

CHAPTER 4

The Market as a Social Institution

Sociological Perspectives On Markets And The Economy

- Adam Smith, in his book, *The Wealth of Nations*, attempted to understand the market economy that was just emerging at that time.
- Smith argued that the market economy is made up of a series of individual exchanges or transactions, which automatically create a functioning and ordered system.
- There seems to be some sort of an unseen force at work that converts what is good for each individual into what is good for society. This unseen force was called 'the invisible hand' by Adam Smith.
- Smith argued that the capitalist economy is driven by individual self-interest, and works best when individual buyers and sellers make rational decisions that serve their own interests.
- Smith used the idea of the 'invisible hand' to argue that society overall benefits when individuals pursue their own self-interest in the market, because it stimulates the economy and creates more wealth.
- For this reason, Smith supported the idea of a 'free market', that is, a market free from all kinds of regulation whether by the state or otherwise. This economic philosophy was also given the name *laissez-faire*, a French phrase that means 'leave alone' or 'let it be'.
- Sociologists view markets as social institutions that are constructed in culturally specific ways. For example, markets are often controlled or organised by particular social groups or classes, and have specific connections to other institutions, social processes and structures.
- Sociologists often express this idea by saying that economies are socially 'embedded'. This is illustrated by two examples, one of a weekly tribal haat, and

the other of a 'traditional business community' and its trading networks in colonial India.

Tribal Market

- The weekly haat is a common sight in rural and even urban India. In hilly and forested areas (especially those inhabited by adivasis), where settlements are far-flung, roads and communications poor, and the economy relatively undeveloped, the weekly market is the major institution for the exchange of goods as well as for social intercourse.
- A 'market' for tribal labour developed during the colonial period. Due to all these changes, local tribal economies became linked into wider markets, usually with very negative consequences for local people.
- The weekly market as a social institution, the links between the local tribal economy and the outside, and the exploitative economic relationships between adivasis and others, are illustrated by a study of a weekly market in Bastar district.
- The major goods that are exchanged in the market are manufactured goods (such as jewellery and trinkets, pots and knives), non-local foods (such as salt and haldi (turmeric)), local food and agricultural produce and manufactured items (such as bamboo baskets), and forest produce (such as tamarind and oil-seeds).

Caste-Based Markets And Trading Networks In Pre-colonial And Colonial India

- Economic transformation was thought to have begun only with the advent of colonialism
- Under colonialism and in the early post-independence period, the penetration of the commercial money economy into local agrarian economies, and their incorporation into wider networks of exchange, was thought to have brought about radical social and economic changes in rural and urban society.

- Various kinds of non-market exchange systems (such as the 'jajmani system') did exist in many villages and regions, even during the precolonial period villages were incorporated into wider networks of exchange through which agricultural products and other goods circulated.
- India was a major manufacturer and exporter of handloom cloth (both ordinary cotton and luxury silks), as well as the source of many other goods (such as spices) that were in great demand in the global market, especially in Europe.
- The pre-colonial India had well-organised manufacturing centres as well as indigenous merchant groups, trading networks, and banking systems that enabled trade to take place within India, and between India and the rest of the world.
- These traditional trading communities or castes had their own systems of banking and credit. For instance, an important instrument of exchange and credit was the hundi, or bill of exchange (like a credit note), which allowed merchants to engage in long-distance trade.
- The Nattukottai Chettiars (or Nakarattars) of Tamil Nadu, provide an interesting illustration of how these indigenous trading networks were organised and worked.
- He emphasised that the economy does not consist of things (goods circulating in the market), but is made up of relations between people who are connected to one another through the process of production.
- Under the capitalist mode of production, labour itself becomes a commodity, because workers must sell their labour power in the market to earn a wage.
- This gives rise to two basic classes - capitalists, who own the means of production (such as the factories), and workers, who sell their labour to the capitalists.
- The capitalist class is able to profit from this system by paying the workers less than the value of what they actually produce, and so extracting surplus value from their labour.

Commoditisation And Consumption

- Commodification occurs when things that were earlier not traded in the market become commodities. For instance, labour or skills become things that can be bought and sold.
- In earlier times, social skills such as good manners and etiquette were imparted mainly through the family.
- Another important feature of capitalist society is that consumption becomes more and more important, not just for economic reasons but because it has symbolic meaning. In modern societies, consumption is an important way in which social distinctions are created and communicated.
- The consumer conveys a message about his or her socioeconomic status or cultural preferences by buying and displaying certain goods, and companies try to sell their goods by appealing to symbols of status or culture.
- One of sociology's founders, Max Weber, was among the first to point out that the goods that people buy and use are closely related to their status in society. He coined the term status symbol to describe this relationship.
- Weber also wrote about how classes and status groups are differentiated on the basis of their lifestyles.
- Consumption is one aspect of lifestyle, but it also includes the way you decorate your home and the way you dress, your leisure activities, and many other aspects of daily life. Sociologists study consumption patterns and lifestyles because of their cultural and social significance in modern life.

