promise of the other party to perform later. So whereas ‘[e]xchange contracts can be said to be about acts of promising, constitutional contracts [are] about joint commitments, mutuality of constraints’. That is to say, constitutional contracts pertain to reciprocal obligations.

As seen from this brief outline such reciprocal obligations are here dealt with in an exclusive dyadic manner. And in a rather socially detached way. So even though constitutional contracts do fine in discussing some superficial aspects of relational contracting (thereby shouldering some of the challenges posed by the incomplete character of contract) the issue of how such relational obligations emerge and how they are interconnected between themselves is mostly not brought up. Not doing so means not to properly recognize the way in which parallel and overlapping continuous concerns in fact impact the very functioning of markets. Dyadic interconnectedness of relational obligations, and not their independence, is what should be at stake for such an analysis. At least when one sets out to come to terms with relational *market* obligations. This task is in part taken on by the emergent economic sociology on markets to which the argument of this paper subsequently turns after having accommodated how relational obligations as such appear in the eyes of the Austrian. That is what follows now.

2. What Austrians do say of Relational Obligations

In their highly influential work on time and uncertainty O’Driscoll Jr and Rizzo (1996 [1985]:34) make the subtle though yet vital observation that ‘[p]eople 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’. Obvious as this claim may seem at first glance it nevertheless constitutes an area where modern Austrian thought seems to have conceded ground to other branches of economics such as the new institutional claim on ‘human asset specificity’ (Williamson 1987). That is to say, whereas entrepreneurship constitutes one of the kernel elements of Austrian market theory, the role played by contracts—obligations, is not really commented upon today. This holds both for pure dyadic interaction over time and all the more so for how such repeated exchange is interconnected thus impacting the market at large. As alluded to by Vanberg (1994:341), '[a]ccording to a not uncommon presumption, articulated by FA Hayek and others' this omission might in part be explained by the manner in which classical liberal thought is 'somewhat incompatible' with the 'social contract tradition'. That is obviously not to say that the area of contractual relations is brand new ground for Austrians (confer Mises' (1963 [1949]:197)) discussion of how such relations make up civilization). But that it currently is mostly not come to terms with.

The position of this paper is that this de-emphasis of relational obligations embodies the way in which the 'social' finds no real 'sounding-board' within contemporary Austrian economics. This constitutes a paradox within its otherwise much-developed view of the market institution. To tie social considerations as such to contract-related issues might to some seem like too bold a statement to make. Be as it may. But it nevertheless remains an undisputable fact that contract theory does constitute a facet of social theory at large, something however hardly recognized by the lion's share of writings in this area. Not recognizing the 'social' means not to be in a proper position to adequately take on how relational market obligations come forward. Similarly, and following the thread of this paper, to discuss such obligations is one facet of awakening Austrian social considerations which eventually (following the reasoning by Boettke and Storr 2000) will be conducive for how market process understanding can be improved. In the following the Austrian view of institutions is discussed since this is the obvious sphere wherein more of social market considerations, such as relational market obligations, seems most apt. To do so also confirms the affinity that might be found between Austrians and new institutional economists (confer Rutherford 1996 [1994]).

Only very superficial accounts of Austrian economics make claims that there is no room therein for paying attention to the social dimension of the market process. Still it is obvious that social issues, which unravel how interpersonal connections affect the interplay between stability and market dynamics, are by no means a salient feature of contemporary Austrian market analysis.[3] Boettke (1998) is probably most savvy as he observes how this stems from the way in which mainstream sociology during its formative 20th century phase, in Austrian eyes, ideologically appears to have contaminated much of the overall social agenda. No wonder then that Lachmann (1971:73) ventures to dismiss any "'social system" theories' such as the alleged prevalence of a 'network of social relationships' in his Austrian understanding of institutions. At the very most, social relationships which result from repeated acts of exchange are briefly touched upon as uncertainty-reducing institutions. This reductionist view holds despite past contributions in the social vein during the formative years of Austrian thinking. Consider for instance Wieser's reasoning about competition as 'among the most important social economic forces' subject to the very 'meeting' between market actors (Wieser 1927 [1914]:210). Or the most pregnant way in which Mises chooses to depict '[t]he market . . . [as] a social body' . . . the foremost social body' ' and competition as 'social' (Mises 1963 [1949]:315, 273). Obviously the same holds for Hayek's (1948 [1937]) most eloquent treatment of interpersonal plan coordination towards a fictive social equilibrium.[4]

Despite these social concerns, institutions may seem as irreconcilable with Austrian thought as does any 'holistic' version of methodological individualism (confer Langlois 1992:165, Gloria-Palermo 1999:149). That is not so. But the Austrian treatment thereof is still in its infancy, something observed by Kirzner (1979:12). '[The institutional] 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'. There are two main, in part intertwined, threads to the prevalent Austrian reasoning on institutions, both of which trace their roots to the early contributions of Menger by way of Hayek's ideas. There is first the conviction that the emergence and development of institutions can be seen as the coming forward and transformation of social order. There is then the belief that institutions are tightly interwoven with the reduction of uncertainty via knowledge.

The first and most compelling argument is more fundamental since it looks upon institutions like a social order that arises spontaneously as the outcome of non-deliberate collective human action. A market relationship could then be seen as the non-intended outcome of repeated exchange. That is, what is purposeful though not intentional at the level of the individual is only non-orchestrated and spontaneous at the level of the social whole. This is a 'causal-genetic' process recognized early on in Austrian thought which places it firmly outside the equilibrium realm.[5] This means that '[Austrian] [i]nstitutions are effects and not causes'. They are furthermore 'unexpected', 'composite', 'organic' phenomena of an 'invisible-hand' character that originate in social interaction (Langlois 1994b:536, Gloria-Palermo 1999:146, 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]:84). As observed by Vaughn (1998 [1994]:30), such Mengerian institutions, be they money, law or language, are a function of beneficial spillover effects that stem from the striving of each individual when seen in separate. Such institutions are effective as they facilitate uncertain life.[6] In consequence institutions (or social order) cannot ever be decided upon by design in advance, the main reason of which is the scattered character of uncertainty-biased knowledge, something at the heart of Hayek's evolutionary kind of analysis.

If now institutions and knowledge is turned to it is obvious that they constitute a 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 and Rizzo 1996 [1985]:32). This is the well-known position of Lachmann (1971:12–13, 49–50).

> 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.

These orientation maps are however not unproblematic and pose challenges concerning how change and stability can coexist within the realms thereof (Lachmann 1971:51–52). In order to serve their main 'rule-influenced' purpose, institutions must display stability. Still it is well known that they might also display very much of change, something thus curtailing their main reason for being in the first place. Too elastic a handrail is hardly a handrail anymore.[7] Just like Lachmann, Kirzner (1992:163–179) approaches institutions from a Hayekian angle of knowledge, knowledge that is endemic to various kinds of potential discovery of opportunities. The rise of social institutions is then explained as a function of the two-faceted knowledge problem originally brought forward by Hayek. To Kirzner the 'A-problem' is that people, in a market context, do not know about the attitudes of others and in consequence they become 'over-optimistic' regarding market clearance. The 'B-problem' is that people are 'over-pessimistic' as they fail to take in opportunities that might have been exploited had they had 'more accurate knowledge concerning what others *might* have been prepared to do'. That is to say, whereas the 'A-problem' revolves around expectations of others' conduct 'which will in fact not occur', the 'B-problem' pertains to the case where a potential is in fact 'overlooked', a promising 'move is not made' (Kirzner 1992:167–169). What is crucial for the rise of institutions in Kirzner's view is the solution of the 'A-' but not of the 'B-problem'. For stable social institutions to arise it is then necessary that people 'do tend to learn correctly to expect what other people will do' whereas they are not compelled to act in an entrepreneurial way. For yet 'superior' institutions to emerge it is however crucial that also the 'B-problem' of knowledge (following exerted entrepreneurship) is solved. This can only occur when there is a market because of involved externalities (Kirzner 1992:172–174). As observed by Loasby (1992:149) it is viable 'that a particularly powerful set of institutions may coordinate the members of a market so effectively that they all decline together'. That is to say, 'A'- but not 'B-problems' are solved which means that the superiority of emerging institutions can be questioned.[8]

As seen there are two distinct but related aspects of the Austrian approach to institutions. Firstly, rooted in the dictum of human action, there is the idea that social institutions are 'causal-genetic' outcomes not of design but of spontaneous non-orchestrated conduct of individuals. Secondly there is the crucial role of uncertainty for the coming into being of these institutions, and how they in their turn impact the reduction of this uncertainty. This is what Lachmann articulates as the 'orientation map' character of institutions.