Globalisation - Interlinking Of Local, Regional, National And International Markets

- The advent of colonialism in India produced major upheavals in the economy, causing disruptions in production, trade, and agriculture.
- In the colonial era India began to be more fully linked to the world capitalist economy.
- Before being colonised by the British, India was a major supplier of manufactured goods to the world market.
- After colonisation, she became a source of raw materials and agricultural products and a consumer of manufactured goods, both largely for the benefit of industrialising England.
- Each mode of production consists of particular relations of production, which in turn give rise to a specific class structure.
- Since the late 1980s, India has entered a new era in its economic history, following the change in economic policy from one of state-led development to liberalisation.

Colonialism And The Emergence Of New Markets

Understanding Capitalism As A Social System

- This shift also ushered in the era of globalisation, a period in which the world is becoming increasingly interconnected - not only economically but also culturally and politically.
- The term globalisation includes a number of trends, especially the increase in international movement of commodities, money, information, and people, as well as the development of technology (such as in computers, telecommunications, and transport) and other infrastructure to allow this movement.
- A central feature of globalisation is the increasing extension and integration of markets around the world.
- The software services industries and business process outsourcing (BPO) industries (such as call centres) are some of the major avenues through which India is getting connected to the global economy.
- Companies based in India provide low-cost services and labour to customers located in the developed countries of the West.
- Under globalisation, not only money and goods, but also people, cultural products, and images circulate rapidly around the world, enter new circuits of exchange, and create new markets.
- These include relaxation or removal of economic controls (deregulation), privatisation of industries, and removing government controls over wages and prices.
- Increasing foreign investment is supposed to help economic growth and employment. The privatisation of public companies is supposed to increase their efficiency and reduce the government's burden of running these companies. However, the impact of liberalisation has been mixed.
- Some sectors of Indian industry (like software and information technology) or agriculture (like fish or fruit) may benefit from access to a global market, but other sectors (like automobiles, electronics or oilseeds) will lose because they cannot compete with foreign producers.
- Indian farmers are now exposed to competition from farmers in other countries because import of agricultural products is allowed.
- Liberalisation is against this kind of government interference in markets, so support prices and subsidies are reduced or withdrawn. This means that many farmers are not able to make a decent living from agriculture.

Debate On Liberalisation - Market Versus State

- Liberalisation includes a range of policies such as the privatisation of public sector enterprises (selling government-owned companies to private companies); loosening of government regulations on capital, labour, and trade; a reduction in tariffs and import duties so that foreign goods can be imported more easily; and allowing easier access for foreign companies to set up industries in India.
- Another word for such changes is marketisation, or the use of markets or market-based processes (rather than government regulations or policies) to solve social, political, or economic problems.
- Similarly, small manufacturers have been exposed to global competition as foreign goods and brands have entered the market, and some have not been able to compete.
- The privatisation or closing of public sector industries has led to loss of employment in some sectors, and to growth of unorganised sector employment at the expense of the organised sector. This is not good for workers because the organised sector generally offers better paid and more regular or permanent jobs.

Exercise

1. Adam Smith, in his book, 'Wealth of Nations', which type of economy has emerged?
(a) Social economy (b) Political economy
(c) Market economy (d) Capitalist economy
 2. **Assertion (A):** Sociologists view markets as social institutions that are constructed in culturally specific ways.
Reason (R): As sociologists believe that economies are socially 'embedded'.
(a) Both A and R are true and R is the correct explanation of A
(b) Both A and R are true but R is not the correct explanation of A
(c) A is true and R is false
(d) A is false and R is true
 3. Adam Smith used the idea of 'invisible hand' in the context of -
(a) Benefits of society through pursuing of self interest
(b) Capitalist market economy
(c) Investment of money in the economy
(d) Opening up of the new markets
 4. **Assertion (A):** In rural India, there are specialised markets that take place at less frequent intervals.
Reason (R): Markets provide a link to regional economy to wider national economy.
(a) Both A and R are true and R is the correct explanation of A
(b) Both A and R are true but R is not the correct explanation of A
(c) A is true and R is false
(d) A is false and R is true
 5. Tribal areas were 'opened up' by building roads and 'pacifying' the local people due to which of the following reason?
(a) To provide connectivity to the market to sell the local produce
(b) To provide better road connectivity supporting migration of people
(c) To exploit the rich forest and mineral resources of these areas
(d) To implement the modern thoughts in the tribal society
 6. Which of the changes had been accounted in the tribal society during colonial period?
I. Recruitment at plantation sites as laborers
II. Markets were established for tribal labors
III. Loss of lands of tribals
(a) I and II (b) II and III
(c) I and III (d) All of the above
 7. Jajmani system has existed in many villages and region during precolonial period, it is -
(a) Market economy
(b) Non-market economy
(c) Trade exchange
(d) Door-to-door service
- Read the following passage and answer the questions 8, 9 and 10**
- The Nattukottai Chettiars (or Nakarattars) of Tamil Nadu, provide an interesting illustration of how these indigenous trading networks were organised and worked. A study of this community during the colonial period shows how its banking and trade activities were deeply embedded in the social organisation of the community. The structures of caste, kinship, and family were oriented towards commercial activity, and business activity was carried out within these social structures. As in most 'traditional' merchant communities, Nakarattar banks were basically joint family firms, so that the structure of the business firm was the same as that of the family. Similarly, trading and banking activities were organised through caste and kinship relationships. For instance, their extensive caste-based social networks allowed Chettiar merchants to expand their activities into Southeast Asia and Ceylon. In one view, the economic activities of the Nakarattars represented a kind of indigenous capitalism. This interpretation raises the question of whether there are, or were, forms of 'capitalism' apart from those that arose in Europe (Rudner 1994).
8. As per the given passage, which of the following is not true for Chettiars?
(a) Commercial activity was carried out with other castes
(b) They ran banks as joint family firm
(c) They established indigenous capitalism
(d) They expanded their activities in neighbouring countries