It is also then obvious that it is by means of institutional reasoning that Austrians touch upon relational obligations without however really discussing them. The closest one gets is probably when the above overarching argument is 'taken down' and applied to the topic of relationships. As hinted at above some of the Austrian reasoning, most notably that of Lachmann (1971:73) explicitly dismisses the role of social relationships, something which tentatively stems from the 'closed systemic-functional' manner in which he sees such bonds appearing.[9] That this must not be so is evident by what is learned from Mises and Hayek. Although none of them expands upon the role of relationships their stance seems evident. Consider for instance the way in which Hayek (1948 [1946]:96–97) criticizes the conventional view of competition by asserting that '[e]specially remarkable ... is the explicit and complete exclusion from the theory of perfect competition of all personal relationships existing between the parties'. Or how Mises (1963 [1949]) discusses his overall dictum of human action as made up of two aspects, social exchange in addition to that of entrepreneurship. In that discourse he stresses that an element of reciprocity ('intentional mutuality') inheres in all (social) exchange. Exchange is undertaken in the expectation of having something in return which renders two actors tied to each other in a social relation. 'The exchange relation is the fundamental social relation. Interpersonal exchange of goods and services weaves the bond which unites men into society' (Mises 1963 [1949]:194).

Despite these evident 'hints' and allusions, ideas on relational obligations (as relationships or otherwise) never really come to the fore in the Austrian reasoning on markets. One could possibly say, following the trailblazing efforts of Mises, that whereas the entrepreneurial aspect of human action deserves a lot of attention from many angles, there is almost no discussion whatsoever of social exchange. This 'imbalance' means that whereas market dynamics are accommodated in a most sophisticated manner via Kirzner's reasoning on the interwoven nature of entrepreneurship and competition, the bonds alluded to by Mises which should serve as the structural anchor for such a sub-aspect of action is not handled at all. And in consequence Austrians do poorly in understanding the milk market tail in the opening of this paper.

3. What Economic Sociology Poses on Relational Obligations as a Market Characteristic

One straightforward way of going after the issue of relational obligations is to approach it from an empirical angle. This is what Stewart Macaulay (a scholar of law) does in 1963 as he, in a highly influential piece of writing, scrutinizes 'non-contractual relations in business'. His observations are somewhat trivial but nevertheless summarize, and form the background for, much of how some business-oriented sociology tends to home in on relational obligations. Macaulay (1963) discusses among other things how a contract (involving the planning of future exchange between two parties and the sanctions associated therewith to enforce its functioning) matters by influencing the 'creation' of a relationship and the ongoing challenges found therein. As regards how a relationship is 'created by planning' it turns out that most repeated business exchanges are not planned at all. Instead "'a man's word" ... a handshake, or "common honesty and decency" [is what matters]—even when the transaction involves exposure to serious risks' (Macaulay 1963:58). When it comes to the shouldering of ongoing relationship challenges the conclusion drawn is that '[e]xchanges are adjusted when the obligations of one or both parties are modified by agreement during the life of the relationship' (Macaulay 1963:61). That is to say, a continuous mirroring and adjustment of obligations is what is clung to. To explain why business relationships still seem to work out, despite its relatively minor use of contract, Macaulay concludes that a mutual understanding of such obligations is a core issue since this embodies the trust which formalized planning cannot ever attain. This a claim is truly Austrian in character. Another factor is the honoring of commitment. Most important is however that both parties in general are willing to proceed the unfolding relationship thus heralding one's own business reputation. There is a kind of self-fulfilling continuation which, it seems, stems from the interdependence to be found in relationships. These insights are summarized in a most pregnant manner. 'To understand the functions of contract the whole system of conducting exchanges must be exploited fully' (Macaulay 1963:67).

This paper has it that such an exploitation, in light of the Austrian void in the area, is at best achieved by turning to economic sociology, 'the sociological perspective applied to economic phenomena' (Smelser and Sweberg 1994:3). That this is in fact possible from the view of theoretical fit is here assumed, and commented upon in the end of this paper. Economic sociology homes in on such an exploitation by relying on the issue of market openness as discussed by Max Weber. He first asserts that there is no market unless competition prevails for exchange opportunities. Although markets must be somehow 'organized' he further argues that there must also be some 'market freedom' thus assuring the actors some autonomy (Weber 1968 [1922]:72, 327–328, 635, 637)). Such freedom is enjoyed when there is openness in the market, something precluded by the 'monopolization against outsiders' as found among guilds that control 'buying opportunities' (Weber 1927 [1923]:136, 140, 195, 284–285). Furthermore, when the *potential* entry of a market newcomer is foreclosed by incumbent relationship parties, Weber refers to 'appropriation' as the monopolization of corresponding potential exchange opportunities. In consequence 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 (Weber 1968 [1922]:43–46, 638). That is to say, the prevalence of a market is a function of how open its relationships are as parties also from time to time eventually consider alternative sources for exchange. Or, put differently, how relational obligations work out. This kind of reasoning is very close to the manner in which also Austrians emphasize market openness, as seen in Kirzner's (1973) articulation concerning the crucial impact of free market entry for competition. It is also akin to the way in which Granovetter (1985) postulates that economic action is socially situated as embeddedness.

As related in the introduction of the paper this reasoning of Weber's will here be elaborated in two major steps. The first of these pertains to how such openness is subject to the manner in which relational obligations depend from the power-dependence constituencies of a single dyadic bond. The second step first discusses how such dyadic constituencies of relational obligations are tied to each other by means of their interconnectedness. It then goes on to assert that such constitutive structures can be framed according to a particular web-like pattern that accommodates what happens in the market at large. Such a patterns reflects an open systemic view devoid of closing equilibria. This is the twofold manner in which relational market obligations could enter the Austrian discourse. First they are looked into regarding how they work out on a dyadic basis and only thereafter follows a scrutiny of what happens when such dyadic obligations are tied to each other and form a particular kind of overall market pattern. The overall starting point is social exchange theory.

The first step of elaboration relative to Weber's idea on market openness is hence firmly anchored in the theory of social exchange. This is the ground wherein Emerson (1972:46) establishes his own way of drawing on exchange relations relative to the neoclassical school of economics. Whereas the latter mostly relates transaction markets with interchangeable actors (thus void of any obligations), the social exchange context is instead made up of 'durable social relations'. Herein the power-dependence characteristics of relationships, thus mirroring their obligatory traits, play a major role. These characteristics boil down to how much each of the parties to a relationship evaluate this bond, and which alternative exchange parties that they see in the market (Emerson 1972:62).

> 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.

That is to say, market power is not a property of the actor but subject to how this actor relates to others. Mutual dependence (the ability to influence and control the exchange party's conduct) is then the twin concept of power. '[P]ower resides implicitly in the other's dependence' (Emerson 1962:32, 33). The claim can be formalized by taking social reciprocity into account as follows. The power-dependence (P-D) characteristics of the relation AB can thus be framed as $\mathrm{P}_{AB} = \mathrm{D}_{BA}$ and $\mathrm{P}_{BA} = \mathrm{D}_{AB}$. That is to say, the power of B over A is directly related to the dependence of A on B and vice versa. An unequal quota of power-dependence between A and B entails an unbalanced relation AB. This means that the relation is unstable due to the way in which it provokes the use of power (Emerson 1962:34). An unstable relation furthermore implies that the disadvantaged party has got an incentive to change, something provoking market dynamics. Such change hardly originates when a party suddenly less evaluates an ongoing relationship. Instead it arises as alternative exchange parties are identified. And this, the consideration of exchange alternatives, is what keeps the market open very much in a Weberian sense of the reasoning. This is most reminiscent of Austrian claims according to which such openness provokes and embodies market dynamics. But whereas the looking-out for alternatives opens up the market, the reciprocity-laden 'evaluation' of a social relation works out in the opposite direction. Such norms of reciprocity emerge as expected interaction which is manifest in ongoing exchange and constitute obligations to the parties thus tying them together (Portes and Sensenbrenner 1993:1323–1327). The presence of these obligations, which renders a particular relation 'valuable' and reinforces its longevity, can be understood as trust makes them come by via norms which unfold as further exchange is expected (Coleman 1988:326–329, 1990:306–311). Such a reasoning is also supported by the observation that '[relationship commitment can be understood as] interpersonal attitudes of trust and obligations toward specific others as future exchange partners' (Cook and Emerson 1984:22).