9. What allowed Chettiar merchants to expand their activities into Southeast Asia and Ceylon?
- Their business model
 - Joint family firms
 - Extensive caste based social network
 - Profitable trade
10. The economic activities of Chettiars are represented as a kind of indigenous capitalism, why?
- Due to their social network
 - Their banking and trade activities were embedded in social organization
 - Caste, kinship and family oriented towards commercial activities
 - Expansion of trade
11. **Assertion (A):** Nakarattar banking system resembled an economist's model of Western-style banking systems.
- Reason (R):** They loaned and deposited money with one another in caste-defined social relationships based on business territory, residential location, descent, marriage, and common cult membership.
- Both A and R are true and R is the correct explanation of A
 - Both A and R are true but R is not the correct explanation of A
 - A is true and R is false
 - A is false and R is true
12. Why there is a complex relationship between caste status or identity, and caste practices in India?
- Non-availability of caste rule
 - Due to historical caste structure
 - Inclusion of Vaishyas in upper class fold
 - Inclusion of business class into Vaishya community
13. The community which has benefitted during colonial period includes shopkeepers and small traders in the bazaars of towns throughout the country is -
- Baniyas
 - Chettiars
 - Marwaris
 - Vaishyas

Read the following passage and answer the questions 14, 15 and 16

One of the founders of modern sociology, Karl Marx, was also a critic of modern capitalism. Marx understood capitalism as a system of commodity production, or production for the market, through the use of wage labour. As you have already learned, Marx wrote that all economic systems are also social systems. Each mode of production consists of particular relations of production, which in turn give rise to a specific class structure. He emphasised that the economy does not consist of things (goods circulating in the market), but is made up of relations between people who are connected to one another through the process of production. Under the capitalist mode of production, labour itself becomes a commodity, because workers must sell their labour power in the market to earn a wage. This gives rise to two basic classes - capitalists, who own the means of production (such as the factories), and workers, who sell their labour to the capitalists. The capitalist class is able to profit from this system by paying the workers less than the value of what they actually produce, and so extracting surplus value from their labour. Marx's theory of capitalist economy and society provided the inspiration for numerous theories and debates about the nature of capitalism throughout the nineteenth and twentieth centuries.

14. Capitalism was understood by Karl Marx as -

- Production of commodity
- Use of labor
- Production of commodity by using labor
- Exploitation of labor

15. Karl Marx considered Economic system as -

- Capitalist economic system
- Social system
- Commodification
- Use of labor

16. As per Marx, through which way capitalist class earn profit through labor which production of commodity?

- Exploitation of economic resources
- Excessive use of labor
- Investment of more profit into business
- Paying less to the workers than the value of actual production by them

17. Commodification occurs when things that were earlier not traded in the market become commodities. What is the commodity in Marx theory?
- Wage labors
 - Production of commodity
 - Capital money
 - Raw materials
18. The globalisation of the Indian economy has been due primarily to the policy of liberalisation that was started in the late 1980s. Which of the following includes the features of liberalization?
- Privatization of PSUs
 - Tightening the government regulation on trade
 - Access to foreign companies to set up establishments
- I and II
 - I and III
 - II and III
 - All of the above
19. Indian farmers who are now exposed to competition from farmers in other countries as import of agricultural products is allowed. This become possible due to -
- Globalization
 - Commodification
 - Privatization
 - Liberalization
20. Indian agriculture was protected from the world market by support prices and subsidies. Government gives such support due to-
- Increment of profit in agriculture
 - Ensuring minimum income to the farmers
 - Protecting farmers from the crop damage
 - Increase investment in the farming

Answer Keys

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|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| 1. (c) | 2. (a) | 3. (a) | 4. (a) | 5. (c) | 6. (d) | 7. (b) | 8. (a) | 9. (c) | 10. (b) |
| 11. (d) | 12. (b) | 13. (c) | 14. (c) | 15. (b) | 16. (d) | 17. (a) | 18. (b) | 19. (d) | 20. (b) |