Now, provided that the power-dependence constituencies of above are considered feasible, how can they be drawn upon in the understanding of the market, where several such constituencies are likely to work out in parallel? Once again much in line with Austrian reasoning Emerson (1962:35–37) here chooses to emphasize the role of competition. Because of the unbalanced character of any relation (for instance AB), various balancing processes (aiming at somehow restoring balance) will be underway. One opportunity is for a relatively disadvantaged actor A to bring in C (an additional actor), as an alternative to B. Provided a relationship then emerges it is clear that the relations AB and AC will exist in parallel. In consequence they will be mutually dependent. That is, by bringing in C, actor A alters the original power-dependence inequality in AB. There is a dependence between the relations manifest as connectedness (Emerson 1972:70). The interconnectedness of two relationships (power-dependence constituencies) means that exchange in one relation is contingent on exchange in the other. When a customer (A) has got two alternative sources of supply for the same commodity (B and C respectively) this means that the two relationships are 'bilateral negatively' connected. If B and C are suppliers of complementary commodities they will on the other hand be positively connected so that exchange in one relation promotes exchange in the other. In the former case of substitutive commodities it means that the way in which two competitors (B and C in the quote above) relate to each other can be expressed as the level of negative interconnectedness of the relations to which they both are parties together with A.[10] Cook (1977:73, 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. And how reciprocity in buyer-seller relations harms competition among suppliers because of prevailing commitment between parties ensuing in long-term relations where entry barriers are erected by incumbents relative to potential market newcomers.[11]

When this second step of Weber's reasoning is expanded upon further it is obvious that something can also be said concerning the particular pattern of the constitutive obligational structures which are made up by interconnected bonds of power-dependence relations. The most prevalent sociological frame in this regard conceives of such social wholes as networks of interconnected relationships (= power-dependence/obligational constituencies). As observed by Baker (1981:13) the organizing logic of networks, as patterns of interconnectivity, is particularly apt for the analysis of aggregated economic (market) exchange since there is here a particular need for cogency. Such a structural pattern must not be reductionist as considerations of obligations still matter. A lot. Some general network characteristics are furthermore discerned by Grabher (1993:8–12) as reciprocity, interdependence, power, and 'loose coupling', all of which are much tied to the argument above. On an overarching level such a pattern of interconnectivity can be analyzed by means of the extent to which two actors' ties to others are similar or not. In the case where they have direct ties to the same people they are considered more 'structurally equivalent' in a relative sense than two other actors whose patterns of primary contacts do not coincide to that extent. And the level of competition between them are higher as they compete in the same markets.[12] Endemic to the idea of a market as a network of relationships are three considerations. 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 1992:15). 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 (see above, confer also Smith and Laage-Hellman 1992:43–51). Håkansson and Snehota (1995:13–18) call this the 'texture of [network] interdependencies'. The intertwined nature of relationships (and not only of actors) is further what gives rise to market dynamics (so-called domino effects, confer Hertz (1993)). By putting the notions of *indirect relationship* and *relationship interconnectedness* together there is, finally, the concept of *indirect connectedness*. This epitomizes a network devoid of both center and boundaries that appears as both enabling and constraining for the individual actor (Håkansson and Snehota 1995).

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. In consequence all human economic action is embedded in its network-like social context (Granovetter 1985). Propositions like these render this (open) systemic market account easily distinguishable from neoclassical thinking. And since it is open it should be accepted by Austrians. 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.[13]

4. The Infusion of Economic Sociology Ideas into Austrian Reasoning

In the previous a few ideas from within Austrian economics and economic sociology are presented in the area of relational obligations. Despite its de-emphasis of the social it is obvious that Austrians are not fully oblivious in this regard, as seen in their emergent discussions of institutions. These mostly encompass considerations of social order and knowledge that reduces uncertainty but nowhere, despite several allusions, are relational obligations as such made the focus of analysis. This means that the working-out of entrepreneurship, one of Mises' two aspects of human action, comes fore at the price of not observing the other aspect, social exchange. There is hence an imbalance here that renders entrepreneurship void of a market framework that also recognizes the driving forces behind, and the consequence of, social interaction. Such a framework is at hand when one turns to Weber's ideas on market openness and recognizes how such an 'Austrian' way of reasoning is in fact elaborated upon by economic sociology's discussion of relational market obligations as power-dependence constituencies. The overall feasibility of this a market openness approach should be obvious to an Austrian, but what about the two particular elaborative stages thereof, as found within economic sociology? How could they inspire the discourse on entrepreneurship?

The first elaborative stage relates how dyadic obligations tie exchange parties together over time since each party, by virtue of past exchange, expect this interaction to continue. When exchange is repeated trust evolves which creates reciprocal obligations. And this commitment reinforces the longevity of a relationship further. Such emergence of obligations hence 'closes' the market in a Weberian sense, provided however that this is not offset or moderated by each relationship party's active scrutiny of exchange alternatives. But whereas the reasoning on entrepreneurship exclusively focuses this openness it is obvious that the presence of relational obligations 'moderates' the working-out of this entrepreneurship. That is to say, resources are not only spent on searching for new exchange alternatives outside of prevailing market relationships, but also within these relations. This is very much seen in the Austrian reasoning on relationships as uncertainty-reducing institutions but void of the framework brought forward here it is difficult really to come to terms therewith. The idea of entrepreneurial alertness should then be made more complete by recognizing that prevailing obligations on the one hand constrains entrepreneurship that occurs via alternative exchange parties but on the other hand enables entrepreneurship unfolding within prevailing relationships.

The second elaborative stage tells about how such relational obligations are not to be seen as isolated entities but as interconnected with one another thus constituting a framework. Such a framework can take on the form of a network and this web makes it feasible to talk about relational *market* obligations as such constituencies make up the market. This network fits neatly with Austrian reasoning as it adopts an ‘open systemic’ perspective according to which there is neither a center nor any clear market boundary and in consequence equilibrium (conceivable in a ‘closed systemic’ view) cannot be. Market dynamics unfold both within relationships, but also between them as the are interrelated. As opposed to conventional Austrian reasoning the one proposed here recognizes that such dynamics do not work out in a vacuum but only subject to an ex-ante constitution of market obligations, something rendering them more ‘inert’ as they otherwise would have been. The way in which obligations hence ‘moderate’ entrepreneurship in the said manner most likely imbues the market process with more of stable (though not static) characteristics. And this is a way of shouldering uncertainty. This means that what until now has not really been an issue within Austrian reasoning, that of market stability, gets some initial explanatory bricks. Obviously this is not to endorse a static view of the market but only that there is stability and that some dynamics are likely to work out within the realms of prevailing uncertainty-reducing structures. In this manner Austrians will be able to see and explain the transition from the short to the long-term contract which until now lacks an in-depth understanding. *The exercise of entrepreneurship is contingent on the social context where it unfolds. It is embedded therein* (Granovetter 1985).

By paying attention to relational contracting in this manner, by focusing upon how interrelated obligations as power-dependence constituencies make up the market, Austrians are in a much better position to grasp the milk market tail in the opening of this paper. It is then obvious how the obligational traits which exist in the first place (with the traditional provider of milk), the prevailing social embeddedness of human economic action, in fact hampers the way in which entrepreneurship exerted by the newcomer is allowed to work out. It also follows that such newcomer entrance could destabilize the balance which eventually prevails in the opening of the tail. The working-out of entrepreneurship is molded following the social character of the market.

5. A Socio-Austrian Reconciliation in the Spirit of Weber

By means of the above it seems hence plausible that also an Austrian would be in the position to discuss the milk tail of this paper being equipped with more of a full-fledged toolbox wherein not only entrepreneurship but also conditioning social factors are taken into account. But what is this economic sociology that this paper argues could strengthen the Austrian discourse?

Firmly rooted in Weber’s reasoning on how both economic and social considerations guide ‘economic social’ action such sociology postulates that human action and institutions can be framed as follows (Granovetter 1990, Gerlach 1992, Swedberg and Granovetter 1992, Portes 1995, Swedberg 1998). It might to some come to a surprise but the essence of this is in fact very much reconcilable with Austrian reasoning, some of it is in fact on the verge thereof.

5.1. *Economic Action is a Form of Social Action as it is Socially Oriented*

Economic action is in part governed by value introjection and is oriented towards goals that home in on both pure self-interest and approval of others. It is furthermore subject to expectations of reciprocity which inhere in any social interaction. Choosing between alternatives is important, but this choice is subject also to noneconomic motives such as the quest for approval, status, sociability and power. As seen there is a lot of Mises' (1963 [1949]) reasoning on human action in this postulate that also embodies how any argument must start out in the individual who, however, never can be conceived of as an atom.

5.2. *Economic Action is Socially Situated and Contingent on the Past via Network Embeddedness*

The form and outcome of market transactions are subject to prevailing 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 on the one hand *enabling* in the sense that it entails both direct and indirect access to market resources and on the other *constraining* in that 'the unrestricted pursuit of personal gain' is effectively hampered. All action is hence 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 notion of path-dependence in more conventional economics. But 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. This postulates constitutes the essence of how the Austrian agenda can be enriched by the infusion of relational market obligations therein as brought forward in this paper.

5.3. *Economic Institutions are Social Constructions*

Economic institutions, such as markets, are not the anonymous outcome of non-social forces manifest in aggregated supply and demand. Instead they are a joint construct by real live actors, situated in dynamic networks of like others, who cooperate and struggle with and between each other. This last postulate echoes some of the Austrian reasoning on institutions in several regards. Apart from being (inter-)subjective in character, institutions emerge as spontaneously resulting from human action.

This is the particular economic sociology with which Austrian economics could join forces. Boettke (1998:78) makes a trailblazing effort along these threads of reasoning by asserting the following. 'The interaction between Weberian sociology and Austrian economics has been quite fruitful in the past, and the gains from this interaction have not been exhausted-especially in developing a comparative political economy of developmental processes.' This a position (adhered to also by Zafirovski (1999) and elaborated upon by Boettke and Storr (2000)) is the manifesto endorsed also by the paper here underway. The market process essence thereof works out as the 'entrepreneurship of Kirzner's' (1973) and the 'embeddedness of Granovetter's' (1985) imbue each other with social considerations and dynamics respectively. Market dynamics unfold subject to relationships which function as their institutional anchor. Such an Austrian 'market sociology', wherein both 'alertness' to unknown opportunities and ties between actors are considered, would be a striking contrast to either an 'undersocialized' neoclassical or an 'oversocialized' sociological market perspective according to which what is social and what is entrepreneurial mostly seem to oppose one another (confer Wrong 1961). Apart from social sciences at large it is obvious that both economic sociology and Austrian economics per se gain from this particular agenda that mirrors Weber's own grand project of the time. Consider first economic sociology that 'has [until now] failed to find the necessary allies within the disciplinary borders of economics ... [whereas] 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 [its alternatives]' (Boettke and Storr 2000:4, 6). And Austrian thought itself is in *as* bad need of 'scholarly interaction', plausibly with (among others) sociology (Rizzo 1992:246).[14] It is hence possible to posit that the schools can nurture each other by throwing light into formerly relatively unnoticed areas. That is, *Austrians and economic sociology thought seem to be in the position to reinforce each other*. And how this might in fact come about in one particular area of market process attention is the theme of this paper. On a more overarching level such a reconciling endeavor could

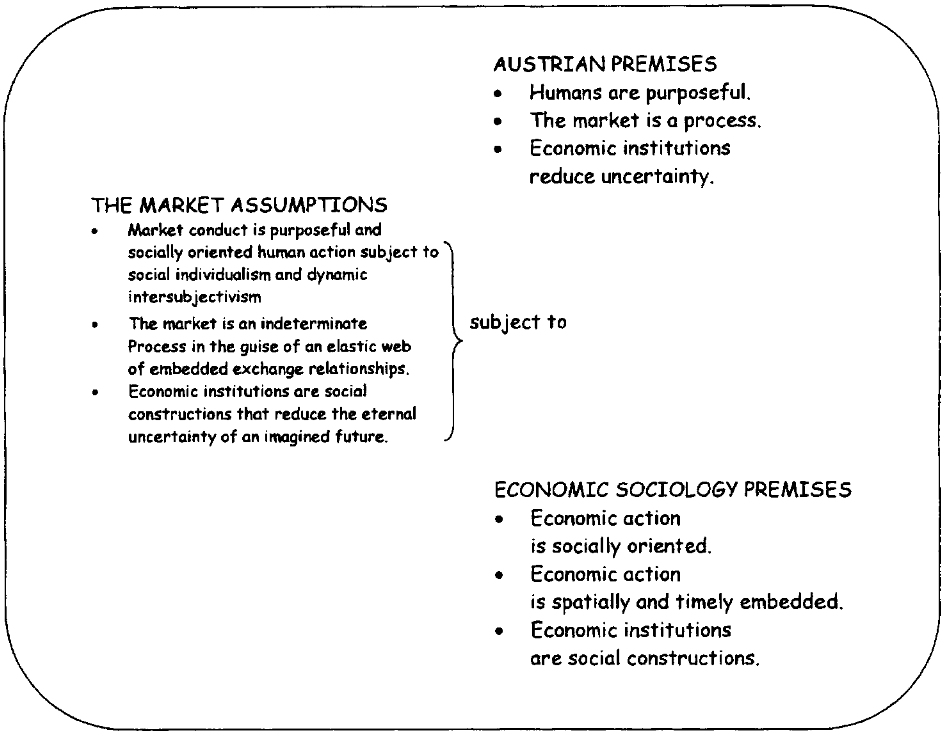

Figure 1. The linkage between premises and market assumptions (Liljenberg 2001:377).

tentatively start out in the stating of three market assumptions which are subject to some fundamental premises from within Austrian economics and economic sociology.

The three assumptions, as illustrated in Figure 1, embrace human conduct, market characteristics, and the nature of economic institutions. For this 'socio-Austrian' project to appear feasible it is necessary to come up with a discourse which justifies each of the assumptions. This is one of the challenges endemic to the pursuit of the call made by Weber. Inherent in such a project is an exhaustive reasoning which justifies the coherence of Austrian and economic sociology thought in this area. Concerning market conduct it is feasible to concentrate such efforts in three areas, (a) the relation between the individual and her social context in terms of primacy, (b) how means connect to ends via intentions, (c) the interpretive transgression between an actor and her environment. This could be done by eventually bringing forward constructs in each of the three areas, constructs that pay proper attention to both of the relevant theoretical grounds. These could be framed as (a) 'social individualism', (b) 'human purposefulness', and (c) 'dynamic intersubjectivism' respectively (Liljenberg 2001). That this is not an attempt in complete vain is justified by an array of sources, most notably Rutherford (1989) who overtly recognizes the 'socio-Austrian' stronghold brought forward here by drawing on the notion of embeddedness from an Austrian angle.

Notes

1. 'Transaction cost economics is a comparative institutional assessment of alternative means of contracting' (Williamson 1987:162).
2. 'The entering into a contractual arrangement requiring transactor-specific assets entails ... a "fundamental transformation" [Williamson quoted] from a potentially highly competitive precontractual 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' (Demsetz 1992:25).
3. 'The Austrian economists simply did not attempt to maintain their close contact with sociology ... [ever since] the post-World War II period' (Boettke 1998:72).
4. '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' (Hayek 1948 [1937:38]).
5. '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' (Witt 1992:226).
6. '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' (Langlois 1992:167).
7. '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' (Vaughn 1998 [1994:157]).
8. Loasby mentions the case of British 'cotton textiles, shipbuilding, motor cycles and machine tools'.
9. '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 existence of an institutional order by our own efforts' (Lachmann 1971:73). It is here evident that what Lachmann turns against is the kind of 'closed' systemic socio-structural functionalism that most often is associated with the works of Talcott Parsons, a school of thought since long dismissed also by contemporary economic sociology scholars.

10. 'Since each B [or C] is a source of . . . [resources] for A they are alternative relations negatively connected at A, and B's [and C's] are in effect competing with one another for access to . . . [resources] from A' (Emerson 1972:76).
11. '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' (Cook and Emerson 1978:728).
12. '[Object] a is structurally equivalent to [object] b if a relates to every object x of [category] C [where to 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' (Lorrain and White 1971:63).
13. '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' (Mattsson 1995:761, 762).
14. '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 1992:245). See also the 'balancing' claim of Boettke and Storr (2000:7). '[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.'

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